nationalgrid

Alexandra E. Blackmore
Senior Attorney

December 12, 2006

VIA OVERNIGHT & ELECTRONIC MAIL

Ms. Debra A. Howland
Executive Director and Secretary
New Hampshire Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, NH 03301-2429

Re: DG 06-107; National Grid/Keyspan Merger Debt Issuances

Dear Ms. Howland:

I am submitting information regarding KeySpan's debt issuances in the past twelve months, as well as National Grid's most recent debt issuance (December 8, 2005), as requested by Staff during the November 9, 2006 technical session in the above-captioned proceeding. Specifically, there were three issuances: KeySpan Energy Delivery New York issued $400,000,000 of senior unsecured notes; KeySpan Energy Delivery Long Island issued $100,000,000 of senior unsecured notes; and Nantucket Electric Company issued $28,000,000 of revenue bonds. The loan documents related to these issuances are attached.

Thank you for your attention to this matter. If you have any questions, please feel free to contact me at 508-389-3243.

Very truly yours,

Alexandra E. Blackmore

Alexandra E. Blackmore

cc: Thomas Frantz
Stephen Frink
Randy Knepper
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THE BROOKLYN UNION GAS COMPANY,
doing business as KEYSPAN ENERGY DELIVERY NEW YORK

$400,000,000

5.60% Senior Unsecured Notes due November 29, 2016

NOTE PURCHASE AGREEMENT

Dated as of November 29, 2006

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THE BROOKLYN UNION GAS COMPANY,
doing business as KEYSPAN ENERGY DELIVERY NEW YORK
One Metrotech Center
Brooklyn, New York 11201-3851

5.60% Senior Unsecured Notes due November 29, 2016

November 29, 2006

TO EACH OF THE PURCHASERS LISTED IN
SCHEDULE A:

Ladies and Gentlemen:

THE BROOKLYN UNION GAS COMPANY, doing business as KEYSPAN ENERGY DELIVERY NEW YORK, a New York corporation (the "**Company**"), agrees with each of the purchasers whose names appear at the end hereof (each, a "**Purchaser**" and, collectively, the "**Purchasers**") as follows:

Section 1. AUTHORIZATION OF NOTES.

The Company will authorize the issue and sale of $400,000,000 aggregate principal amount of its 5.60% Senior Unsecured Notes due November 29, 2016 (the "**Notes**", such term to include any such notes issued in substitution therefor pursuant to Section 13). The Notes shall be substantially in the form set forth in *Exhibit 1*. Certain capitalized and other terms used in this Agreement are defined in *Schedule B*. References to a "Schedule" or an "Exhibit" are, unless otherwise specified, to a Schedule or an Exhibit attached to this Agreement.

Section 2. SALE AND PURCHASE OF NOTES

Subject to the terms and conditions of this Agreement, the Company will issue and sell to each Purchaser and each Purchaser will purchase from the Company, at the Closing provided for in Section 3, Notes in the principal amount specified opposite such Purchaser's name in *Schedule A* at the purchase price of 100% of the principal amount thereof. The Purchasers' obligations hereunder are several and not joint obligations and no Purchaser shall have any liability to any Person for the performance or non-performance of any obligation by any other Purchaser hereunder.

Section 3. CLOSING.

The sale and purchase of the Notes to be purchased by each Purchaser shall occur at the offices of Dewey Ballantine LLP, 1301 Avenue of the Americas, New York, New York, at 10:00 a.m., New York, New York time, at a closing (the "**Closing**") on November 29, 2006 or on such other Business Day thereafter on or prior to December 31, 2006, as may be agreed upon by the Company and the Purchasers. At the Closing, the Company will deliver to each Purchaser the Notes to be purchased by such Purchaser in the form of a single Note (or such greater number of Notes in denominations of at least $100,000 as such Purchaser may request), dated the date of the Closing and registered in such Purchaser's name (or in the name of its nominee), against delivery by such Purchaser to the Company or its order of immediately available funds in the amount of the purchase price therefor by wire transfer of immediately available funds for the account of the Company to account number 00036871 at Citibank, N.A., New York, New York, ABA # 021000089, Reference: KEDNY/KEDLI Issuance. If at the Closing the Company shall fail to tender such Notes to any Purchaser as provided above in this Section 3, or any of the conditions specified in Section 4 shall not have been fulfilled to such Purchaser's satisfaction, such Purchaser shall, at its election, be relieved of all further obligations under this Agreement, without thereby waiving any rights such Purchaser may have by reason of such failure or such nonfulfillment.

Section 4. CONDITIONS TO CLOSING.

Each Purchaser's obligation to purchase and pay for the Notes to be sold to such Purchaser at the Closing is subject to the fulfillment to such Purchaser's satisfaction or waiver, prior to or at the Closing, of the following conditions:

Section 4.1. Representations and Warranties. The representations and warranties of the Company in this Agreement shall be correct when made and at the time of the Closing.

Section 4.2. Performance; No Default. The Company shall have performed and complied with all agreements and conditions contained in this Agreement required to be performed or complied with by it prior to or at the Closing and after giving effect to the issue and sale of the Notes (and the application of the proceeds thereof as contemplated by Section 5.14) no Default or Event of Default shall have occurred and be continuing.

Section 4.3. Compliance Certificates.

(a) Officer's Certificate. The Company shall have delivered to such Purchaser an Officer's Certificate, dated the date of the Closing, certifying that the conditions specified in Sections 4.1, 4.2 and 4.9 have been fulfilled.

(b) Secretary's Certificate. The Company shall have delivered to such Purchaser a certificate of its Secretary or Assistant Secretary, dated the date of Closing, certifying as to the resolutions attached thereto and other corporate proceedings relating to the authorization, execution and delivery of the Notes and this Agreement.

Section 4.4. Opinions of Counsel. Such Purchaser shall have received opinions in form and substance reasonably satisfactory to such Purchaser, dated the date of the Closing (a) from John J. Bishar, Jr., Esq., General Counsel to KeySpan Corporation and Counsel to the Company, covering the matters set forth in *Exhibit 4.4(a)* and covering such other matters incident to the transactions contemplated hereby as such Purchaser or its counsel may reasonably request (and the Company hereby instructs its counsel to deliver such opinion to the Purchasers), (b) from Simpson Thacher & Bartlett LLP, special counsel for the Company, covering the matters set forth in *Exhibit 4.4(b)* and covering such other matters incident to the transactions contemplated hereby as such Purchaser or its counsel may reasonably request (and the Company hereby instructs its special counsel to deliver such opinion to the Purchasers) and (c) from Dewey Ballantine LLP, the Purchasers' special counsel, in connection with the transactions contemplated hereby and covering such other matters incident to such transactions as such Purchaser may reasonably request.

Section 4.5. Purchase Permitted By Applicable Law, Etc. On the date of the Closing such Purchaser's purchase of Notes shall (a) be permitted by the laws and regulations of each jurisdiction to which such Purchaser is subject, without recourse to provisions (such as section 1405(a)(8) of the New York Insurance Law) permitting limited investments by insurance companies without restriction as to the character of the particular investment, (b) not violate any applicable law or regulation (including, without limitation, Regulation T, U or X of the Board of Governors of the Federal Reserve System) and (c) not subject such Purchaser to any tax, penalty or liability under or pursuant to any applicable law or regulation, which law or regulation was not in effect on the date hereof. If requested by such Purchaser, such Purchaser shall have received an Officer's Certificate certifying as to such matters of fact as such Purchaser may reasonably specify to enable such Purchaser to determine whether such purchase is so permitted.

Section 4.6. Sale of Other Notes. Contemporaneously with the Closing, the Company shall sell to each other Purchaser and each other Purchaser shall purchase the Notes to be purchased by it at the Closing as specified in *Schedule A*.

Section 4.7. Payment of Special Counsel Fees. Without limiting the provisions of Section 15.1, the Company shall have paid on or before the Closing the reasonable fees, charges and disbursements of the Purchasers' special counsel referred to in Section 4.4(c) to the extent reflected in a statement of such counsel rendered to the Company at least one (1) Business Day prior to the Closing.

Section 4.8. Private Placement Number. A Private Placement Number issued by Standard & Poor's CUSIP Service Bureau (in cooperation with the SVO) shall have been obtained for the Notes.

Section 4.9. Changes in Corporate Structure. The Company shall not have changed its jurisdiction of incorporation or organization, as applicable, or been a party to any merger or consolidation or succeeded to all or any substantial part of the liabilities of any other entity, at any time following the date of the most recent financial statements referred to in *Schedule 5.5*.

Section 4.10. Funding Instructions. At least three (3) Business Days prior to the date of the Closing, each Purchaser shall have received written instructions signed by a Responsible Officer on letterhead of the Company confirming the information specified in Section 3 including (i) the name and address of the transferee bank, (ii) such transferee bank's ABA number and (iii) the account name and number into which the purchase price for the Notes is to be deposited.

Section 4.11. Proceedings and Documents. All corporate and other proceedings in connection with the transactions contemplated by this Agreement and all documents and instruments incident to such transactions shall be reasonably satisfactory to such Purchaser and its special counsel, and such Purchaser and its special counsel shall have received all such counterpart originals or certified or other copies of such documents as such Purchaser or such special counsel may reasonably request.

Section 5. REPRESENTATIONS AND WARRANTIES OF THE COMPANY.

The Company represents and warrants to each Purchaser that:

Section 5.1. Organization; Power and Authority. The Company is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation, and is duly qualified as a foreign corporation and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. The Company has the corporate power and authority to own or hold under lease the properties it purports to own or hold under lease, to transact the business it transacts and proposes to transact, to execute and deliver this Agreement and the Notes and to perform the provisions hereof and thereof.

Section 5.2. Authorization, Etc. This Agreement and the Notes have been duly authorized by all necessary corporate action on the part of the Company, and this Agreement constitutes, and upon execution and delivery thereof each Note will constitute, a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except as such enforceability may be limited by (i) applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and (ii) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Section 5.3. Disclosure. The Company, through its agents, J.P. Morgan Securities Inc. and RBS Greenwich Capital, has delivered to each Purchaser a copy of a confidential Private Placement Memorandum, dated October, 2006 (the "**Memorandum**"), relating to the transactions contemplated hereby. This Agreement, the Memorandum and the documents, certificates or other writings delivered to the Purchasers by or on behalf of the Company in connection with the transactions contemplated hereby and identified in *Schedule 5.3*, and the financial statements listed in *Schedule 5.5* (this Agreement, the Memorandum and such documents, certificates or other writings and such financial statements delivered to each Purchaser prior to November 18, 2006 being referred to, collectively, as the "**Disclosure**

Documents"), taken as a whole, do not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading in light of the circumstances under which they were made. Except as disclosed in the Disclosure Documents, since December 31, 2005, there has been no change in the financial condition, operations, business or properties of the Company or any of its Subsidiaries except changes that individually or in the aggregate would not reasonably be expected to have a Material Adverse Effect.

Section 5.4. Organization and Ownership of Shares of Subsidiaries.

(a) *Schedule 5.4* is a complete and correct list of the Company's Subsidiaries, showing, as to each Subsidiary, the correct name thereof, the jurisdiction of its organization and the percentage of shares of each class of its capital stock or similar equity interests outstanding owned by the Company and each other Subsidiary.

(b) All of the outstanding shares of capital stock or similar equity interests of each Subsidiary shown in *Schedule 5.4* as being owned by the Company and its Subsidiaries have been validly issued, are fully paid and nonassessable and are owned by the Company or another Subsidiary free and clear of any Lien.

(c) Each Subsidiary identified in *Schedule 5.4* is a corporation, limited liability company or other legal entity duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, and is duly qualified as a foreign corporation or other legal entity and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Each such Subsidiary has the corporate, limited liability company or other power and authority to own or hold under lease the properties it purports to own or hold under lease and to transact the business it transacts and proposes to transact.

Section 5.5. Financial Statements; Material Liabilities. The Company has delivered to each Purchaser copies of the consolidated financial statements of the Company and its Subsidiaries listed on *Schedule 5.5*. All of said financial statements (including in each case the related schedules and notes) fairly present in all material respects the consolidated financial position of the Company and its Subsidiaries as of the respective dates specified in such Schedule and the consolidated results of their operations and cash flows for the respective periods so specified and have been prepared in accordance with GAAP consistently applied throughout the periods involved except as set forth in the notes thereto (subject, in the case of any interim financial statements, to normal year-end adjustments). The Company and its Subsidiaries do not have any Material liabilities that are not disclosed on such financial statements or otherwise disclosed in the Disclosure Documents.

Section 5.6. Compliance with Laws, Other Instruments, Etc. The execution, delivery and performance by the Company of this Agreement and the Notes will not (i) contravene, result in any breach of, or constitute a default under, or result in the creation of any Lien in respect of any property of the Company or any Subsidiary under, any indenture, mortgage, deed of trust, loan, purchase or credit agreement, lease, corporate charter or by-laws, or any other Material

agreement or instrument to which the Company or any Subsidiary is bound or by which the Company or any Subsidiary or any of their respective properties may be bound or affected, (ii) conflict with or result in a breach of any of the terms, conditions or provisions of any order, judgment, decree, or ruling of any court, arbitrator or Governmental Authority applicable to the Company or any Subsidiary or (iii) violate any provision of any statute or other rule or regulation of any Governmental Authority applicable to the Company or any Subsidiary.

Section 5.7. Governmental Authorizations, Etc. No consent, approval or authorization of, or registration, filing or declaration with, any Governmental Authority is required in connection with the execution, delivery or performance by the Company of this Agreement or the Notes, other than those that have already been obtained and which are in full force and effect; *provided*, that no representation is made with respect to compliance with foreign securities laws or the securities or "blue sky" laws of the various States of the United States.

Section 5.8. Litigation; Observance of Statutes and Orders.

(a) There are no actions, suits, investigations or proceedings pending or, to the knowledge of the Company, threatened against or affecting the Company or any Subsidiary or any property of the Company or any Subsidiary in any court or before any arbitrator of any kind or before or by any Governmental Authority, other than those described under the heading "Executive Summary - Recent Developments," and under the heading "Company Overview - Environmental Matters," in the Memorandum and in Schedule 5.3, that, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect.

(b) Neither the Company nor any Subsidiary is in default under any order, judgment, decree or ruling of any court, arbitrator or Governmental Authority or is in violation of any applicable law, ordinance, rule or regulation (including, without limitation, Environmental Laws or the USA Patriot Act) of any Governmental Authority, which default or violation, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect.

Section 5.9. Taxes. The Company and its Subsidiaries have filed all income tax returns that are required to have been filed in any jurisdiction, and have paid all taxes shown to be due and payable on such returns and all other taxes and assessments payable by them, to the extent such taxes and assessments have become due and payable and before they have become delinquent, except for any taxes and assessments (i) the amount of which is not individually or in the aggregate Material or (ii) the amount, applicability or validity of which is currently being contested in good faith by appropriate proceedings and with respect to which the Company or a Subsidiary, as the case may be, has established adequate reserves in accordance with GAAP. The Federal income tax liabilities of the Company and its Subsidiaries have been finally determined (whether by reason of completed audits or the statute of limitations having run) for all fiscal years up to and including the fiscal year ended September 30, 1996.

Section 5.10. Title to Property; Leases. The Company and its Subsidiaries have good and sufficient title to their respective Material properties, including all such properties reflected in the most recent audited balance sheet referred to in Section 5.5 or purported to have been

acquired by the Company or any Subsidiary after said date (except as sold or otherwise disposed of in the ordinary course of business), in each case free and clear of Liens prohibited by this Agreement, except for those defects in title and Liens that, individually or in the aggregate, would not have a Material Adverse Effect. All Material leases are valid and subsisting and are in full force and effect in all material respects.

Section 5.11. Licenses, Permits, Etc. The Company and its Subsidiaries own or possess all licenses, permits, franchises, authorizations, patents, copyrights, proprietary software, service marks, trademarks and trade names, or rights thereto, that are Material, without known conflict with the rights of others, except for those conflicts that, individually or in the aggregate, would not have a Material Adverse Effect.

Section 5.12. Compliance with ERISA.

(a) Except as could not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect: (i) each employee benefit plan (as defined in section 3(3) of ERISA), that is, or within the preceding five (5) years, has been established or maintained, or to which contributions are, or within the preceding five years, have been made or required to be made by the Company, has been operated and administered in compliance with all applicable laws; (ii) neither the Company nor any ERISA Affiliate has incurred any liabilities pursuant to ERISA or the penalty or excise tax provisions of the Code for failure to comply with continuation coverage obligations mandated by section 4980B of the Code with respect to any employee welfare benefit plan (as defined in section 3(1) of ERISA); and (iii) neither the Company nor any ERISA Affiliate has incurred any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to any employee pension benefit plan (as defined in section 3(2) of ERISA), and no event, transaction or condition has occurred or exists that would reasonably be expected to result in the incurrence of any such liability by the Company, or in the imposition of any Lien on any of the rights, properties or assets of the Company, in either case pursuant to Title I or IV of ERISA or to such penalty or excise tax provisions or to section 401(a)(29) or 412 of the Code or section 4068 of ERISA.

(b) The present value of the aggregate benefit liabilities (determined on an "accrued benefit obligations" basis) under each of the Plans, determined as of the end of such Plan's most recently ended plan year on the basis of the actuarial assumptions specified for funding purposes in such Plan's most recent actuarial valuation report, did not exceed the aggregate current value of the assets of such Plan allocable to such benefit liabilities by more than $173,000,000 in the case of any single Plan and by more than $173,000,000 in the aggregate for all Plans. The term "benefit liabilities" has the meaning specified in section 4001 of ERISA and the terms "current value" and "present value" have the meaning specified in section 3 of ERISA.

(c) Neither the Company nor, to the knowledge of the Company, any of its ERISA Affiliates has incurred withdrawal liabilities (and are not subject to contingent withdrawal liabilities) under section 4201 or 4204 of ERISA in respect of Multiemployer Plans that individually or in the aggregate are Material.

(d) The expected postretirement benefit obligation (determined as of the last day of the Company's most recently ended fiscal year in accordance with Financial Accounting Standards Board Statement No. 106, without regard to liabilities attributable to continuation coverage mandated by section 4980B of the Code) of the Company and its Subsidiaries, does not exceed the aggregate current value of assets set aside to fund such obligations by more than $272,000,000.

(e) The execution and delivery of this Agreement and the issuance and sale of the Notes hereunder will not involve any transaction that is subject to the prohibitions of section 406 of ERISA or in connection with which a tax could be imposed pursuant to section 4975(c)(1)(A)-(D) of the Code. The representation by the Company to each Purchaser in the first sentence of this Section 5.12(e) is made in reliance upon and subject to the accuracy of such Purchaser's representation in Section 6.2 as to the sources of the funds used to pay the purchase price of the Notes to be purchased by such Purchaser.

Section 5.13. Private Offering by the Company. Neither the Company nor anyone acting on its behalf has offered the Notes or any similar securities for sale to, or solicited any offer to buy any of the same from, or otherwise approached or negotiated in respect thereof with, any person other than the Purchasers and not more than seventy-five (75) other Institutional Investors, each of which has been offered the Notes at a private sale for investment. Neither the Company nor anyone acting on its behalf has taken, or will take, any action that would subject the issuance or sale of the Notes to the registration requirements of Section 5 of the Securities Act or to the registration requirements of any securities or blue sky laws of any applicable jurisdiction.

Section 5.14. Use of Proceeds; Margin Regulations. The Company will apply the proceeds of the sale of the Notes (a) to refinance existing intercompany Indebtedness of the Company and/or (b) for general corporate purposes. No part of the proceeds from the sale of the Notes hereunder will be used, directly or indirectly, for the purpose of buying or carrying any margin stock within the meaning of Regulation U of the Board of Governors of the Federal Reserve System (12 CFR 221), or for the purpose of buying or carrying or trading in any securities under such circumstances as to involve the Company in a violation of Regulation X of said Board (12 CFR 224) or to involve any broker or dealer in a violation of Regulation T of said Board (12 CFR 220). The Company or its Subsidiaries do not own any margin stock and the Company does not have any present intention that it or any of its Subsidiaries will own any margin stock. As used in this Section 5.14, the terms "margin stock" and "purpose of buying or carrying" shall have the meanings assigned to them in said Regulation U.

Section 5.15. Existing Indebtedness.

(a) *Schedule 5.15* sets forth a complete and correct description of all outstanding Indebtedness of the Company and its Subsidiaries as of October 31, 2006 (including a description of the principal amount outstanding and collateral therefor, if any, and Guaranty thereof, if any), since which date there has been no Material change in the amounts, interest rates, sinking funds, installment payments or maturities of the Indebtedness of the Company or its Subsidiaries. Neither the Company nor any Subsidiary is in default and no waiver of default is currently in effect, in the payment of

any principal or interest on any Indebtedness of the Company or such Subsidiary and no event or condition exists with respect to any Indebtedness of the Company or any Subsidiary, the outstanding principal amount of which exceeds $5,000,000, that would permit (or that with notice or the lapse of time, or both, would permit) one or more Persons to cause such Indebtedness to become due and payable before its stated maturity or before its regularly scheduled dates of payment.

(b) Neither the Company nor any Subsidiary is a party to, or otherwise subject to any provision contained in, any instrument evidencing Indebtedness of the Company or such Subsidiary, any agreement relating thereto or any other agreement (including, but not limited to, its charter or other organizational document) which limits the amount of, or otherwise imposes restrictions on the incurring of, Indebtedness of the Company, except as specifically indicated in *Schedule 5.15*.

Section 5.16. Foreign Assets Control Regulations, Etc.

(a) Neither the sale of the Notes by the Company hereunder nor its use of the proceeds thereof will violate the Trading with the Enemy Act, as amended, or any of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) or any enabling legislation or executive order relating thereto.

(b) Neither the Company nor any Subsidiary (i) is a Person described or designated in the Specially Designated Nationals and Blocked Persons List of the Office of Foreign Assets Control or in Section 1 of the Anti-Terrorism Order or (ii) engages in any dealings or transactions with any such Person. The Company and its Subsidiaries are in compliance, in all material respects, with the USA Patriot Act.

(c) No part of the proceeds from the sale of the Notes hereunder will be used, directly or indirectly, for any payments to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity, in order to obtain, retain or direct business or obtain any improper advantage, in violation of the United States Foreign Corrupt Practices Act of 1977, as amended, assuming in all cases that such Act applies to the Company.

Section 5.17. Status under Certain Statutes. Neither the Company nor any Subsidiary is subject to regulation under the Investment Company Act of 1940, as amended, the Public Utility Holding Company Act of 2005, as amended, the ICC Termination Act of 1995, as amended, or the Federal Power Act, as amended.

Section 6. REPRESENTATIONS OF THE PURCHASERS.

Section 6.1. Purchase for Investment. Each Purchaser severally represents that it is an "accredited investor" within the meaning of clause (1), (2), (3), (7) or (8) of Rule 501(a) under the Securities Act and severally represents that it is purchasing the Notes for its own account or for one or more separate accounts maintained by such Purchaser or for the account of one or

more pension or trust funds, as for each of which such Purchaser exercises sole investment discretion for investment purposes only, and not with a view to the distribution thereof; *provided*, that the disposition of such Purchaser's or their property shall at all times be within such Purchaser's or their control. Each Purchaser understands that the Notes have not been, and will not be, registered under the Securities Act, that the Company is not required to register the Notes and that the Notes may be resold only if registered pursuant to the provisions of the Securities Act or if an exemption from registration is available, except under circumstances where neither such registration nor such an exemption is required by law.

Section 6.2. Source of Funds. Each Purchaser severally represents that at least one of the following statements is an accurate representation as to each source of funds (a "*Source*") to be used by such Purchaser to pay the purchase price of the Notes to be purchased by such Purchaser hereunder:

(a) the Source is an "insurance company general account" (as the term is defined in the United States Department of Labor's Prohibited Transaction Exemption ("*PTE*") 95-60) in respect of which the reserves and liabilities (as defined by the annual statement for life insurance companies approved by the NAIC (the "**NAIC Annual Statement**")) for the general account contract(s) held by or on behalf of any employee benefit plan together with the amount of the reserves and liabilities for the general account contract(s) held by or on behalf of any other employee benefit plans maintained by the same employer (or affiliate thereof as defined in PTE 95-60) or by the same employee organization in the general account do not exceed 10% of the total reserves and liabilities of the general account (exclusive of separate account liabilities) plus surplus as set forth in the NAIC Annual Statement filed with such Purchaser's state of domicile; or

(b) the Source is a separate account that is maintained solely in connection with such Purchaser's fixed contractual obligations under which the amounts payable, or credited, to any employee benefit plan (or its related trust) that has any interest in such separate account (or to any participant or beneficiary of such plan (including any annuitant)) are not affected in any manner by the investment performance of the separate account; or

(c) the Source is either (i) an insurance company pooled separate account, within the meaning of PTE 90-1 or (ii) a bank collective investment fund, within the meaning of the PTE 91-38 and, except as disclosed by such Purchaser to the Company in writing pursuant to this clause (c), no employee benefit plan or group of plans maintained by the same employer or employee organization beneficially owns more than 10% of all assets allocated to such pooled separate account or collective investment fund; or

(d) the Source constitutes assets of an "investment fund" (within the meaning of Part V of PTE 84-14 (the "**QPAM Exemption**")) managed by a "qualified professional asset manager" or "QPAM" (within the meaning of Part V of the QPAM Exemption), no employee benefit plan's assets that are included in such investment fund, when combined with the assets of all other employee benefit plans established or maintained by the same employer or by an affiliate (within the meaning of Section V(c)(1) of the QPAM Exemption) of such employer or by the same employee

organization and managed by such QPAM, exceed 20% of the total client assets managed by such QPAM, the conditions of Part I(c) and (g) of the QPAM Exemption are satisfied, neither the QPAM nor a person controlling or controlled by the QPAM (applying the definition of "control" in Section V(e) of the QPAM Exemption) owns a 5% or more interest in the Company and (i) the identity of such QPAM and (ii) the names of all employee benefit plans whose assets are included in such investment fund have been disclosed to the Company in writing pursuant to this clause (d); or

(e) the Source constitutes assets of a "plan(s)" (within the meaning of Section IV of PTE 96-23 (the "**INHAM Exemption**")) managed by an "in-house asset manager" or "INHAM" (within the meaning of Part IV of the INHAM Exemption), the conditions of Part I(a), (g) and (h) of the INHAM Exemption are satisfied, neither the INHAM nor a person controlling or controlled by the INHAM (applying the definition of "control" in Section IV(d) of the INHAM Exemption) owns a 5% or more interest in the Company and (i) the identity of such INHAM and (ii) the name(s) of the employee benefit plan(s) whose assets constitute the Source have been disclosed to the Company in writing pursuant to this clause (e); or

(f) the Source is a governmental plan; or

(g) the Source is one or more employee benefit plans, or a separate account or trust fund comprised of one or more employee benefit plans, each of which has been identified to the Company in writing pursuant to this clause (g); or

(h) the Source does not include assets of any employee benefit plan, other than a plan exempt from the coverage of ERISA.

As used in this Section 6.2, the terms "employee benefit plan," "governmental plan," and "separate account" shall have the respective meanings assigned to such terms in section 3 of ERISA.

Section 7. INFORMATION AS TO COMPANY.

Section 7.1. Financial and Business Information. The Company shall deliver to each holder of a Note or Notes that is an Institutional Investor:

(a) *Quarterly Statements* — within sixty (60) days after the end of each quarterly fiscal period in each fiscal year of the Company (other than the last quarterly fiscal period of each such fiscal year), duplicate copies of:

(i) a consolidated balance sheet of the Company and its Subsidiaries, as at the end of such quarter; and

(ii) consolidated statements of income, changes in shareholders' equity and cash flows of the Company and its Subsidiaries for such quarter and (in the

case of the second and third quarters) for the portion of the fiscal year ending with such quarter; and

setting forth in each case in comparative form the figures for the corresponding periods in the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP applicable to quarterly financial statements generally, and certified by a Senior Financial Officer as fairly presenting, in all material respects, the financial position of the companies being reported on and their results of operations and cash flows, subject to changes resulting from year-end adjustments;

(b) *Annual Statements* — within 105 days after the end of each fiscal year of the Company, duplicate copies of,

(i) a consolidated balance sheet of the Company and its Subsidiaries, as at the end of such year, and

(ii) consolidated statements of income, changes in shareholders' equity and cash flows of the Company and its Subsidiaries, for such year,

setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP, and accompanied by an opinion thereon of independent public accountants of recognized national standing, which opinion shall state that such financial statements present fairly, in all material respects, the financial position of the companies being reported upon and their results of operations and cash flows and have been prepared in conformity with GAAP, and that the examination of such accountants in connection with such financial statements has been made in accordance with generally accepted auditing standards, and that such audit provides a reasonable basis for such opinion in the circumstances;

(c) *SEC and Other Reports* — promptly upon their becoming available, one copy of (i) each financial statement, report, notice or proxy statement sent by the Company or any Subsidiary to its principal lending banks as a whole (excluding information sent to such banks in the ordinary course of administration of a bank facility, such as information relating to pricing and borrowing availability) or to its public securities holders generally, (ii) each regular or periodic report, each registration statement that shall have become effective (without exhibits except as expressly requested by such holder), and each final prospectus and all amendments thereto filed by the Company or any Subsidiary with the SEC, and (iii) each regular periodic report to any entity that regulates the affairs of the Company and/or its Subsidiaries (including, without limitation, the Federal Energy Regulatory Commission and the New York Public Service Commission);

(d) *Notice of Default or Event of Default* — promptly, and in any event within five (5) Business Days after a Responsible Officer becoming aware of the existence of any Default or Event of Default, a written notice specifying the nature and period of existence thereof and what action the Company is taking or proposes to take with respect thereto;

(e) *ERISA Matters* — promptly, and in any event within ten (10) Business Days after a Responsible Officer becoming aware of any of the following, a written notice setting forth the nature thereof and the action, if any, that the Company or an ERISA Affiliate proposes to take with respect thereto:

(i) with respect to any Plan, any reportable event, as defined in section 4043(c) of ERISA and the regulations thereunder, for which notice thereof has not been waived pursuant to such regulations as in effect on the date hereof; or

(ii) the taking by the PBGC of steps to institute, or the threatening by the PBGC of the institution of, proceedings under section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan, or the receipt by the Company or any ERISA Affiliate of a notice from a Multi-employer Plan that such action has been taken by the PBGC with respect to such Multiemployer Plan; or

(iii) any event, transaction or condition that could result in the incurrence of any liability by the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or such penalty or excise tax provisions, if such liability or Lien, taken together with any other such liabilities or Liens then existing, would reasonably be expected to have a Material Adverse Effect; and

(f) *Requested Information* — with reasonable promptness, such other data and information relating to the business, operations, affairs, financial condition, assets or properties of the Company or any of its Subsidiaries or relating to the ability of the Company to perform its obligations under this Agreement and under the Notes as from time to time may be reasonably requested by such holder of a Note or Notes.

Section 7.2. Officer's Certificate. Each set of financial statements delivered to a holder of a Note or Notes pursuant to Section 7.1(a) or Section 7.1(b) shall be accompanied by a certificate of a Senior Financial Officer setting forth:

(a) *Financial Covenant Compliance* — to the extent a Financial Covenant (as defined below) is at any time hereafter incorporated by reference into this Agreement pursuant to Section 10.5(a) and is not deemed deleted thereafter pursuant to Section 10.5(b), the information (including detailed calculations) required in order to establish whether the Company was in compliance with such Financial Covenant, during the quarterly or annual period covered by the statements then being furnished (including with respect to each such Financial Covenant, where applicable, the calculations of the maximum or minimum amount, ratio or percentage, as the case may be, permissible under the terms of such Financial Covenant, and the calculation of the amount, ratio or percentage then in existence); *provided*, that the delivery of any such information and/or detailed calculations that satisfy the requirements of the Other Debt (as defined below)

containing such Financial Covenant shall be deemed to satisfy the requirements of this Section 7.2(a); and

(b) *Event of Default* — a statement that such Senior Financial Officer has reviewed the relevant terms hereof and has made, or caused to be made, under his or her supervision, a review of the transactions and conditions of the Company and its Subsidiaries from the beginning of the quarterly or annual period covered by the statements then being furnished to the date of the certificate and that such review shall not have disclosed the existence during such period of any condition or event that constitutes a Default or an Event of Default or, if any such condition or event existed or exists, specifying the nature and period of existence thereof and what action the Company shall have taken or proposes to take with respect thereto.

Section 7.3. Visitation. The Company shall permit the representatives of each holder of a Note or Notes that is an Institutional Investor:

(a) *No Default* — if no Default or Event of Default then exists, at the expense of such holder and upon reasonable prior notice to the Company, to visit the principal executive office of the Company, to discuss the affairs, finances and accounts of the Company and its Subsidiaries with the Company's officers, and, with the consent of the Company (which consent will not be unreasonably withheld) to visit the other offices and properties of the Company and each Subsidiary, all at such reasonable times and as often as may be reasonably requested in writing. Any such visit will not unreasonably disturb or interfere with the normal operation or maintenance of any facilities or surrounding areas or the conduct by the Company and each Subsidiary of their business and will be in accordance with the Company's or such Subsidiary's, and any operator of the Company or such Subsidiary's, safety, security, insurance and confidentiality programs; and

(b) *Default* — if a Default or Event of Default then exists, at the expense of the Company to visit and inspect any of the offices or properties of the Company or any Subsidiary, to examine all their respective books of account, records, reports and other papers, to make copies and extracts therefrom, and to discuss their respective affairs, finances and accounts with their respective officers and independent public accountants (and by this provision the Company authorizes said accountants to discuss the affairs, finances and accounts of the Company and its Subsidiaries), all at such times and as often as may be requested.

Section 8. PAYMENT AND PREPAYMENT OF THE NOTES.

Section 8.1. Maturity. As provided therein, the entire unpaid principal balance of the Notes shall be due and payable on the stated maturity date thereof.

Section 8.2. Optional Prepayments with Make-Whole Amount. The Company may, at its option, upon notice as provided below, prepay at any time all, or from time to time any part of, the Notes in an amount not less than five percent (5.00%) of the aggregate principal amount of the Notes then outstanding in the case of a partial prepayment, at 100% of the principal

amount so prepaid, plus the Make-Whole Amount determined for the prepayment date with respect to such principal amount. The Company will give each holder of a Note or Notes written notice of each optional prepayment under this Section 8.2 not less than thirty (30) days and not more than sixty (60) days prior to the date fixed for such prepayment. Each such notice shall specify such date (which shall be a Business Day), the aggregate principal amount of the Notes to be prepaid on such date, the principal amount of each Note held by such holder to be prepaid (determined in accordance with Section 8.3), and the interest to be paid on the prepayment date with respect to such principal amount being prepaid, and shall be accompanied by a certificate of a Senior Financial Officer as to the estimated Make-Whole Amount due in connection with such prepayment (calculated as if the date of such notice were the date of the prepayment), setting forth the details of such computation. Two (2) Business Days prior to such prepayment, the Company shall deliver to each holder of a Note or Notes a certificate of a Senior Financial Officer specifying the calculation of such Make-Whole Amount as of the specified prepayment date.

Section 8.3. Allocation of Partial Prepayments. In the case of each partial prepayment of the Notes, the principal amount of the Notes to be prepaid shall be allocated among all of the Notes at the time outstanding in proportion, as nearly as practicable, to the respective unpaid principal amounts thereof not theretofore called for prepayment.

Section 8.4. Maturity; Surrender, Etc. In the case of each prepayment of Notes pursuant to this Section 8, the principal amount of each Note to be prepaid shall mature and become due and payable on the date fixed for such prepayment (which shall be a Business Day), together with interest on such principal amount accrued to such date and the applicable Make-Whole Amount, if any. From and after such date, unless the Company shall fail to pay such principal amount when so due and payable, together with the interest and Make-Whole Amount, if any, as aforesaid, interest on such principal amount shall cease to accrue. Any Note paid or prepaid in full shall be surrendered to the Company and cancelled and shall not be reissued, and no Note shall be issued in lieu of any prepaid principal amount of any Note.

Section 8.5. Purchase of Notes. The Company will not and will not permit any Affiliate to purchase, redeem, prepay or otherwise acquire, directly or indirectly, any of the outstanding Notes except (a) upon the payment or prepayment of the Notes in accordance with the terms of this Agreement and the Notes or (b) pursuant to an offer to purchase made by the Company or an Affiliate *pro rata* to the holders of all Notes at the time outstanding upon the same terms and conditions. Any such offer shall provide each holder with sufficient information to enable it to make an informed decision with respect to such offer, and shall remain open for at least twenty (20) Business Days. If the holders of more than sixty six and two thirds percent (66⅔%) of the principal amount of the Notes then outstanding accept such offer, the Company shall promptly notify the remaining holders of such fact and the expiration date for the acceptance by holders of Notes of such offer shall be extended by the number of days necessary to give each such remaining holder at least ten (10) Business Days from its receipt of such notice to accept such offer. The Company will promptly cancel all Notes acquired by it or any Affiliate pursuant to any payment, prepayment or purchase of Notes pursuant to any provision of this Agreement and no Notes may be issued in substitution or exchange for any such Notes.

Section 8.6. Make-Whole Amount. "Make-Whole Amount" means, with respect to any Note, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal of such Note over the amount of such Called Principal; *provided,* that the Make-Whole Amount may in no event be less than zero. For the purposes of determining the Make-Whole Amount, the following terms have the following meanings:

"**Called Principal**" means, with respect to any Note, the principal of such Note that is to be prepaid pursuant to Section 8.2 or has become or is declared to be immediately due and payable pursuant to Section 12.1, as the context requires.

"**Discounted Value**" means, with respect to the Called Principal of any Note, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the Notes is payable) equal to the Reinvestment Yield with respect to such Called Principal.

"**Reinvestment Yield**" means, with respect to the Called Principal of any Note, 0.50% over the yield to maturity implied by (i) the yields reported as of 10:00 a.m. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Principal, on the display designated as "Page PX1" (or such other display as may replace Page PX1) on Bloomberg Financial Markets (or, if Page PX1 is unavailable, the Telerate Access Service Screen which corresponds most closely with Page PX1) for the most recently issued actively traded on the run U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or (ii) if such yields are not reported as of such time or the yields reported as of such time are not ascertainable (including by way of interpolation), the Treasury Constant Maturity Series Yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (or any comparable successor publication) for U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date.

In the case of each determination under clause (i) or clause (ii), as the case may be, of the preceding paragraph, such implied yield will be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between (1) the applicable actively traded on the run U.S. Treasury security with the maturity closest to and greater than such Remaining Average Life and (2) the applicable actively traded on the run U.S. Treasury security with the maturity closest to and less than such Remaining Average Life. The Reinvestment Yield shall be rounded to the number of decimal places as appears in the interest rate of the applicable Note.

"**Remaining Average Life**" means, with respect to any Called Principal, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such

Called Principal into (ii) the sum of the products obtained by multiplying (a) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (b) the number of years (calculated to the nearest one-twelfth year) that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

"**Remaining Scheduled Payments**" means, with respect to the Called Principal of any Note, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date; provided that if such Settlement Date is not a date on which interest payments are due to be made under the terms of the Notes, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date pursuant to Section 8.2 or Section 12.1.

"**Settlement Date**" means, with respect to the Called Principal of any Note, the date on which such Called Principal is to be prepaid pursuant to Section 8.2 or has become or is declared to be immediately due and payable pursuant to Section 12.1, as the context requires.

Section 9. AFFIRMATIVE COVENANTS.

The Company covenants that so long as any of the Notes are outstanding:

Section 9.1. Payments on the Notes. The Company will duly and punctually pay the principal of, Make-Whole Amount or other premium, if any, and interest on the Notes in accordance with the terms of this Agreement and the Notes, as well as any other amounts due hereunder or thereunder.

Section 9.2. Compliance with Law. Without limiting Section 10.6, the Company will and will cause each of its Subsidiaries to comply with all laws, ordinances or governmental rules or regulations to which each of them is subject, including, without limitation, ERISA, the USA Patriot Act and Environmental Laws, and will obtain and maintain in effect all licenses, certificates, permits, franchises and other governmental authorizations necessary to the ownership of their respective properties or to the conduct of their respective businesses, in each case to the extent necessary to ensure that non-compliance with such laws, ordinances or governmental rules or regulations or failures to obtain or maintain in effect such licenses, certificates, permits, franchises and other governmental authorizations would not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect.

Section 9.3. Insurance. The Company will and will cause each of its Subsidiaries to maintain, with financially sound and reputable insurers, insurance with respect to their respective properties and businesses against such casualties and contingencies, of such types, on such terms and in such amounts (including deductibles, co-insurance and self-insurance, if adequate reserves are maintained with respect thereto) as is customary in the case of entities of established

reputations engaged in the same or a similar business, similarly situated and owning similar properties as the Company and its Subsidiaries.

Section 9.4. Maintenance of Properties. The Company will and will cause each of its Subsidiaries to maintain and keep, or cause to be maintained and kept, their respective properties in good repair, working order and condition (other than ordinary wear and tear), so that the business carried on in connection therewith may be properly conducted at all times; *provided*, that this Section 9.4 shall not prevent the Company or any Subsidiary from discontinuing the operation and the maintenance of any of its properties if such discontinuance is desirable in the conduct of its business and the Company has concluded that such discontinuance would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

Section 9.5. Payment of Taxes. The Company will and will cause each of its Subsidiaries to file all income tax or similar tax returns required to be filed in any jurisdiction and to pay and discharge all taxes shown to be due and payable on such returns and all other taxes, assessments, governmental charges, or levies payable by any of them, to the extent the same have become due and payable and before they have become delinquent; *provided*, that neither the Company nor any Subsidiary need pay any such tax, assessment, charge or levy if (i) the amount, applicability or validity thereof is contested by the Company or such Subsidiary on a timely basis in good faith and in appropriate proceedings, and the Company or a Subsidiary has established adequate reserves therefor in accordance with GAAP on the books of the Company or such Subsidiary or (ii) the nonpayment of all such taxes, assessments, charges and levies in the aggregate would not reasonably be expected to have a Material Adverse Effect.

Section 9.6. Corporate Existence, Etc. Subject to Section 10.2, the Company will at all times preserve and keep in full force and effect its corporate existence. Subject to Section 10.2, the Company will at all times preserve and keep in full force and effect the corporate existence of each of its Subsidiaries (unless merged into the Company or a Wholly-Owned Subsidiary) and all rights and franchises of the Company and its Subsidiaries unless, in the good faith judgment of the Company, the termination of or failure to preserve and keep in full force and effect such corporate existence, right or franchise would not, individually or in the aggregate, have a Material Adverse Effect.

Section 9.7. Books and Records. The Company will, and will cause each of its Subsidiaries to, maintain proper books of record and account in conformity with GAAP and all applicable requirements of any Governmental Authority having legal or regulatory jurisdiction over the Company or such Subsidiary, as the case may be.

Section 9.8. Regulated Business. The Company will continue its status as a regulated gas public utility company subject to regulation by the relevant Governmental Authorities.

Section 10. NEGATIVE COVENANTS.

The Company covenants that so long as any of the Notes are outstanding:

Section 10.1. Transactions with Affiliates. The Company will not and will not permit any Subsidiary to enter into directly or indirectly any Material transaction or Material group of related transactions (including, without limitation, the purchase, lease, sale or exchange of properties of any kind or the rendering of any service) with any Affiliate (other than the Company or another Subsidiary), except (i) as approved by any Governmental Authority or in compliance with any law, order, rule or regulation of any Governmental Authority or (ii) pursuant to the reasonable requirements of the Company's or such Subsidiary's business and upon fair and reasonable terms no less favorable to the Company or such Subsidiary than would be obtainable in a comparable arm's-length transaction with a Person not an Affiliate.

Section 10.2. Merger, Consolidation, Etc. The Company will not consolidate with or merge with any other Person or convey, transfer or lease all or substantially all of its assets in a single transaction or series of transactions to any Person unless:

(a) the successor formed by such consolidation or the survivor of such merger or the Person that acquires by conveyance, transfer or lease all or substantially all of the assets of the Company as an entirety, as the case may be, shall be a solvent corporation or limited liability company organized and existing under the laws of the United States or any State thereof (including the District of Columbia), and, if the Company is not such corporation or limited liability company, such corporation or limited liability company shall have executed and delivered to each holder of any Note or Notes its assumption of the due and punctual performance and observance of each covenant and condition of this Agreement and the Notes; and

(b) immediately before and immediately after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing.

No such conveyance, transfer or lease of substantially all of the assets of the Company shall have the effect of releasing the Company or any successor corporation or limited liability company that shall theretofore have become such in the manner prescribed in this Section 10.2 from its liability under this Agreement or the Notes.

Section 10.3. Line of Business. The Company will not and will not permit any Subsidiary to engage in any business if, as a result, the general nature of the business in which the Company and its Subsidiaries, taken as a whole, would then be engaged would be substantially changed from the general nature of the business in which the Company and its Subsidiaries, taken as a whole, are engaged on the date of this Agreement as described in the Memorandum.

Section 10.4. Liens. If at any time the Company mortgages, pledges or otherwise subjects to any Lien, other than Permitted Liens, the whole or any part of any property or assets now owned or hereafter acquired by it except as hereinafter provided in this Section 10.4, the Company will secure the then outstanding Notes, and any other senior Indebtedness of the Company which may then be outstanding and entitled to the benefit of a covenant similar in effect to this covenant, equally and ratably with any Indebtedness secured by such mortgage, pledge or Lien, for as long as any such Indebtedness is so secured. Nothing contained in this

Agreement prevents any entity other than the Company from mortgaging, pledging or subjecting to any Lien any property or assets, whether or not acquired by such person from the Company.

Section 10.5. Most Favored Noteholder.

(a) If, at any time after the Closing, the Company includes in any new, or adds to any existing, Indebtedness (all new and existing Indebtedness, "**Other Debt**") any restriction or other provision that provides for limitations on Indebtedness, interest expense or net worth or any other covenant that would be characterized as a "financial covenant" (a "**Financial Covenant**") and such Financial Covenant is not contained in this Agreement, then, contemporaneously upon the effectiveness of such Financial Covenant with respect to the Other Debt, or amendment thereto, that includes or adds such Financial Covenant, such Financial Covenant will be deemed automatically incorporated by reference hereinto and will form an integral part of this Agreement without any further action on the part of any Person. Upon the inclusion or addition of a Financial Covenant into Other Debt and its incorporation into this Agreement, the Company will promptly deliver to each holder of a Note or Notes then outstanding a notice setting forth such Financial Covenant (a "**MFN Notice**").

(b) Any Financial Covenant incorporated hereinto pursuant to Section 10.5(a) will (i) automatically be waived, amended or otherwise modified to the extent of any waiver, amendment or other modification of such Financial Covenant in the relevant Other Debt, and (ii) automatically be deemed deleted herefrom at such time as the applicable Other Debt is terminated and no amounts remain outstanding thereunder or such Financial Covenant is otherwise deleted from such Other Debt (but the provisions of Section 10.5(a) shall be complied with by the Company with respect to any and all subsequent Other Debt incurred that contains a Financial Covenant), in each case without any further action on the part of any Person; *provided*, that, upon the occurrence of an event set forth in the immediately preceding clause (i) or (ii), the Company will promptly deliver written notice thereof to each holder of a Note or Notes then outstanding.

Section 10.6. Terrorism Sanctions Regulations. The Company will not, and will not permit any Subsidiary to, (a) become a Person described or designated in the Specially Designated Nationals and Blocked Persons List of the Office of Foreign Assets Control or in Section 1 of the Anti-Terrorism Order or (b) engage in any dealings or transactions with any such Person.

Section 11. EVENTS OF DEFAULT.

An "*Event of Default*" shall exist if any of the following conditions or events shall occur and be continuing:

(a) the Company defaults in the payment of any principal or Make-Whole Amount, if any, on any Note when the same becomes due and payable, whether at maturity or at a date fixed for prepayment or by declaration or otherwise; or

(b) the Company defaults in the payment of any interest on any Note for more than thirty (30) days after the same becomes due and payable; or

(c) the Company defaults in the performance of or compliance with any term contained herein (other than those referred to in Sections 11(a) and (b)) and such default is not remedied within sixty (60) days after the earlier of (i) a Responsible Officer obtaining actual knowledge of such default and (ii) the Company receiving written notice of such default from any holder of a Note or Notes (any such written notice to be identified as a "notice of default" and to refer specifically to this Section 11(c)); or

(d) any representation or warranty made in writing by or on behalf of the Company or by any officer of the Company in this Agreement or in any writing furnished in connection with the transactions contemplated hereby proves to have been false or incorrect in any material respect on the date as of which made; or

(e) (i) the Company or any Significant Subsidiary is in default (as principal or as guarantor or other surety) in the payment of any principal of or premium or make-whole amount or interest on any Indebtedness that is outstanding in an aggregate principal amount of at least $10,000,000 beyond any period of grace provided with respect thereto, or (ii) the Company or any Significant Subsidiary is in default in the performance of or compliance with any term of any evidence of any Indebtedness in an aggregate outstanding principal amount of at least $10,000,000 or of any mortgage, indenture or other agreement relating thereto or any other condition exists, and as a consequence of such default or condition such Indebtedness has become, or has been declared due and payable before its stated maturity or before its regularly scheduled dates of payment; or

(f) the Company or any Significant Subsidiary (i) is generally not paying, or admits in writing its inability to pay, its debts as they become due, (ii) files, or consents by answer or otherwise to the filing against it of, a petition for relief or reorganization or arrangement or any other petition in bankruptcy, for liquidation or to take advantage of any bankruptcy, insolvency, reorganization, moratorium or other similar law of any jurisdiction, (iii) makes an assignment for the benefit of its creditors, (iv) consents to the appointment of a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, (v) is adjudicated as insolvent or to be liquidated, or (vi) takes corporate action for the purpose of any of the foregoing; or

(g) a court or Governmental Authority of competent jurisdiction enters an order appointing, without consent by the Company or any of its Significant Subsidiaries, a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, or constituting an order for relief or approving a petition for relief or reorganization or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of the Company or any of its Significant Subsidiaries, or any such petition shall be filed against the Company or any of

its Significant Subsidiaries and such petition shall not be dismissed within sixty (60) consecutive days; or

(h) a final judgment or judgments for the payment of money aggregating in excess of $50,000,000 are rendered against one or more of the Company and its Significant Subsidiaries and which judgments are not, within sixty (60) days after entry thereof, bonded, discharged or stayed pending appeal, or are not discharged within sixty (60) days after the expiration of such stay; or

(i) if (i) any Plan shall fail to satisfy the minimum funding standards of ERISA or the Code for any plan year or part thereof or a waiver of such standards or extension of any amortization period is sought or granted under section 412 of the Code, (ii) a notice of intent to terminate any Plan shall have been or is reasonably expected to be filed with the PBGC or the PBGC shall have instituted proceedings under ERISA section 4042 to terminate or appoint a trustee to administer any Plan or the PBGC shall have notified the Company or any ERISA Affiliate that a Plan may become a subject of any such proceedings, (iii) the Company or any ERISA Affiliate shall have incurred or is reasonably expected to incur any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, (iv) the Company or any ERISA Affiliate withdraws from any Multiemployer Plan, or (v) the Company or any Subsidiary establishes or amends any employee welfare benefit plan that provides post-employment welfare benefits in a manner that would increase the liability of the Company or any Subsidiary thereunder; and any such event or events described in clauses (i) through (v) above, either individually or together with any other such event or events, would reasonably be expected to have a Material Adverse Effect.

As used in Section 11(i), the terms "employee benefit plan" and "employee welfare benefit plan" shall have the respective meanings assigned to such terms in section 3 of ERISA.

Section 12. REMEDIES ON DEFAULT, ETC.

Section 12.1. Acceleration.

(a) If an Event of Default with respect to the Company described in Section 11(f) (other than an Event of Default described in clause (i) of Section 11(f) or described in clause (vi) of Section 11(f) by virtue of the fact that such clause encompasses clause (i) of Section 11(f)) or Section 11(g)) has occurred, all the Notes then outstanding shall automatically become immediately due and payable.

(b) If any other Event of Default has occurred and is continuing, the Required Holders may at any time at its or their option, by notice or notices to the Company, declare all the Notes then outstanding to be immediately due and payable.

(c) If any Event of Default described in Section 11(a) or (b) has occurred and is continuing, any holder or holders of a Note or Notes at the time outstanding affected by

such Event of Default may at any time, at its or their option, by notice or notices to the Company, declare all the Notes held by it or them to be immediately due and payable.

Upon any Notes becoming due and payable under this Section 12.1, whether automatically or by declaration, such Notes will forthwith mature and the entire unpaid principal amount of such Notes, plus (x) all accrued and unpaid interest thereon (including, but not limited to, interest accrued thereon at the Default Rate) and (y) the Make-Whole Amount determined in respect of such principal amount (to the full extent permitted by applicable law), shall all be immediately due and payable, in each and every case without presentment, demand, protest or further notice, all of which are hereby waived. The Company acknowledges, and the parties hereto agree, that each holder of a Note or Notes has the right to maintain its investment in the Notes free from repayment by the Company (except as herein specifically provided for) and that the provision for payment of a Make-Whole Amount by the Company in the event that the Notes are prepaid or are accelerated as a result of an Event of Default, is intended to provide compensation for the deprivation of such right under such circumstances.

Section 12.2. Other Remedies. If any Default or Event of Default has occurred and is continuing, and irrespective of whether any Notes have become or have been declared immediately due and payable under Section 12.1, the holder of any Note or Notes at the time outstanding may proceed to protect and enforce the rights of such holder by an action at law, suit in equity or other appropriate proceeding, whether for the specific performance of any agreement contained herein or in any Note, or for an injunction against a violation of any of the terms hereof or thereof, or in aid of the exercise of any power granted hereby or thereby or by law or otherwise.

Section 12.3. Rescission. At any time after any Notes have been declared due and payable pursuant to Section 12.1(b) or (c), the Required Holders, by written notice to the Company, may rescind and annul any such declaration and its consequences if (a) the Company has paid all overdue interest on the Notes, all principal of and Make-Whole Amount, if any, on any Notes that are due and payable and are unpaid other than by reason of such declaration, and all interest on such overdue principal and Make-Whole Amount, if any, and (to the extent permitted by applicable law) any overdue interest in respect of the Notes, at the Default Rate, (b) neither the Company nor any other Person shall have paid any amounts which have become due solely by reason of such declaration, (c) all Events of Default and Defaults, other than non-payment of amounts that have become due solely by reason of such declaration, have been cured or have been waived pursuant to Section 17, and (d) no judgment or decree has been entered for the payment of any monies due pursuant hereto or to the Notes. No rescission and annulment under this Section 12.3 will extend to or affect any subsequent Event of Default or Default or impair any right consequent thereon.

Section 12.4. No Waivers or Election of Remedies, Expenses, Etc. No course of dealing and no delay on the part of any holder of any Note or Notes in exercising any right, power or remedy shall operate as a waiver thereof or otherwise prejudice such holder's rights, powers or remedies. No right, power or remedy conferred by this Agreement or by any Note upon any holder thereof shall be exclusive of any other right, power or remedy referred to herein or therein or now or hereafter available at law, in equity, by statute or otherwise. Without limiting the obligations of the Company under Section 15, the Company will pay to the holder of each Note

on demand such further amount as shall be sufficient to cover all costs and expenses of such holder incurred in any enforcement or collection under this Section 12, including, without limitation, reasonable attorneys' fees, expenses and disbursements of one (1) special counsel for all holders of the Notes.

Section 13. REGISTRATION; EXCHANGE; SUBSTITUTION OF NOTES.

Section 13.1. Registration of Notes. The Company shall keep at its principal executive office a register for the registration and registration of transfers of Notes. The name and address of each holder of one or more Notes, each transfer thereof and the name and address of each transferee of one or more Notes shall be registered in such register. Prior to due presentment for registration of transfer, the Person in whose name any Note shall be registered shall be deemed and treated as the owner and holder thereof for all purposes hereof, and the Company shall not be affected by any notice or knowledge to the contrary. The Company shall give to any holder of a Note or Notes that is an Institutional Investor promptly upon request therefor, a complete and correct copy of the names and addresses of all registered holders of a Note or Notes.

Section 13.2. Transfer and Exchange of Notes. Upon surrender of any Note to the Company at the address and to the attention of the designated officer (all as specified in Section 18(iii)), for registration of transfer or exchange (and in the case of a surrender for registration of transfer accompanied by a written instrument of transfer duly executed by the registered holder of such Note or such holder's attorney duly authorized in writing and whose signature has been medallion guaranteed and accompanied by the relevant name, address and other information for notices of each transferee of such Note or part thereof), within ten (10) Business Days thereafter, the Company shall execute and deliver, at the Company's expense (except as provided below), one or more new Notes (as requested by the holder thereof) in exchange therefor, in an aggregate principal amount equal to the unpaid principal amount of the surrendered Note. Each such new Note shall be payable to such Person as such holder may request and shall be substantially in the form of *Exhibit 1*. Each such new Note shall be dated and bear interest from the date to which interest shall have been paid on the surrendered Note or dated the date of the surrendered Note if no interest shall have been paid thereon. The Company may require payment of a sum sufficient to cover any stamp tax or governmental charge imposed in respect of any such transfer of Notes. Notes shall not be transferred in denominations of less than $100,000; *provided*, that if necessary to enable the registration of transfer by a holder of its entire holding of Notes, one Note may be in a denomination of less than $100,000. Any transferee, by its acceptance of a Note registered in its name (or the name of its nominee), shall be deemed to have made the representation set forth in Section 6.2.

Section 13.3. Replacement of Notes. Upon receipt by the Company at the address and to the attention of the designated officer (all as specified in Section 18(iii)) of evidence reasonably satisfactory to it of the ownership of and the loss, theft, destruction or mutilation of any Note (which evidence shall be, in the case of an Institutional Investor, notice from such Institutional Investor of such ownership and such loss, theft, destruction or mutilation), and

(a) in the case of loss, theft or destruction, of indemnity reasonably satisfactory to it (*provided*, that if the holder of such Note is, or is a nominee for, an original Purchaser or another holder of a Note or Notes with a minimum net worth of at least $50,000,000 or a Qualified Institutional Buyer, such Person's own unsecured agreement of indemnity shall be deemed to be satisfactory), or

(b) in the case of mutilation, upon surrender and cancellation thereof,

within ten (10) Business Days thereafter, the Company at its own expense shall execute and deliver, in lieu thereof, a new Note, dated and bearing interest from the date to which interest shall have been paid on such lost, stolen, destroyed or mutilated Note or dated the date of such lost, stolen, destroyed or mutilated Note if no interest shall have been paid thereon.

Section 13.4. Agent Services. Without in any manner limiting the obligations of the Company under this Section 13, the Company may at its own expense retain the services of one or more agents to perform any or all of its obligations under this Section 13 and 14 and to perform certain other administrative functions on behalf of the Company including, without limitation, distribution of financial statements and other certificates and notices. As of the date of this Agreement, such agent is Wells Fargo Bank, N.A. acting out of its office at Corporate Trust Services, 45 Broadway, 14th Floor, New York, NY 10006-3007 and the Company shall give prompt notice to the Purchasers or other holders of Notes of any change in the identity of such agent.

Purchasers agree that they shall cooperate with such agent and deliver any Notes, notices or other communications and any related documents as may be required under Sections 13 and 14, as applicable, of this Agreement to such agent, and shall comply with any requests reasonably made by the agent on the Company's behalf pursuant to the provisions of such sections.

Section 14. PAYMENTS ON NOTES.

Section 14.1. Place of Payment. Subject to Section 14.2, payments of principal, Make-Whole Amount, if any, and interest becoming due and payable on the Notes shall be made in New York, New York at the principal office of Wells Fargo Bank, N.A. in such jurisdiction. The Company may at any time, by notice to each holder of a Note or Notes, change the place of payment of the Notes so long as such place of payment shall be either the principal office of the Company in such jurisdiction or the principal office of a bank or trust company in such jurisdiction.

Section 14.2. Home Office Payment. So long as any Purchaser or its nominee shall be the holder of any Note or Notes, and notwithstanding anything contained in Section 14.1 or in such Note to the contrary, the Company will pay all sums becoming due on such Note for principal, Make-Whole Amount, if any, and interest by the method and at the address specified for such purpose below such Purchaser's name in *Schedule A*, or by such other method or at such other address as such Purchaser shall have from time to time specified to the Company in writing for such purpose, without the presentation or surrender of such Note or the making of any

notation thereon, except that upon written request of the Company made concurrently with or reasonably promptly after payment or prepayment in full of any Note, such Purchaser shall surrender such Note for cancellation, reasonably promptly after any such request, to the Company at its principal executive office or at the place of payment most recently designated by the Company pursuant to Section 14.1. Prior to any sale or other disposition of any Note held by a Purchaser or its nominee, such Purchaser will, at its election, either endorse thereon the amount of principal paid thereon and the last date to which interest has been paid thereon or surrender such Note to the Company in exchange for a new Note or Notes pursuant to Section 13.2. The Company will afford the benefits of this Section 14.2 to any Institutional Investor that is the direct or indirect transferee of any Note purchased by a Purchaser under this Agreement and that has made the same agreement relating to such Note as the Purchasers have made in this Section 14.2.

Section 15. EXPENSES, ETC.

Section 15.1. Transaction Expenses. Whether or not the transactions contemplated hereby are consummated, the Company will pay all costs and expenses (including reasonable attorneys' fees of not more than one (1) special counsel and, if reasonably required by the Required Holders, local or other counsel) incurred by the Purchasers and each other holder of a Note or Notes in connection with such transactions (including, without limitation, reasonable fees, charges and disbursements of the Purchasers' single counsel incurred on and after the Closing with respect to preparation and delivery of closing document sets and binders for the transactions contemplated hereby to the holders of Notes and other Persons) and in connection with any amendments, waivers or consents under or in respect of this Agreement or the Notes (whether or not such amendment, waiver or consent becomes effective), including, without limitation: (a) the costs and expenses incurred in enforcing or defending (or determining whether or how to enforce or defend) any rights under this Agreement or the Notes or in responding to any subpoena or other legal process or informal investigative demand issued in connection with this Agreement or the Notes, or by reason of being a holder of any Note or Notes, (b) the costs and expenses, including financial advisors' fees, incurred in connection with the insolvency or bankruptcy of the Company or any Subsidiary or in connection with any work-out or restructuring of the transactions contemplated hereby and by the Notes and (c) the costs and expenses incurred in connection with the initial filing of this Agreement and all related documents and financial information with the SVO; *provided, however*, that such costs and expenses under this clause (c) shall not exceed $5,000. The Company will pay, and will save each Purchaser and each other holder of a Note or Notes harmless from, all claims in respect of any fees, costs or expenses if any, of brokers and finders (other than those, if any, retained by a Purchaser or other holder in connection with its purchase of the Notes).

Section 15.2. Survival. The obligations of the Company under this Section 15 will survive the payment or transfer of any Note, the enforcement, amendment or waiver of any provision of this Agreement or the Notes, and the termination of this Agreement.

Section 16. SURVIVAL OF REPRESENTATIONS AND WARRANTIES; ENTIRE AGREEMENT.

All representations and warranties contained herein shall survive the execution and delivery of this Agreement and the Notes, the purchase or transfer by any Purchaser of any Note or portion thereof or interest therein and the payment of any Note, and may be relied upon by any subsequent holder of a Note or Notes, regardless of any investigation made at any time by or on behalf of such Purchaser or any other holder of a Note or Notes. All statements contained in any certificate or other instrument delivered by or on behalf of the Company pursuant to this Agreement shall be deemed representations and warranties of the Company under this Agreement. Subject to the preceding sentence, this Agreement and the Notes embody the entire agreement and understanding between each Purchaser and the Company and supersede all prior agreements and understandings relating to the subject matter hereof.

Section 17. AMENDMENT AND WAIVER.

Section 17.1. Requirements. This Agreement and the Notes may be amended, and the observance of any term hereof or of the Notes may be waived (either retroactively or prospectively), with (and only with) the written consent of the Company and the Required Holders, except that (a) no amendment or waiver of any of the provisions of Section 1, 2, 3, 4, 5, 6 or 21 hereof, or any defined term (as it is used therein), will be effective as to any Purchaser unless consented to by such Purchaser in writing, and (b) no such amendment or waiver may, without the written consent of the holder of each Note at the time outstanding affected thereby, (i) subject to the provisions of Section 12 relating to acceleration or rescission, change the amount or time of any prepayment or payment of principal of, or reduce the rate or change the time of payment or method of computation of interest or of the Make-Whole Amount on, the Notes, (ii) change the percentage of the principal amount of the Notes the holders of which are required to consent to any such amendment or waiver, or (iii) amend any of Sections 8, 11(a), 11(b), 12, 17, 20.

Section 17.2. Solicitation of Holders of Notes.

(a) *Solicitation.* The Company will provide each holder of a Note or Notes (irrespective of the amount of Notes then owned by it) with sufficient information, sufficiently far in advance of the date a decision is required, to enable such holder to make an informed and considered decision with respect to any proposed amendment, waiver or consent in respect of any of the provisions hereof or of the Notes. The Company will deliver executed or true and correct copies of each amendment, waiver or consent effected pursuant to the provisions of this Section 17 to each holder of an outstanding Note or Notes promptly following the date on which it is executed and delivered by, or receives the consent or approval of, the requisite holders of Notes.

(b) *Payment.* The Company will not directly or indirectly pay or cause to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise, or grant any security or provide other credit support, to any holder of a Note or Notes as consideration for or as an inducement to the entering into by any holder of a Note or Notes or any waiver or amendment of any of the terms and provisions hereof unless such remuneration is concurrently

paid, or security is concurrently granted or other credit support concurrently provided, on the same terms, ratably to each holder of a Note or Notes then outstanding even if such holder did not consent to such waiver or amendment.

(c) *Consent in Contemplation of Transfer.* Any consent made pursuant to this Section 17.2 by the holder of any Note or Notes that has transferred or has agreed to transfer such Note to the Company, any Subsidiary or any Affiliate of the Company and has provided or has agreed to provide such written consent as a condition to such transfer shall be void and of no force or effect except solely as to such holder, and any amendments effected or waivers granted or to be effected or granted that would not have been or would not be so effected or granted but for such consent (and the consents of all other holders of a Note or Notes that were acquired under the same or similar conditions) shall be void and of no force or effect except solely as to such transferring holder.

Section 17.3. Binding Effect, Etc. Any amendment or waiver consented to as provided in this Section 17 applies equally to all holders of a Note or Notes and is binding upon them and upon each future holder of any Note or Notes and upon the Company without regard to whether such Note has been marked to indicate such amendment or waiver. No such amendment or waiver will extend to or affect any obligation, covenant, agreement, Default or Event of Default not expressly amended or waived or impair any right consequent thereon. No course of dealing between the Company and the holder of any Note or Notes nor any delay in exercising any rights hereunder or under any Note shall operate as a waiver of any rights of any holder of such Note or Notes. As used herein, the term "*this Agreement*" and references thereto shall mean this Agreement as it may from time to time be amended or supplemented.

Section 17.4. Notes Held by Company, Etc. Solely for the purpose of determining whether the holders of the requisite percentage of the aggregate principal amount of Notes then outstanding approved or consented to any amendment, waiver or consent to be given under this Agreement or the Notes, or have directed the taking of any action provided herein or in the Notes to be taken upon the direction of the holders of a specified percentage of the aggregate principal amount of Notes then outstanding, Notes directly or indirectly owned by the Company or any of its Affiliates shall be deemed not to be outstanding.

Section 18. NOTICES.

All notices and communications provided for hereunder shall be in writing and sent (a) by telecopy if the sender on the same day sends a confirming copy of such notice by a recognized overnight delivery service (charges prepaid), or (b) by registered or certified mail with return receipt requested (postage prepaid), or (c) by a recognized overnight delivery service (with charges prepaid); provided that any financial statements and certificates sent pursuant to Section 7.1 and 7.2 shall be sent by first class mail. Any such notice must be sent:

(i) if to any Purchaser or its nominee, to such Purchaser or nominee at the address specified for such communications in *Schedule A*, or at such other address as such Purchaser or nominee shall have specified to the Company in writing,

(ii) if to any other holder of any Note or Notes, to such holder at such address as such other holder shall have specified to the Company in writing, or

(iii) if to the Company, to the Company at its address set forth at the beginning hereof to the attention of Secretary, or at such other address as the Company shall have specified to the holder of each Note in writing.

Notices under this Section 18 will be deemed given only when actually received.

Section 19. REPRODUCTION OF DOCUMENTS.

This Agreement and all documents relating thereto, including, without limitation, (a) consents, waivers and modifications that may hereafter be executed, (b) documents received by any Purchaser at the Closing (except the Notes themselves) and (c) financial statements, certificates and other information previously or hereafter furnished to any Purchaser, may be reproduced by such Purchaser by any photographic, photostatic, electronic, digital, or other similar process and such Purchaser may destroy any original document so reproduced. The Company agrees and stipulates that, to the extent permitted by applicable law, any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made by such Purchaser in the regular course of business) and any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence. This Section 19 shall not prohibit the Company or any other holder of a Note or Notes from contesting any such reproduction to the same extent that it could contest the original, or from introducing evidence to demonstrate the inaccuracy of any such reproduction.

Section 20. CONFIDENTIAL INFORMATION.

For the purposes of this Section 20, "*Confidential Information*" means information delivered to any Purchaser by or on behalf of the Company or any Subsidiary in connection with the transactions contemplated by or otherwise pursuant to this Agreement; *provided*, that such term does not include information that (a) was publicly known or otherwise known to such Purchaser prior to the time of such disclosure, (b) subsequently becomes publicly known through no act or omission by such Purchaser or any person acting on such Purchaser's behalf, (c) otherwise becomes known to such Purchaser other than through disclosure by the Company or any Subsidiary or (d) constitutes financial statements delivered to such Purchaser under Section 7.1 that are otherwise publicly available. Each Purchaser will maintain the confidentiality of such Confidential Information in accordance with procedures adopted by such Purchaser in good faith to protect confidential information of third parties delivered to such Purchaser; *provided*, that such Purchaser may deliver or disclose Confidential Information to (i) its directors, trustees, officers, employees, agents, attorneys and affiliates (to the extent such disclosure reasonably relates to the administration of the investment represented by its Notes), (ii) its financial advisors and other professional advisors who agree to hold confidential the Confidential Information substantially in accordance with the terms of this Section 20, (iii) any

other holder of any Note or Notes, (iv) any Institutional Investor to which it sells or offers to sell such Note or any part thereof or any participation therein (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 20), (v) any Person from which it offers to purchase any security of the Company (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 20), (vi) any federal or state regulatory authority having jurisdiction over such Purchaser, (vii) the NAIC or the SVO or, in each case, any similar organization, or any nationally recognized rating agency that requires access to information about such Purchaser's investment portfolio, or (viii) any other Person to which such delivery or disclosure may be necessary or appropriate (w) to effect compliance with any law, rule, regulation or order applicable to such Purchaser, (x) in response to any subpoena or other legal process, (y) in connection with any litigation to which such Purchaser is a party or (z) if an Event of Default has occurred and is continuing, to the extent such Purchaser may reasonably determine such delivery and disclosure to be necessary or appropriate in the enforcement or for the protection of the rights and remedies under such Purchaser's Notes and this Agreement. Each holder of a Note or Notes, by its acceptance of a Note, will be deemed to have agreed to be bound by and to be entitled to the benefits of this Section 20 as though it were a party to this Agreement. On reasonable request by the Company in connection with the delivery to any holder of a Note or Notes of information required to be delivered to such holder under this Agreement or requested by such holder (other than a holder that is a party to this Agreement or its nominee), such holder will enter into an agreement with the Company embodying the provisions of this Section 20.

Section 21. SUBSTITUTION OF PURCHASER.

Each Purchaser shall have the right to substitute any one of its Affiliates as the purchaser of the Notes that it has agreed to purchase hereunder, by written notice to the Company, which notice shall be signed by both such Purchaser and such Affiliate, shall contain such Affiliate's agreement to be bound by this Agreement and shall contain a confirmation by such Affiliate of the accuracy with respect to it of the representations set forth in Section 6. Upon receipt of such notice, any reference to such Purchaser in this Agreement (other than in this Section 21), shall be deemed to refer to such Affiliate in lieu of such original Purchaser. In the event that such Affiliate is so substituted as a Purchaser hereunder and such Affiliate thereafter transfers to such original Purchaser all of the Notes then held by such Affiliate, upon receipt by the Company of notice of such transfer, any reference to such Affiliate as a "Purchaser" in this Agreement (other than in this Section 21), shall no longer be deemed to refer to such Affiliate, but shall refer to such original Purchaser, and such original Purchaser shall again have all the rights of an original holder of a Note or Notes under this Agreement.

Section 22. MISCELLANEOUS.

Section 22.1. Successors and Assigns. All covenants and other agreements contained in this Agreement by or on behalf of any of the parties hereto bind and inure to the benefit of their

respective successors and assigns (including, without limitation, any subsequent holder of a Note or Notes) whether so expressed or not.

Section 22.2. Payments Due on Non-Business Days. Anything in this Agreement or the Notes to the contrary notwithstanding (but without limiting the requirement in Section 8.4 that the notice of any optional prepayment specify a Business Day as the date fixed for such prepayment), any payment of principal of or Make-Whole Amount or interest on any Note that is due on a date other than a Business Day shall be made on the next succeeding Business Day without including the additional days elapsed in the computation of the interest payable on such next succeeding Business Day; *provided*, that if the maturity date of any Note is a date other than a Business Day, the payment otherwise due on such maturity date shall be made on the next succeeding Business Day and shall include the additional days elapsed in the computation of interest payable on such next succeeding Business Day.

Section 22.3. Accounting Terms. All accounting terms used herein which are not expressly defined in this Agreement have the meanings respectively given to them in accordance with GAAP. Except as otherwise specifically provided herein, (i) all computations made pursuant to this Agreement shall be made in accordance with GAAP, and (ii) all financial statements shall be prepared in accordance with GAAP.

Section 22.4. Severability. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall (to the full extent permitted by law) not invalidate or render unenforceable such provision in any other jurisdiction.

Section 22.5. Construction, Etc. Each covenant contained herein shall be construed (absent express provision to the contrary) as being independent of each other covenant contained herein, so that compliance with any one covenant shall not (absent such an express contrary provision) be deemed to excuse compliance with any other covenant. Where any provision herein refers to action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such Person.

For the avoidance of doubt, all Schedules and Exhibits attached to this Agreement shall be deemed to be a part hereof.

Section 22.6. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies hereof, each signed by less than all, but together signed by all, of the parties hereto.

Section 22.7. Governing Law. This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of New York.

Section 22.8. Jurisdiction and Process; Waiver of Jury Trial. (a) The Company irrevocably submits to the non-exclusive jurisdiction of any New York State or federal court

sitting in the Borough of Manhattan, The City of New York, over any suit, action or proceeding arising out of or relating to this Agreement or the Notes. To the fullest extent permitted by applicable law, the Company irrevocably waives and agrees not to assert, by way of motion, as a defense or otherwise, any claim that it is not subject to the jurisdiction of any such court, any objection that it may now or hereafter have to the laying of the venue of any such suit, action or proceeding brought in any such court and any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum.

(b) The Company consents to process being served by or on behalf of any holder of a Note or Notes in any suit, action or proceeding of the nature referred to in Section 22.8(a) by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, return receipt requested, to it at its address specified in Section 18 or at such other address of which such holder shall then have been notified pursuant to said Section. The Company agrees that such service upon receipt (i) shall be deemed in every respect effective service of process upon it in any such suit, action or proceeding and (ii) shall, to the fullest extent permitted by applicable law, be taken and held to be valid personal service upon and personal delivery to it. Notices hereunder shall be conclusively presumed received as evidenced by a delivery receipt furnished by the United States Postal Service or any reputable commercial delivery service.

(c) Nothing in this Section 22.8 shall affect the right of any holder of a Note or Notes to serve process in any manner permitted by law, or limit any right that the holders of any of the Notes may have to bring proceedings against the Company in the courts of any appropriate jurisdiction or to enforce in any lawful manner a judgment obtained in one jurisdiction in any other jurisdiction.

(d) THE PARTIES HERETO HEREBY WAIVE TRIAL BY JURY IN ANY ACTION BROUGHT ON OR WITH RESPECT TO THIS AGREEMENT, THE NOTES OR ANY OTHER DOCUMENT EXECUTED IN CONNECTION HEREWITH OR THEREWITH.

[*The remainder of this page is intentionally left blank.*]

If you are in agreement with the foregoing, please sign the form of agreement on a counterpart of this Agreement and return it to the Company, whereupon this Agreement shall become a binding agreement between you and the Company.

Very truly yours,

THE BROOKLYN UNION GAS COMPANY,
doing business as KEYSPAN ENERGY
DELIVERY NEW YORK

By:_____
Name:
Title:

This Agreement is hereby accepted and agreed to as of the date hereof.

[PURCHASER SIGNATURE BLOCKS TO BE INSERTED]

INFORMATION RELATING TO PURCHASERS

NAME AND ADDRESS OF PURCHASER:	PRINCIPAL AMOUNT OF NOTES OF NOTES TO BE PURCHASED: $
All payments by wire transfer of immediately available funds to: with sufficient information to identify the source and application of such funds.	
All notices of payments and written confirmations of such wire transfers:	
All other communications:	
Tax identification number:	

DEFINED TERMS

As used herein, the following terms have the respective meanings set forth below or set forth in the Section hereof following such term:

"**Affiliate**" means, at any time, and with respect to any Person, any other Person that at such time directly or indirectly through one or more intermediaries Controls, or is Controlled by, or is under common Control with, such first Person. As used in this definition, "*Control*" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. Unless the context otherwise clearly requires, any reference to an "*Affiliate*" is a reference to an Affiliate of the Company.

"**Anti-Terrorism Order**" means Executive Order No. 13,224 of September 24, 2001, Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit or Support Terrorism, 66 U.S. Fed. Reg. 49, 079 (2001), as amended.

"**Business Day**" means any day other than a Saturday, a Sunday or a day on which commercial banks in New York City are required or authorized to be closed.

"**Capital Lease**" means, at any time, a lease with respect to which the lessee is required concurrently to recognize the acquisition of an asset and the incurrence of a liability in accordance with GAAP.

"**Closing**" is defined in Section 3.

"**Code**" means the Internal Revenue Code of 1986, as amended from time to time, and the rules and regulations promulgated thereunder from time to time.

"**Company**" means The Brooklyn Union Gas Company, doing business as KeySpan Energy Delivery New York, a New York corporation, or any successor that becomes such in the manner prescribed in Section 10.2.

"**Confidential Information**" is defined in Section 20.

"**Default**" means an event or condition the occurrence or existence of which would, with the lapse of time or the giving of notice or both, become an Event of Default.

"**Default Rate**" means that rate of interest that is the greater of (i) two percent (2.00)% per annum above the rate of interest stated in clause (a) of the first paragraph of the Notes and (ii) two percent (2.00%) per annum over the rate of interest publicly announced by JPMorgan Chase Bank, N.A. from time to time in New York, New York as its "base" or "prime" rate.

"**Disclosure Documents**" is defined in Section 5.3.

"**Environmental Laws**" means any and all Federal, state, local, and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or governmental restrictions relating to pollution and the protection of the environment or the release of any materials into the environment, including, but not limited to, those related to Hazardous Materials.

"**ERISA**" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

"**ERISA Affiliate**" means any trade or business (whether or not incorporated) that is treated as a single employer together with the Company under section 414 of the Code.

"**Event of Default**" is defined in Section 11.

"**Financial Covenant**" is defined in Section 10.5.

"**GAAP**" means generally accepted accounting principles as in effect from time to time in the United States of America.

"**Governmental Authority**" means

(a) the government of

(i) the United States of America or any State or other political subdivision thereof, or

(ii) any other jurisdiction in which the Company or any Subsidiary conducts all or any part of its business, or which asserts jurisdiction over any properties of the Company or any Subsidiary, or

(b) any entity exercising executive, legislative, judicial, regulatory or administrative functions of, or pertaining to, any such government.

"**Guaranty**" means, with respect to any Person, any obligation (except the endorsement in the ordinary course of business of negotiable instruments for deposit or collection) of such Person guaranteeing or in effect guaranteeing any indebtedness, dividend or other obligation of any other Person in any manner, whether directly or indirectly, including (without limitation) obligations incurred through an agreement, contingent or otherwise, by such Person:

(a) to purchase such indebtedness or obligation or any property constituting security therefor;

(b) to advance or supply funds (i) for the purchase or payment of such indebtedness or obligation, or (ii) to maintain any working capital or other balance sheet condition or any income statement condition of any other Person or otherwise to advance or make available funds for the purchase or payment of such indebtedness or obligation;

(c) to lease properties or to purchase properties or services primarily for the purpose of assuring the owner of such indebtedness or obligation of the ability of any other Person to make payment of the indebtedness or obligation; or

(d) otherwise to assure the owner of such indebtedness or obligation against loss in respect thereof.

In any computation of the indebtedness or other liabilities of the obligor under any Guaranty, the indebtedness or other obligations that are the subject of such Guaranty shall be assumed to be direct obligations of such obligor.

"**Hazardous Material**" means any and all pollutants, toxic or hazardous wastes or other substances that might pose a hazard to health and safety, the removal of which may be required or the generation, manufacture, refining, production, processing, treatment, storage, handling, transportation, transfer, use, disposal, release, discharge, spillage, seepage or filtration of which is or shall be restricted, prohibited or penalized by any applicable law, including, but not limited to, asbestos, urea formaldehyde foam insulation, polychlorinated biphenyls, petroleum, petroleum products, lead based paint, radon gas or similar restricted, prohibited or penalized substances.

"**holder**" means, with respect to any Note, the Person in whose name such Note is registered in the register maintained by the Company pursuant to Section 13.1.

"**Indebtedness**" with respect to any Person means, at any time, without duplication,

(a) its liabilities for borrowed money and its redemption obligations in respect of mandatorily redeemable Preferred Stock;

(b) its liabilities for the deferred purchase price of property acquired by such Person (excluding accounts payable arising in the ordinary course of business but including all liabilities created or arising under any conditional sale or other title retention agreement with respect to any such property);

(c) (i) all liabilities appearing on its balance sheet in accordance with GAAP in respect of Capital Leases and (ii) all liabilities which would appear on its balance sheet in accordance with GAAP in respect of Synthetic Leases assuming such Synthetic Leases were accounted for as Capital Leases;

(d) all liabilities for borrowed money secured by any Lien with respect to any property owned by such Person (whether or not it has assumed or otherwise become liable for such liabilities);

(e) all its liabilities in respect of letters of credit or instruments serving a similar function issued or accepted for its account by banks and other financial institutions (whether or not representing obligations for borrowed money);

(f) the aggregate net liability represented by the Swap Termination Value of all Swap Contracts of such Person, other than Swap Contracts entered into in the ordinary course of business and not for speculative purposes; and

(g) any Guaranty of such Person with respect to liabilities of a type described in any of clauses (a) through (f) hereof.

"**Institutional Investor**" means (a) any Purchaser, (b) any holder of a Note or Notes holding (together with one or more of its affiliates) $1,000,000 or more of the aggregate

principal amount of the Notes then outstanding, (c) any bank, trust company, savings and loan association or other financial institution, any pension plan, any investment company, any insurance company, any broker or dealer, or any other similar financial institution or entity, regardless of legal form, and (d) any Related Fund of any holder of any Note or Notes.

"**Lien**" means, with respect to any Person, any mortgage, lien, pledge, charge, security interest or other encumbrance, or any interest or title of any vendor, lessor, lender or other secured party to or of such Person under any conditional sale or other title retention agreement or Capital Lease, upon or with respect to any property or asset of such Person (including in the case of stock, stockholder agreements, voting trust agreements and all similar arrangements).

"**Make-Whole Amount**" is defined in Section 8.6.

"**Material**" means material in relation to the business, operations, affairs, financial condition, assets or properties of the Company and its Subsidiaries taken as a whole.

"**Material Adverse Effect**" means a material adverse effect on (a) the business, operations, affairs, financial condition, assets or properties of the Company and its Subsidiaries taken as a whole, (b) the ability of the Company to perform its obligations under this Agreement and the Notes or (c) the validity or enforceability of this Agreement or the Notes.

"**Memorandum**" is defined in Section 5.3.

"**MFN Notice**" is defined in Section 10.5.

"**Multiemployer Plan**" means any Plan that is a "multiemployer plan" (as such term is defined in section 4001(a)(3) of ERISA) to which the Company or any ERISA Affiliate is making or accruing an obligation to make contributions, or has, within any of the preceding five (5) plan years, made or accrued an obligation to make contributions or with respect to which the Company or any ERISA Affiliate may have any liability.

"**NAIC**" means the National Association of Insurance Commissioners or any successor thereto.

"**Notes**" is defined in Section 1.

"**Officer's Certificate**" means a certificate of a Senior Financial Officer or of any other officer of the Company whose responsibilities extend to the subject matter of such certificate.

"**Other Debt**" is defined in Section 10.5.

"**PBGC**" means the Pension Benefit Guaranty Corporation referred to and defined in ERISA or any successor thereto.

"**Permitted Liens**" means, without duplication,

(a) any purchase-money mortgage or Lien or other Lien to which any property or asset acquired by the Company is subject as of the date of its acquisition by the Company;

(b) any deposit or pledge to secure public or statutory obligations or with any governmental agency at any time required by law in order to qualify the Company to conduct its business or any part thereof or in order to entitle it to maintain self-insurance or to obtain the benefits of any law relating to workmen's compensation, unemployment insurance, old age pensions or other social security;

(c) any Lien with any court, board, commission or governmental agency as security by the Company incident to the proper conduct of any proceeding before it;

(d) any Lien for taxes, assessments or governmental charges or levies of the Company not yet delinquent or being contested in good faith by appropriate proceedings diligently conducted, if such reserve or other appropriate provision, if any, as shall be required by generally accepted accounting principles shall have been made therefor;

(e) any Liens of landlords or mechanics and materialmen incurred by the Company in the ordinary course of business for sums not yet due or being contested in good faith by appropriate proceedings diligently conducted, if such reserve or other appropriate provision, if any, as shall be required by generally accepted accounting principles, shall have been made therefor;

(f) any lease or sublease granted to others by the Company in the ordinary course of business; easements, rights-of-way, restrictions and other similar encumbrances incurred in the ordinary course of business and not interfering with the ordinary conduct of the business of the Company;

(g) any Lien incurred in connection with the issuance by a state or political subdivision thereof of any securities with respect to the Company the interest on which is exempt from federal income taxes by virtue of Section 103 of the Code or any other laws or regulations in effect at the time of such issuance; and

(h) any Lien for the sole purpose of extending, renewing or replacing in whole or in part the Indebtedness secured by any Lien referred to in the foregoing clauses or in this clause; *provided, however*, that the principal amount of Indebtedness secured thereby shall not exceed the principal amount of Indebtedness secured at the time of such extension, renewal or replacement and that such extension, renewal or replacement shall be limited to all or a part of the property which secured the Lien so extended, renewed or replaced (plus improvements on such property).

"**Person**" means an individual, partnership, corporation, limited liability company, association, trust, unincorporated organization, business entity or Governmental Authority.

"**Plan**" means an "employee pension benefit plan" (as defined in section 3(2) of ERISA) subject to Title IV of ERISA (other than a Multiemployer Plan) that is or, within the preceding five years, has been established or maintained, or to which contributions are or, within the

preceding five years, have been made or required to be made, by the Company or any ERISA Affiliate or with respect to which the Company or any ERISA Affiliate may have any liability.

"**Preferred Stock**" means any class of capital stock of a Person that is preferred over any other class of capital stock (or similar equity interests) of such Person as to the payment of dividends or the payment of any amount upon liquidation or dissolution of such Person.

"**property**" or "**properties**" means, unless otherwise specifically limited, real or personal property of any kind, tangible or intangible, choate or inchoate.

"**PTE**" is defined in Section 6.2(a).

"**Purchaser**" is defined in the first paragraph of this Agreement.

"**Qualified Institutional Buyer**" means any Person who is a "qualified institutional buyer" within the meaning of such term as set forth in Rule 144A(a)(1) under the Securities Act.

"**Related Fund**" means, with respect to any holder of any Note or Notes, any fund or entity that (i) invests in Securities or bank loans, and (ii) is advised or managed by such holder, the same investment advisor as such holder or by an affiliate of such holder or such investment advisor.

"**Required Holders**" means, at any time, the holders of at least fifty-one percent (51.0%) in principal amount of the Notes at the time outstanding (exclusive of Notes then owned by the Company or any of its Affiliates).

"**Responsible Officer**" means any Senior Financial Officer and any other officer of the Company with responsibility for the administration of the relevant portion of this Agreement.

"**SEC**" shall mean the Securities and Exchange Commission of the United States, or any successor thereto.

"**Securities**" or "**Security**" shall have the meaning specified in Section 2(1) of the Securities Act.

"**Securities Act**" means the Securities Act of 1933, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

"**Senior Financial Officer**" means the chief financial officer, principal accounting officer, treasurer or comptroller of the Company.

"**Significant Subsidiary**" means at any time any Subsidiary that would at such time constitute a "significant subsidiary" (as such term is defined in Regulation S-X of the SEC as in effect on the date of the Closing) of the Company.

"**Subsidiary**" means, as to any Person, any other Person in which such first Person or one or more of its Subsidiaries or such first Person and one or more of its Subsidiaries owns sufficient equity or voting interests to enable it or them (as a group) ordinarily, in the absence of

contingencies, to elect a majority of the directors (or Persons performing similar functions) of such second Person, and any partnership or joint venture if more than a 50% interest in the profits or capital thereof is owned by such first Person or one or more of its Subsidiaries or such first Person and one or more of its Subsidiaries (unless such partnership or joint venture can and does ordinarily take major business actions without the prior approval of such first Person or one or more of its Subsidiaries). Unless the context otherwise clearly requires, any reference to a "Subsidiary" is a reference to a Subsidiary of the Company.

"**SVO**" means the Securities Valuation Office of the NAIC or any successor to such Office.

"**Swap Contract**" means (a) any and all interest rate swap transactions, basis swap transactions, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward foreign exchange transactions, cap transactions, floor transactions, currency options, spot contracts or any other similar transactions or any of the foregoing (including, but without limitation, any options to enter into any of the foregoing), and (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swaps and Derivatives Association, Inc. or any International Foreign Exchange Master Agreement.

"**Swap Termination Value**" means, in respect of any one or more Swap Contracts, after taking into account the effect of any legally enforceable netting agreement relating to such Swap Contracts, (a) for any date on or after the date such Swap Contracts have been closed out and termination value(s) determined in accordance therewith, such termination value(s), and (b) for any date prior to the date referenced in clause (a), the amounts(s) determined as the mark-to-market values(s) for such Swap Contracts, as determined based upon one or more mid-market or other readily available quotations provided by any recognized dealer in such Swap Contracts.

"**Synthetic Lease**" means, at any time, any lease (including leases that may be terminated by the lessee at any time) of any property (a) that is accounted for as an operating lease under GAAP and (b) in respect of which the lessee retains or obtains ownership of the property so leased for United States federal income tax purposes, other than any such lease under which such Person is the lessor.

"**USA Patriot Act**" means United States Public Law 107-56, Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT ACT) Act of 2001, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

"**Wholly-Owned Subsidiary**" means, at any time, any Subsidiary all of the equity interests (except directors' qualifying shares) and voting interests of which are owned by any one or more of the Company and the Company's other Wholly-Owned Subsidiaries at such time.

DISCLOSURE DOCUMENTS

Management's Presentation, dated October 20, 2006, used in connection with the offering of the Notes pursuant to the Note Purchase Agreement of which this is Schedule 5.3.

Keyspan Corporation, the Company's parent, disclosed in its Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 that on October 31, 2006, a lawsuit was filed alleging damages resulting from the contamination associated with the historic operations of a former manufactured gas plant in Staten Island, New York. Keyspan Corporation has been conducting site investigation and remediation activities at this location pursuant to an Order on Consent with the New York Department of Environmental Conservation. Keyspan Corporation intends to contest the proceeding vigorously. At this time, the Company is unable to predict what effect, if any, the outcome of this proceeding will have on its financial condition, results of operations and cash flows.

1-page handout for Follow-up Investor Conference Call, November 17, 2006.

SUBSIDIARIES OF THE COMPANY AND OWNERSHIP OF SUBSIDIARY STOCK

Entity	Jurisdiction of Incorporation; Type of Entity	Percentage of Outstanding Shares Held by the Company
North East Transmission Co., Inc.	State of Delaware; corporation	100

FINANCIAL STATEMENTS

Audited consolidated financial statements for the Company and its Subsidiaries for the years ended December 31, 2005, December 31, 2004, December 31, 2003, December 31, 2002 and December 31, 2001, and unaudited consolidated financial statements for the quarter ended June 30, 2006.

EXISTING INDEBTEDNESS

	As of October 31, 2006 (In Thousands of Dollars)	
Inter-Group Money Pool Borrowing	$	397,087
Total Short-Term Debt		397,087
Long-Term Debt		
Gas Facilities Revenue Bonds		
6.368% Series 1993A and 1993B due April 1, 2020		75,000
Variable Rate Series 1997 due December 1, 2020		125,000
5.5% Series 1996 due January 1, 2021		153,500
4.7% Series 2005A due February 1, 2024		82,000
Variable Rate Series 2005B due June 1, 2025		55,000
6.952% Series 1991A and 1991B due July 1, 2026		100,000
Variable Rate Series 1991D due July 1, 2026		50,000
Total Long-Term Debt		640,500
Total Debt	**$**	**1,037,587**

FORM OF NOTE

THE BROOKLYN UNION GAS COMPANY,
doing business as KEYSPAN ENERGY DELIVERY NEW YORK

5.60% SENIOR UNSECURED NOTE DUE NOVEMBER 29, 2016

No. [_____] November 29, 2006
$[_____] PPN 114259 A* 5

FOR VALUE RECEIVED, the undersigned, The Brooklyn Union Gas Company, doing business as KeySpan Energy Delivery New York (herein called the "**Company**"), a corporation organized and existing under the laws of the State of New York, hereby promises to pay to [_____], or registered assigns, the principal sum of [_____] DOLLARS (or so much thereof as shall not have been prepaid) on November 29, 2016, with interest (computed on the basis of a 360-day year of twelve 30-day months) (a) on the unpaid balance hereof at the rate of 5.60% per annum from the date hereof, payable semi-annually, on the 29th day of May and November in each year, commencing with the 29th day of May or November next succeeding the date hereof, until the principal hereof shall have become due and payable, and (b) to the extent permitted by law, on any overdue payment (including any overdue prepayment) of principal, any overdue payment of interest and any overdue payment of any Make-Whole Amount, payable semi-annually as aforesaid (or, at the option of the registered holder hereof, on demand), at a rate per annum from time to time equal to the greater of (i) 7.60% and (ii) two percent (2.00%) over the rate of interest publicly announced by JPMorgan Chase Bank, N.A. from time to time in New York, New York as its "base" or "prime" rate.

Payments of principal of, interest on and any Make-Whole Amount with respect to this Note are to be made in lawful money of the United States of America at the principal office of Wells Fargo Bank, N.A. in New York, New York or at such other place as the Company shall have designated by written notice to the holder of this Note as provided in the Note Purchase Agreement referred to below.

This Note is one of a series of 5.60% Senior Unsecured Notes due November 29, 2016 (herein called the "**Notes**") issued pursuant to the Note Purchase Agreement, dated as of November 29, 2006 (as from time to time amended, the "**Note Purchase Agreement**"), between the Company and the respective Purchasers named therein and is entitled to the benefits thereof. Each holder of this Note will be deemed, by its acceptance hereof, to have (i) agreed to the confidentiality provisions set forth in Section 20 of the Note Purchase Agreement and (ii) made the representation set forth in Section 6.2 of the Note Purchase Agreement. Unless otherwise indicated, capitalized terms used in this Note shall have the respective meanings ascribed to such terms in the Note Purchase Agreement.

This Note is a registered Note and, as provided in the Note Purchase Agreement, upon surrender of this Note for registration of transfer, accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for a like principal amount will be issued to, and registered in the name

of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company will not be affected by any notice to the contrary.

This Note is subject to optional prepayment, in whole or from time to time in part, at the times and on the terms specified in the Note Purchase Agreement, but not otherwise.

If an Event of Default occurs and is continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, at the price (including any applicable Make-Whole Amount) and with the effect provided in the Note Purchase Agreement.

This Note shall be construed and enforced in accordance with, and the rights of the Company and the holder of this Note shall be governed by, the laws of the State of New York.

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE. THIS NOTE MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR QUALIFICATION OR AN EXEMPTION THEREFROM UNDER THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS.

THE BROOKLYN UNION GAS COMPANY,
doing business as KEYSPAN ENERGY
DELIVERY NEW YORK

By:_____
Name:
Title:

FORM OF OPINION OF IN-HOUSE COUNSEL FOR THE COMPANY

1. Each of the Company and its Subsidiaries being duly incorporated, validly existing and in good standing and the Company having requisite corporate power and authority to issue and sell the Notes and to execute and deliver the documents; to conduct their businesses; and to own and lease their respective properties.

2. Each of the Company and its Significant Subsidiaries being duly qualified and in good standing as a foreign corporation in appropriate jurisdictions.

3. Due authorization, execution and delivery of the documents and such documents being legal, valid, binding and enforceable.

4. No conflicts with charter documents, laws or other agreements.

5. All consents required to issue and sell the Notes and to execute and deliver the documents having been obtained, including without limitation the State of New York Public Service Commission's Order Authorizing Issuance of Securities, issued and effective January 20, 2006.

6. No litigation questioning validity of documents.

The foregoing opinions may be subject to reasonable and customary qualifications and assumptions by the opinion provider. The opinions should be permitted to be furnished to, but not relied upon by, (i) the National Association of Insurance Commissioners and any state, federal or provincial authority or independent banking, insurance board or body having regulatory jurisdiction over the Purchasers and (ii) the Purchasers' independent auditors.

FORM OF OPINION OF SPECIAL COUNSEL FOR THE COMPANY

1. The initial offer and sale of the Notes not requiring registration under the Securities Act of 1933, as amended; no need to qualify an indenture under the Trust Indenture Act of 1939, as amended.

2. No violation of Regulations T, U or X of the Federal Reserve Board.

3. The Company not an "investment company", or a company "controlled" by an "investment company", under the Investment Company Act of 1940, as amended.

The foregoing opinions may be subject to reasonable and customary qualifications and assumptions by the opinion provider. The opinions should be permitted to be furnished to, but not relied upon by, (i) the National Association of Insurance Commissioners and any state, federal or provincial authority or independent banking, insurance board or body having regulatory jurisdiction over the Purchasers and (ii) the Purchasers' independent auditors.

NEW ISSUE – BOOK ENTRY ONLY

In the opinion of Edwards Angell Palmer & Dodge LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986, except that no opinion is expressed as to the status of interest on any Bond for any period that such Bond is held by a "substantial user" of the facilities financed or refinanced by the Bonds or by a "related person" within the meaning of Section 147(a) of the Internal Revenue Code of 1986. Interest on the Bonds is a specific preference item for purposes of the federal individual and corporate alternative minimum taxes. Under existing law, interest on the Bonds and any profit on the sale of the Bonds are exempt from Massachusetts personal income taxes and the Bonds are exempt from Massachusetts personal property taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX EXEMPTION" herein.

$28,000,000
MASSACHUSETTS DEVELOPMENT FINANCE AGENCY
ELECTRIC UTILITY REVENUE BONDS,
(NANTUCKET ELECTRIC COMPANY ISSUE), SERIES 2005

Dated: Date of Issuance **Due: December 1, 2040**

The Bonds will be special obligations of the Massachusetts Development Finance Agency payable solely from the revenues and funds available pursuant to a Loan and Trust Agreement among the Issuer, U.S. Bank National Association, as Trustee, and

Nantucket Electric Company

Payment of principal of, premium, if any, and interest on, and purchase price of, the Bonds will be unconditionally guaranteed by

Massachusetts Electric Company

The Bonds will be issued only as fully registered bonds without coupons in denominations of $100,000 or any integral multiple thereof, registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as the securities depository for the Bonds. See "THE BONDS – Book-Entry-Only System" herein. The Bonds initially will bear interest at Commercial Paper Rates not exceeding the Maximum Rate discussed herein for Interest Periods not exceeding 270 days determined for each Bond by J.P. Morgan Securities Inc. as Remarketing Agent. Interest on each Bond bearing interest at a Commercial Paper Rate will be payable on the last day of the Interest Period for such Bond. Upon the satisfaction of certain conditions in the Agreement, the rate of interest may be converted from time to time to and from a Commercial Paper, Daily, Weekly, Term or Auction Rate Bond Rate, or to a Fixed Rate, as more fully described herein. The interest rate to be borne by the Bonds upon such conversion will be determined by J.P. Morgan Securities Inc., as Remarketing Agent.

Bonds bearing interest at Commercial Paper Rates are not subject to purchase at the demand of the owners thereof. Bondholders will be required to tender their Bonds for purchase at the principal amount thereof, plus accrued interest (if any) to the Mandatory Purchase Date, on the last day of the Interest Period for Bonds that bear interest at the Commercial Paper Rate. Bonds tendered for purchase that can not be remarketed are required to be purchased from moneys provided by Nantucket Electric Company.

The Bonds will be subject to redemption and mandatory tender for purchase prior to maturity as described herein.

THE BONDS DO NOT CONSTITUTE A GENERAL OBLIGATION OF THE ISSUER OR A DEBT OR PLEDGE OF THE FAITH AND CREDIT OF THE ISSUER OR A DEBT OR PLEDGE OF THE FAITH AND CREDIT OF THE COMMONWEALTH OF MASSACHUSETTS OR ANY POLITICAL SUBDIVISION THEREOF; EXCEPT TO THE EXTENT PAID FROM BOND PROCEEDS, THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE BONDS ARE PAYABLE SOLELY FROM THE REVENUES AND FUNDS PLEDGED FOR THEIR PAYMENT IN ACCORDANCE WITH THE AGREEMENT. THE ISSUER HAS NO TAXING POWER UNDER THE ACT.

PRICE: 100%

The Bonds are offered when, as and if issued and received by the Underwriter, subject to prior sale, to withdrawal or modification of the offer without notice, and to the approval of legality and certain other matters by Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel, who is also acting as special counsel to the Borrower and the Guarantor and will pass on certain legal matters for the Borrower and the Guarantor. Certain legal matters will be passed upon for the Borrower and the Guarantor by Gregory A. Hale, Esq., Deputy General Counsel of the Borrower and the Guarantor. Certain legal matters will be passed upon for the Underwriter by its counsel, Ballard Spahr Andrews & Ingersoll, LLP, Philadelphia, Pennsylvania. The Bonds are expected to be available for delivery in definitive form to DTC in New York, New York or its custodial agent on or about December 14, 2005.

JPMorgan

December 8, 2005

The information set forth herein has been obtained from Massachusetts Development Finance Agency, Nantucket Electric Company, Massachusetts Electric Company and other sources which are believed to be reliable. This Official Statement is submitted in connection with the sale of the securities referred to herein, and may not be reproduced or be used, in whole or in part, for any other purpose. Neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances at any time imply that the information herein is correct as of any time subsequent to its date.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

No dealer, salesman or any other person has been authorized by the Borrower, the Guarantor, the Issuer or the Underwriter to give any information or to make any representations other than as contained in this Official Statement in connection with the offering described herein and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer of any securities, other than those described on the cover page, or an offer to sell or a solicitation of an offer to buy in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

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OFFICIAL STATEMENT

$28,000,000
Massachusetts Development Finance Agency
Electric Utility Revenue Bonds
(Nantucket Electric Company Issue)
Series 2005

INTRODUCTORY STATEMENT

This Official Statement provides information concerning the issuance by the Massachusetts Development Finance Agency (the "Issuer") of its Electric Utility Revenue Bonds (Nantucket Electric Company Issue), Series 2005 (the "Bonds"). The Bonds are being issued to pay a portion of the costs of an underground and submarine electric power cable and related equipment to be owned by Nantucket Electric Company (the "Borrower") as described under "THE BORROWER AND THE PROJECT."

The Bonds will be issued in accordance with the provisions of Chapters 23G and 40D of the General Laws of The Commonwealth of Massachusetts (the "Commonwealth"), as amended (collectively, the "Act"), pursuant to a Loan and Trust Agreement dated as of December 1, 2005 (the "Agreement') among the Issuer, the Borrower and U.S. Bank National Association, as trustee (the "Trustee"). See APPENDIX B – "Summary of Certain Provisions of the Agreement."

Pursuant to the Agreement, (a) the Issuer will loan the proceeds of the Bonds to the Borrower for the purpose of funding costs of the Project (as defined in the Agreement – see APPENDIX B – "Summary of Certain Provisions of the Agreement"); (b) the Borrower will covenant to repay the loan of Bond proceeds from the Issuer through payment to the Trustee of all amounts necessary to pay the principal of, premium, if any, and interest on the Bonds issued by the Issuer; and (c) the Issuer will assign to the Trustee in trust for the benefit and security of the Bondowners the Issuer's rights under the Agreement and the revenues to be received from the Borrower except as otherwise provided therein.

Pursuant to the Agreement, the Borrower agrees to make loan payments sufficient to pay in full the principal of, premium, if any, and interest on the Bonds. The Borrower also will be obligated under the Agreement to pay (i) the purchase price of Bonds subject to optional or mandatory tender for purchase, to the extent that proceeds from the remarketing of such Bonds are insufficient, and (ii) certain fees and expenses (consisting generally of fees, charges and expenses of the Trustee and the Issuer) associated with the Bonds.

The obligation of the Borrower to make payments under the Agreement is a general obligation of the Borrower to which the full faith and credit of the Borrower is pledged. The Issuer is obligated to pay the principal of, premium, if any, and interest on the Bonds only from the revenues and funds pledged therefor as provided in the Agreement.

The Bonds are special obligations of the Issuer payable solely from, and to the extent of, loan payments made by the Borrower pursuant to the Agreement and any other funds held under the Agreement for such purpose.

Pursuant to a Guaranty dated as of December 1, 2005, Massachusetts Electric Company (the "Guarantor") will unconditionally guarantee the punctual payment of the principal of, premium, if any, and interest on, and purchase price of, the Bonds. The Borrower and the Guarantor are each wholly owned subsidiaries of National Grid USA.

THE BONDS DO NOT CONSTITUTE A GENERAL OBLIGATION OF THE ISSUER OR A DEBT OR PLEDGE OF THE FAITH AND CREDIT OF THE ISSUER OR A DEBT OR PLEDGE OF THE FAITH AND CREDIT OF THE COMMONWEALTH OF MASSACHUSETTS OR ANY POLITICAL SUBDIVISION THEREOF; EXCEPT TO THE EXTENT PAID FROM BOND PROCEEDS, THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE BONDS ARE PAYABLE SOLELY FROM THE REVENUES AND FUNDS PLEDGED FOR THEIR PAYMENT IN ACCORDANCE WITH THE AGREEMENT. THE ISSUER HAS NO TAXING POWER UNDER THE ACT.

Brief descriptions and summaries of the Bonds, the Agreement and the Guaranty follow in this Official Statement. These descriptions and summaries do not purport to be complete and are subject to and qualified by reference to the provisions of the complete documents, copies of which are available at the offices of the Trustee at 100 Wall Street, Suite 1600, New York, New York, 10005. A summary of certain provisions of the Agreement, including capitalized terms not otherwise defined herein, is included in Appendix B. The proposed form of opinion of Bond Counsel is included in Appendix C.

THE ISSUER

The Issuer is a body politic and corporate and a public instrumentality of the Commonwealth. The Issuer is authorized and empowered under the laws of the Commonwealth, including the Act, to issue Bonds for the purpose of financing the Project and to enter into the Agreement. The Issuer has no taxing power under the Act.

Members of the Board of Directors

Ranch C. Kimball, Chairperson; Secretary of the Executive Office of Economic Development, Commonwealth of Massachusetts.

David F. Squire, Vice Chairperson; Business Consultant; former Vice President of Administration, Brandeis University, Waltham, Massachusetts.

Robert Fox, Member; President & Principal, Fox Development Services, LLC, Boston, Massachusetts.

Paul Byrne, Member; Consultant/Business Agent, MBTA Police Patrolman's Association, Boston, Massachusetts.

Christopher W. Collins, Member; CEO, Collins Nickas & Company, LLC, Boston, Massachusetts.

Katherine P. Craven, Member; Executive Director, Massachusetts School Building Authority, Commonwealth of Massachusetts.

Judy M. Pagliuca, Member; former Fidelity Investments Executive, Boston, Massachusetts.

Dix F. Davis, Member; former Vice President, Allmerica Asset Management, Inc., Worcester, Massachusetts.

Joseph P. Craven, III, Member; Financial Professional, Hingham, Massachusetts.

Secretary, Executive Office for Administration and Finance, The Commonwealth of Massachusetts, Member Ex-Officio.

Director, Department of Business and Technology, The Commonwealth of Massachusetts, Member Ex-Officio.

Officers of the Issuer

Robert L. Culver, President and Chief Executive Officer.

Ann E. Howard, Executive Vice President and Chief Operating Officer.

John L. Champion, Treasurer and Executive Vice President of Finance & Administration and Chief Financial Officer.

Richard W. Holtz, Secretary and General Counsel.

Anne Marie Dowd, Executive Vice President for Legislative Affairs.

Laura L. Canter, Executive Vice President for Finance Programs.

Richard C.J. Henderson, Executive Vice President for Real Estate.

William M. Burke, Executive Vice President for Devens Operations and Military Initiatives.

Steven J. Chilton, Senior Vice President, Investment Banking.

The distribution of this Official Statement has been duly approved and authorized by the Issuer. Such approval and authorization does not, however, constitute a representation or approval by the Issuer of the accuracy or sufficiency of any information contained herein except to the extent of the information regarding the Issuer contained in this section.

THE BORROWER AND USE OF PROCEEDS

Nantucket Electric Company is a Massachusetts corporation and a wholly-owned subsidiary of National Grid USA. The Borrower is engaged in the distribution and sale of electricity on the island of Nantucket, Massachusetts. The Borrower provides approximately 11,700 customers with electric service at retail in a service area comprising the entire island of Nantucket. Effective March 1, 1998, the Borrower's customers gained the right to choose their power supplier pursuant to legislation enacted in Massachusetts and a settlement agreement approved by state and federal regulators. Customers may buy power on the competitive market, or may continue to buy it from the Borrower. To serve customers who elect to buy their power from the Borrower, the Borrower has and continues to enter into power supply contracts with third parties. Power is delivered to the Borrower by New England Power Company (NEP), the Borrower's transmission affiliate, by the New England Power Pool (NEPOOL), and by the Independent System Operator – New England (ISO-NE) pursuant to transmission tariffs approved by federal regulators. The Borrower recovers these transmission charges through charges to its distribution customers. In addition, the Borrower's rates, which are approved by state regulators, include a non-bypassable charge for the costs of NEP's former generating business which were not recovered through the sale of that business.

For information concerning the Guarantor, see Appendix A.

The Project consists of a 46 kilovolt, 35 megawatt underground and submarine electric power cable and an associated fiber-optic cable for communications related to providing electric power starting in Hyannis (Barnstable), traversing Nantucket Sound, and terminating in Nantucket, together with related substations and ancillary equipment. The Project will be owned by the Borrower and used exclusively to furnish electricity to customers on the island of Nantucket.

The proceeds of the sale of the Bonds will be deposited in the Construction Fund established under the Agreement and used to pay or reimburse the Borrower for costs of the Project. Costs of issuance of the Bonds and costs of the Project in excess of Bond proceeds will be paid by the Borrower.

THE BONDS

General

The Bonds will be issued in the aggregate principal amount of $28,000,000. The Bonds will be dated the date of their original issue, will bear interest from the date of their initial delivery and thereafter from and including the most recent date to which interest has been paid. The Bonds will mature on the date set forth on the cover to this Official Statement. The Bonds will be subject to redemption and mandatory tender for purchase as set forth below. The Bonds initially will bear interest at Commercial Paper Rates as described below.

During any Daily Mode or Weekly Mode, the Bonds will be issued in authorized denominations of $100,000 or any whole multiple of $100,000; during any Commercial Paper Mode, the Bonds will be issued in authorized denominations of $100,000 or any whole multiple of $5,000 in excess of $100,000; during any Auction Rate Bond Mode, the Bonds will be issued in authorized denominations of $25,000 or any whole multiple of $25,000; and during the Term Rate Mode or Fixed Rate Mode, the Bonds will be issued in authorized denominations of $5,000 or whole multiples of $5,000.

The Bonds originally will be issued solely in book-entry form to DTC or its nominee, Cede & Co., to be held in DTC's book-entry-only system. So long as the Bonds are held in the book-entry-only system, DTC or its nominee will be the registered owner of the Bonds for all purposes of the Agreement, the Bonds and this Official Statement. For purposes of this Official Statement, DTC or its nominee, and its successors and assigns, are referred to as the "Securities Depository." See "THE BONDS — Book-Entry-Only System" below.

U.S. Bank National Association is the Trustee under the Agreement and also is the bond registrar, authenticating agent and Paying Agent for the Bonds.

J.P. Morgan Securities Inc. has been appointed under the Agreement to serve as Remarketing Agent for the Bonds. The Remarketing Agent may resign or be removed and a successor Remarketing Agent may be appointed in accordance with the terms of the Agreement and the Remarketing Agreement between the Remarketing Agent and the Borrower.

This Official Statement does not provide information about the characteristics of the Bonds in the Auction Rate Bond Mode, during which the Bonds will bear interest at auction rates. If the Bonds are converted to the Auction Rate Bond Mode, such information will be provided by a supplement to this Official Statement.

Security

Under the Agreement, the Issuer assigns and pledges to the Trustee in trust upon the terms of the Agreement: (i) all Revenues (defined below) to be received from the Borrower or derived from any security provided thereunder; (ii) all rights to receive such Revenues and the proceeds of such rights; (iii) all funds and investments held from time to time in the funds established under the Agreement; and (iv) all of the right, title and interest of the Issuer in the Agreement, including enforcement rights and remedies but excluding certain rights of indemnification and to reimbursement of certain expenses as set forth therein. Under the Act, to the extent authorized or permitted by law, the pledge of Revenues is valid and binding from the time when such pledge is made and the Revenues and all income and receipts earned on funds held by the Trustee for the account of the Issuer is immediately subject to the lien of such pledge without any physical delivery thereof or further act, and the lien of such pledge is valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Issuer irrespective of whether such parties have notice thereof.

"Revenues" means all rates, mortgage payments, rents, fees, charges, and other income and receipts, including proceeds of insurance, eminent domain and sale, and including proceeds derived from any security provided under the Agreement, payable to the Issuer or the Trustee under the Agreement, excluding the purchase price of Bonds subject to optional or mandatory tender for purchase so tendered, administrative fees of the Issuer, fees of the Trustee, reimbursements to the Issuer or the Trustee for expenses incurred by the Issuer or the Trustee, and indemnification of the Issuer and the Trustee.

The assignment and pledge by the Issuer does not include: (i) the rights of the Issuer pursuant to provisions for consent, concurrence, approval or other action by the Issuer, notice to the Issuer or the filing of reports, certificates or other documents with the Issuer; (ii) the right of the Issuer to any payment or reimbursement for costs and expenses incurred by the Issuer as required by or by reason of or in fulfillment of its duties and obligations under the Agreement; or (iii) the powers of the Issuer as stated in the Agreement to enforce the provisions thereof. As additional security for its obligations to make payments to the Debt Service Fund and the Redemption Fund, and for its other payment obligations under the Agreement, pursuant to the Agreement the Borrower will grant to the Issuer a security interest in its interest in the moneys and other investments held from time to time in the funds established under the Agreement. See "Appendix B – Summary of Certain Provisions of the Agreement."

Interest on the Bonds

Until conversion to the Fixed Rate Mode or Auction Rate Bond Mode as described below, the Bonds will bear interest at any of the Commercial Paper Rate, the Daily Rate, the Weekly Rate and the Term Rate (together, the "Variable Rate"). The Variable Rate will be determined by the Remarketing Agent on each Rate Determination Date, for each Interest Period, as described below. The interest rate on the Bonds may not exceed the "Maximum Rate," which is, for each Rate Determination Date, the least of (1) 10% per annum with respect to Bonds in Daily Mode, Weekly Mode or Commercial Paper Mode, or 14% per annum with respect to Bonds in Auction Rate Bond Mode, (2) the maximum rate on such date permitted by Massachusetts law, as the same may be modified by United States law of general application and (3) the maximum rate authorized from time to time by the Massachusetts Department of Telecommunications and Energy ("MDTE"). On the date of this Official Statement the Maximum Rate authorized by the MDTE is 150 basis points above the then current rate for U.S. Treasury securities of similar maturity.

When a Commercial Paper Mode, a Daily Mode or a Weekly Mode is in effect, interest shall be calculated on the basis of a 365/366 day year for the actual number of days elapsed. When a Term Rate Mode or a Fixed Rate Mode is in effect, interest shall be calculated on the basis of a 360 day year comprised of twelve 30-day months. Payment of interest on each Bond shall be made on each Interest Payment Date for such Bond for unpaid interest accrued during the Interest Accrual Period to the owner of record of such Bond on the applicable Record Date.

The Bonds initially will bear interest at Commercial Paper Rates.

As used herein, the following terms have the following meanings:

"Business Day" means a day on which banks in each of the cities in which the principal offices of the Trustee and the Paying Agent are located are not required or authorized to remain closed and on which the New York Stock Exchange is not closed.

"Interest Payment Date" means each date on which interest is to be paid and is: (i) with respect to a Commercial Paper Bond, the Purchase Date; (ii) with respect to a Bond in the Daily Mode, the first Business Day of each month, (iii) with respect to a Bond in the Weekly Mode, the first Business Day of each month; (iv) with respect to a Bond in the Term Rate Mode, each Term Rate Interest Payment Date for such Bond; (v) with respect to a Bond in the Fixed Rate Mode, each Stated Interest Payment Date (beginning with the first Stated Interest Payment Date that occurs no earlier than three months after the commencement of the Fixed Rate Mode for such Bond); (vi) any Mode Change Date and (vii) each Maturity Date.

"Interest Period" means, for a Bond in a particular Mode, the period of time that such Bond bears interest at the rate (per annum) which becomes effective at the beginning of such period. The Interest Period for each Mode is as follows:

(i) for a Bond in the Commercial Paper Mode, the period of from one to 270 calendar days as established by the Remarketing Agent pursuant to the Agreement;

(ii) for a Bond in the Daily Mode, the period from (and including) the Mode Change Date upon which such Bond is changed to the Daily Mode to (but excluding) the next Rate Determination Date

for such Bond, and thereafter the period from and including the current Rate Determination Date for such Bond to (but excluding) the next Rate Determination Date for such Bond;

(iii) for a Bond in the Weekly Mode, the period from (and including) the Mode Change Date upon which such bond is changed to the Weekly Mode to (and including) the next Tuesday, and thereafter the period from (and including) each Wednesday to (and including) the next Tuesday; and

(iv) for a Bond in the Term Rate Mode, the period from (and including) the Mode Change Date to (but excluding) the last day of the first period that such Bond shall be in the Term Rate Mode as established by the Borrower for such Bond pursuant to the Agreement and, thereafter, the period from (and including) the beginning date of each successive interest rate period selected for such Bond by the Borrower pursuant to the Agreement while it is in the Term Rate Mode to (but excluding) the ending date for such period selected for such Bond by the Borrower. Each Interest Period for a Bond in the Term Rate Mode shall end on a Stated Interest Payment Date occurring not earlier than three months after the commencement of such Interest Period.

"Purchase Date" means (i) for a Bond in the Commercial Paper Mode, the last day of the Interest Period for such Bond, (ii) for a Bond in the Daily Mode or the Weekly Mode, any Business Day selected by the owner of said Bond pursuant to the provisions of the Agreement and (iii) for a Bond in the Term Rate Mode, the last day of the Interest Period for such Bond (or the next Business Day if such last day is not a Business Day).

"Rate Determination Date" means the date on which the interest rate on a Bond shall be determined, which, (i) in the case of the Commercial Paper Mode, shall be the first day of an Interest Period; (ii) in the case of the Daily Mode, shall be each Business Day commencing with the first day the Bonds become subject to the Daily Mode; (iii) in the case of the initial conversion to the Weekly Mode, shall be no later than the Business Day prior to the Mode Change Date, and thereafter, shall be each Tuesday or, if Tuesday is not a Business Day, the next succeeding day or, if such day is not a Business Day, then the Business Day immediately preceding such Tuesday; (iv) in the case of the Term Rate Mode, shall be a Business Day no later than the Business Day immediately preceding the first day of an Interest Period, as determined by the Remarketing Agent; and (v) in the case of the Fixed Rate Mode, shall be a date determined by the Remarketing Agent which shall be at least one Business Day prior to the Mode Change Date.

"Record Date" means (i) with respect to Bonds in a Commercial Paper Mode, a Daily Mode or a Weekly Mode, the day (whether or not a Business Day) immediately preceding each Interest Payment Date and (ii) with respect to Bonds in a Term Rate Mode or a Fixed Rate Mode, the fifteenth day (whether or not a Business Day) of the month next preceding each Interest Payment Date.

"Stated Interest Payment Dates" means each June 1 and December 1.

Commercial Paper Rate. The Remarketing Agent will determine a Commercial Paper Rate for each Bond in the Commercial Paper Mode by 12:15 P.M. on the first day of the Interest Period for such Bond. A Bond in the Commercial Paper Mode may have an Interest Period and bear interest at a rate different than other Bonds in the Commercial Paper Mode.

An Interest Period for a Bond in the Commercial Paper Mode will be a period of from one to 270 calendar days, ending on a Business Day, as the Remarketing Agent shall determine. For a Bond in the Commercial Paper Mode, the Remarketing Agent will select the Interest Period which would result in the Remarketing Agent's being able to remarket the Bond at a price equal to the principal amount thereof in the secondary market at the lowest interest rate then available and for the longest Interest Period available at such rate, provided that if the Remarketing Agent determines that current or anticipated future market conditions or anticipated future events are such that a different Interest Period would result in a lower average interest cost on such Bond, then the Remarketing Agent will select the Interest Period which in the judgment of the Remarketing Agent would permit the Bond to achieve the lower average interest cost; provided, however, that if the Remarketing Agent has received notice from the Borrower that any Bond is to be changed from the Commercial Paper Mode to any other Mode or is to be purchased in accordance with a mandatory purchase as described under "THE BONDS – Mandatory Tender – Mandatory Tender on Each Purchase Date During Commercial Paper Mode" herein, the Remarketing Agent will, with respect to such Bond, select Interest Periods which do not extend beyond the date of mandatory purchase.

Daily Rate. During the Daily Mode, the Remarketing Agent will establish the Daily Rate by 10:00 A.M. on each Business Day commencing with the first day the Bonds become subject to the Daily Mode. The Daily Rate for any day during the Daily Mode which is not a Business Day shall be the Daily Rate established on the next preceding Business Day.

Weekly Rate. During the Weekly Mode, the Remarketing Agent will establish the Weekly Rate, in the case of the initial conversion to the Weekly Mode, no later than 4:00 P.M. on the Business Day prior to the Mode Change Date, and thereafter, each Tuesday or, if Tuesday is not a Business Day, the next succeeding day or, if such day is not a Business Day, then the Business Day next preceding such Tuesday. The Weekly Rate will be in effect (i) initially, from and including the first day the Bonds become subject to the Weekly Mode to and including the following Tuesday and (ii) thereafter, from and including each Wednesday to and including the following Tuesday.

The interest rate for any Bond in the Daily Mode or the Weekly Mode will be the rate of interest per annum determined by the Remarketing Agent on and as of the applicable Rate Determination Date as the minimum rate of interest which, in the opinion of the Remarketing Agent under then-existing market conditions, would result in the sale of such Bond on the Rate Determination Date at a price equal to the principal amount thereof, plus accrued and unpaid interest, if any.

Term Rate. The Remarketing Agent will determine a Term Rate not later than 4:00 P.M. on a Business Day no later than the Business Day immediately preceding the first day of an Interest Period, as determined by the Remarketing Agent. The Term Rate shall be the minimum rate which, in the sole judgment of the Remarketing Agent, will result in a sale of the Bonds at a price equal to the principal amount thereof on the Rate Determination Date for the Interest Period selected by the Borrower before such Rate Determination Date. If a new Interest Period is not selected by the Borrower prior to such Rate Determination Date (for a reason other than a court prohibiting such selection) the new Interest Period shall be the same length as the current Interest Period (or such lesser period as shall be necessary to comply with the next sentence). No Interest Period in the Term Rate Mode may extend beyond the applicable Maturity Date.

Fixed Rate. For a Bond in the Fixed Rate Mode, the Remarketing Agent will determine the Fixed Rate for such Bond not later than 4:00 P.M. on the Rate Determination Date for such Bond. The Fixed Rate shall be the minimum interest rate which, in the sole judgment of the Remarketing Agent, will result in a sale of such Bond at a price equal to the principal amount thereof on the Rate Determination Date.

Failure of Remarketing Agent to Announce Interest Rates on the Bonds. The following provisions will apply in the event (i) the Remarketing Agent fails or is unable to determine the interest rate or Interest Period for any Bond or (ii) the method by which the Remarketing Agent determines the interest rate or Interest Period with respect to a Bond (or the selection by the Borrower of the Interest Periods for Bonds in the Term Rate Mode) is held to be unenforceable by a court of law of competent jurisdiction. These provisions will continue to apply until such time as the Remarketing Agent (or the Borrower if applicable) again makes such determinations. In the case of clause (ii) above, the Remarketing Agent (or the Borrower, if applicable) will again make such determination at such time as there is delivered to the Remarketing Agent and the Issuer an opinion of Bond Counsel to the effect that there are no longer any legal prohibitions against such determinations. The following will be the methods by which the interest rates and, in the case of the Commercial Paper and Term Rate Modes, the Interest Periods, will be determined for a Bond as to which either of the events described in clauses (i) or (ii) will be applicable. Such methods will be applicable from and after the date either of the events described in clauses (i) or (ii) first become applicable to such Bond until such time as the events described in clauses (i) or (ii) are no longer applicable to such Bond. These provisions will not apply if the Borrower fails to select an Interest Period for a Bond in the Term Rate Mode for a reason other than as described in clause (ii) above.

(a) For a Commercial Paper Bond, the next Interest Period will be from, and including, the last day of the current Interest Period for such Bond to, but excluding, the next succeeding Business Day and thereafter will commence on each Business Day and extend to, but exclude, the next succeeding Business Day. For each such Interest Period, the interest rate for such Bond will be the BMA Municipal Swap Index (as defined in the Agreement) in effect on the Business Day that begins an Interest Period.

(b) If such Bond is in the Daily Mode, then such Bond will bear interest during each subsequent Interest Period at the BMA Municipal Swap Index in effect on the first day of such Interest Period.

(c) If such Bond is in the Weekly Mode, then such Bond will bear interest during each subsequent Interest Period at the BMA Municipal Swap Index in effect on the first day of such Interest Period.

(d) If such Bond is in the Term Rate Mode then such Bond will stay in the Term Rate Mode for subsequent Interest Periods, each beginning on the last Stated Interest Payment Date and ending on the next Stated Interest Payment Date, and will bear interest at the Alternate Term Rate in effect at the beginning of each such Interest Period.

Conversion Between Interest Rate Modes

At the option of the Borrower and upon certain conditions provided for in the Agreement, all or a portion of the Bonds may be converted or reconverted from time to time to or from the Commercial Paper Mode, Daily Mode, Weekly Mode, Term Rate Mode or Auction Rate Bond Mode and may be converted to the Fixed Rate Mode.

Changes to a Mode Other Than the Fixed Rate Mode. A Bond (other than a Bond in the Fixed Rate Mode) may be changed from one Mode to another Mode (other than the Fixed Rate Mode) as follows:

(a) *Mode Change Notice; Notice to Owners.* No later than the 20th day (35 days for Bonds in the Term Rate Mode) (or such shorter time as may be agreed to by the Borrower, the Trustee, the Paying Agent and the Remarketing Agent) preceding the date on which a change in the Mode of a Bond is proposed to be effected (the "Mode Change Date"), the Borrower must give written notice to the Issuer, the Trustee, the Paying Agent and the Remarketing Agent (the "Notice Parties") of its intention to effect a change in the Mode from the Mode then prevailing (the "Current Mode") to another Mode (the "New Mode") specified in such written notice, that the Bonds are subject to mandatory tender for purchase on the Mode Change Date and, if the change is to a Term Rate Mode, the length of the initial Interest Period as set by the Borrower. Notice must be given to registered owners by mail not less than fifteen days (30 days for Bonds in the Term Rate Mode) prior to the Mode Change Date.

(b) *Determination of Interest Rates.* The New Mode for a Bond will commence on the Mode Change Date for such Bond at an interest rate determined by the Remarketing Agent in the manner described under "THE BONDS – Interest on the Bonds" above.

(c) *Conditions Precedent.* The Mode Change Date must be a Business Day. The Mode Change Date, in the case of a change from (i) the Commercial Paper Mode, must be the next Purchase Date for the Commercial Paper Bond to be changed to the New Mode and (ii) the Term Rate Mode, must be a day on which Bonds in the Term Rate Mode being converted are subject to optional redemption. A change from the Commercial Paper Mode, the Daily Mode or the Weekly Mode to the Term Rate Mode or from a Term Rate Mode to the Commercial Paper Mode, the Daily Mode or the Weekly Mode may not occur unless, on or prior to the Mode Change Date, a Favorable Opinion of Bond Counsel dated the Mode Change Date and addressed to the Trustee, the Paying Agent and the Remarketing Agent has been delivered to the Trustee, the Paying Agent and the Remarketing Agent.

If the Bonds to be changed are in the Commercial Paper Mode, no Interest Period set after delivery by the Borrower to the Remarketing Agent of the notice of the intention to effect a change in Mode with respect to such Bonds may extend beyond the proposed Mode Change Date.

Change to Fixed Rate Mode. At the option of the Borrower, a Bond may be changed to the Fixed Rate Mode. Not less than 45 days (or such shorter time as may be agreed to by the Borrower, the Trustee and the Remarketing Agent) before the proposed Mode Change Date for such Bond, the Borrower shall give written notice to the Notice Parties stating that the Mode will be changed to the Fixed Rate Mode and setting forth the proposed

Mode Change Date. Such notice shall also state whether or not some or all of the Bonds to be converted shall be converted to serial bonds and, if so, the applicable serial maturity dates and serial payments. Any such change in Mode shall be made as follows:

(a) *Conditions Precedent.* The Mode Change Date must be a Business Day. The Mode Change Date, in the case of a change from (i) the Commercial Paper Mode, must be the Purchase Date for the Commercial Paper Bond to be changed to the Fixed Rate Mode and (ii) the Term Rate Mode, must be a date on which Bonds in the Term Rate Mode being converted are subject to optional redemption. A change from the Commercial Paper Mode, the Daily Mode or the Weekly Mode to the Fixed Rate Mode may not occur unless, on or prior to the Mode Change Date, a Favorable Opinion of Bond Counsel dated the Mode Change Date and addressed to the Trustee and the Remarketing Agent has been delivered to the Trustee and the Remarketing Agent.

(b) *Notice to Owners.* Not less than the 30th day next preceding the Mode Change Date, the Paying Agent must mail a notice of such proposed change to the registered owners of the Bonds being converted stating that the Mode will be changed to the Fixed Rate Mode, the proposed Mode Change Date and that such owner is required to tender such owner's Bonds for purchase on such proposed Mode Change Date.

(c) *Determination of Interest Rate.* The Fixed Rate for a Bond to be converted to the Fixed Rate Mode shall be established by the Remarketing Agent as described under "THE BONDS – Interest on the Bonds – Fixed Rate" above.

Failure to Satisfy Conditions Precedent to a Mode Change. In the event the conditions described above under "THE BONDS – Conversions Between Interest Rate Modes" have not been satisfied by the applicable Mode Change Date, then the New Mode or Fixed Rate Mode, as the case may be, shall not take effect. If the failed change in Mode was from the Commercial Paper Mode, the applicable Bond shall remain in the Commercial Paper Mode with interest rates and Interest Periods to be established by the Remarketing Agent on the failed Mode Change Date in the manner described under "THE BONDS – Interest on the Bonds – Commercial Paper Rate" above. If the failed change in Mode was from the Daily Mode, the applicable Bond shall remain in the Daily Mode, with interest rates established in the manner described under "THE BONDS – Interest on the Bonds – Daily Rate" above on and as of the failed Mode Change Date. If the failed change in Mode was from the Weekly Mode, the applicable Bond shall remain in the Weekly Mode, with interest rates established in the manner described under "THE BONDS – Interest on the Bonds – Weekly Rate" above on and as of the failed Mode Change Date. If the failed change in Mode was from the Term Rate Mode, the applicable Bond shall be changed to the Commercial Paper Mode with an Interest Period and Commercial Paper Rate to be determined by the Remarketing Agent on the failed Mode Change Date in the manner described under "THE BONDS – Interest on the Bonds – Commercial Paper Rate" above.

Provisions Applicable to Certain Conversions. During any transitional period for a conversion from the Commercial Paper Rate Period to a Daily Rate Period or Weekly Rate Period in which the Remarketing Agent is setting different Commercial Paper Rate Periods, in order to effect an orderly transition of such conversion, Bonds bearing interest at the Commercial Paper Rate will be governed by the provisions of the Agreement applicable to Commercial Paper Rate Periods and Commercial Paper Rates, and Bonds bearing interest at the Daily Rate or Weekly Rate, as applicable, shall be governed by the provisions of the Agreement applicable to such Daily Rates and Daily Rate Periods and Weekly Rates and Weekly Rate Periods.

Conversions to an Auction Rate Bond Mode. At the option of the Borrower, all or any portion of the Bonds (in an amount which is an Authorized Denomination for the new Interest Period) may be converted from another Mode to an Auction Rate Bond Mode; provided that after any conversion of a portion of the Bonds from another Mode to an Auction Rate Bond Mode, there shall be not less than $10,000,000 in aggregate principal amount of Bonds bearing interest at an Auction Rate unless otherwise consented to by the Broker-Dealers. Any such conversion shall be made as follows:

(a) In any such conversion from another Mode, the Mode Change Date shall be any Business Day provided, however, that if the conversion is from a Term Rate Mode, the Mode Change Date shall be a date on which the Bond to be converted is subject to optional redemption, and in any such conversion from

a Commercial Paper Mode, the Mode Change Date shall be the last regularly scheduled Interest Payment Date on which interest is payable for any Interest Period theretofore established for the Bonds to be converted.

(b) The Borrower shall give written notice of any such conversion to the Remarketing Agent, the Trustee, the Auction Agent and the Broker-Dealer not less than seven Business Days prior to the date on which the Trustee is required to notify the registered owners of the conversion pursuant to subparagraph (c) below. Such notice shall specify the Mode Change Date and the length of the initial Auction Period. No such change to an Auction Rate Bond Mode shall become effective unless the Borrower shall also file with the Trustee a Favorable Opinion of Bond Counsel dated the Mode Change Date.

(c) Not less than fifteen days prior to the Mode Change Date, the Trustee shall mail a written notice of the conversion to the registered owners of all Bonds to be converted; provided, however, that the Trustee shall not mail such written notice if converting from a Commercial Paper Rate Period until it has received a written confirmation from the Remarketing Agent that no Interest Period for the Bonds extends beyond the Mode Change Date. Such notice shall state that the Bonds are subject to mandatory tender for purchase on the Mode Change Date.

(d) The Auction Rate for the Interest Period commencing on the Mode Change Date shall be the lowest rate which, in the judgment of the Broker-Dealer, is necessary to enable the Bonds to be remarketed at a price equal to the principal amount thereof, plus accrued interest, if any, on the Mode Change Date. Such determination shall be conclusive and binding upon the Borrower, the Trustee, the Auction Agent and the registered owners of the Bonds to which such rate will be applicable.

(e) Not later than 5:00 P.M., New York City time, on the date of determination of the Auction Rate, the Broker-Dealer shall notify the Trustee, the Borrower, the Issuer and the Auction Agent of the Auction Rate by telephone, promptly confirmed in writing.

(f) The Borrower may revoke its election to effect a conversion of the interest rate on any Bonds to an Auction Rate by giving written notice of such revocation to the Trustee, the Remarketing Agent, the Auction Agent and the Broker-Dealer at any time prior to the setting of the Auction Rate by the Broker-Dealer.

Optional Tender

The owner of any Bond bearing interest at the Daily Rate or Weekly Rate may elect to have its Bond (or portion thereof in an authorized denomination) purchased at a purchase price equal to 100% of the principal amount thereof plus accrued interest as described below:

Daily Rate Tender. Bonds bearing interest at Daily Rates may be tendered for purchase on any Business Day prior to conversion from a Daily Rate Period to a different rate period upon delivery of irrevocable notice of tender to the Tender Agent by telephone, e-mail or other means acceptable to the Tender Agent not later than 11:00 A.M. on the date of purchase.

Weekly Rate Tender. Bonds bearing interest at Weekly Rates may be tendered for purchase on any Business Day prior to conversion from a Weekly Rate Period to a different rate period upon delivery of irrevocable notice of tender to the Tender Agent by telephone, e-mail or other means acceptable to the Tender Agent not later than 4:00 P.M. on a Business Day not fewer than seven days prior to the date of purchase.

Provisions Applicable to All Optional Tenders. If the ownership of the Bonds is no longer maintained in book-entry form by the Securities Depository, Bonds delivered for payment of the purchase price shall be accompanied by an instrument of transfer thereof in form satisfactory to the Tender Agent executed in blank by the owner thereof and with all signatures guaranteed by a bank, trust company or member firm of The New York Stock Exchange, Inc. The Tender Agent may refuse to accept delivery of any Bonds for which an instrument of transfer

satisfactory to it has not been provided and shall have no obligation to pay the purchase price of such Bonds until a satisfactory instrument is delivered.

Payment of the purchase price of Bonds to be purchased upon optional tender as described herein will be made by the Tender Agent by the close of business on the date of purchase in immediately available funds (or by wire transfer), so long as the Tender Agent has received sufficient proceeds to make such payments.

Mandatory Tender

Mandatory Tender on Each Purchase Date During Commercial Paper Mode. Each Bond in the Commercial Paper Mode shall be subject to mandatory tender for purchase on the date of purchase for the current Interest Period applicable to such Bond at the Purchase Price of such Bond. Bonds subject to mandatory tender for purchase must be delivered by the owners thereof (with all necessary endorsements) to the office of the Tender Agent at or before 12:00 Noon on such date of purchase, and payment of the purchase price of such Bond must be made by wire transfer in immediately available funds by the close of business on such date of purchase. No notice of such mandatory tender for purchase will be given to the registered owners.

Mandatory Tender after Last Day of Term Rate Period. Each Bond in the Term Rate Mode shall be subject to mandatory tender for purchase on the day immediately following the last day of the Term Rate Period for that Bond at a price equal to the principal amount thereof, together with interest accrued and unpaid thereon.

Mandatory Tender Upon a Conversion Between Interest Rate Modes for the Bonds. Bonds to be converted from one mode to another mode are subject to mandatory tender for purchase on the Mode Change Date at the Purchase Price of such Bonds. The Tender Agent will give notice of such mandatory tender for purchase by mail to the owners of the Bonds subject to mandatory tender for purchase no less than fifteen days (30 days in the case of Bonds in the Term Rate Mode) prior to the date of purchase.

Undelivered Bonds

The registered owners of Bonds are required to tender their Bonds to the Tender Agent on any Mandatory Purchase Date. If any such registered owner fails to properly deliver any Bonds on any Mandatory Purchase Date, such Bonds will be deemed to have been properly tendered to the Tender Agent and, to the extent that there is on deposit with the Tender Agent on such Mandatory Purchase Date an amount sufficient to pay the principal amount thereof, no interest will accrue on such Bonds from and after the Mandatory Purchase Date and such registered owner of Bonds will have no rights under the Agreement thereafter as the owner of such Bonds, except the right to receive the purchase price of such Bonds.

Payment of Purchase Price

On each Purchase Date and Mandatory Purchase Date, the Bonds tendered or deemed tendered to the Tender Agent for purchase will be purchased by the Tender Agent with funds received by the Tender Agent under the Agreement for the purchase price thereof. The purchase price will be payable by wire transfer upon delivery of the Bonds subject to tender for purchase to the Tender Agent.

Remarketing and Purchase

Unless otherwise instructed by the Borrower, the Remarketing Agent will offer for sale and use its best efforts to find purchasers for all Bonds or portions thereof for which notice of optional tender has been received or which are subject to mandatory tender. The Remarketing Agent will not remarket any Bonds if a default in payment has occurred and is continuing with respect to the Bonds.

The purchase price of the Bonds tendered for purchase will be paid by the Tender Agent from the proceeds of the remarketing of such Bonds by the Remarketing Agent to persons other than the Issuer, the Borrower or an affiliate of the Borrower and, if such remarketing proceeds are insufficient, from moneys provided by the Borrower.

Redemption

The Bonds are subject to optional and mandatory redemption, as described below:

Optional Redemption During Commercial Paper Mode. Bonds in the Commercial Paper Mode are not subject to optional redemption prior to their respective Purchase Dates. Bonds in the Commercial Paper Mode shall be subject to redemption at the option of the Borrower in whole or in part on their respective Purchase Dates at a redemption price equal to the principal amount thereof, together with interest accrued and unpaid thereon to the date fixed for redemption.

Optional Redemption During Daily or Weekly Mode. Bonds in the Daily Mode or the Weekly Mode are subject to optional redemption at the option of the Borrower in whole or in part in Authorized Denominations on any Business Day at a redemption price equal to the principal amount thereof, together with interest accrued and unpaid thereon to the date fixed for redemption.

Optional Redemption During Term Rate Mode or Fixed Rate Mode. Bonds in the Term Rate Mode or Fixed Rate Mode are subject to redemption in whole or in part on any date (and if in part, in such order of maturity as the Borrower shall specify and within a maturity by lot or any other customary manner determined by the Trustee and in Authorized Denominations) at the redemption price set forth below:

(a) If, on the Mode Change Date, the remaining term of the Bonds, in the case of Fixed Rate Bonds, or the length of the Interest Period, in the case of Term Rate Bonds, is more than ten years, the Bonds will not be subject to optional redemption until the first Stated Interest Payment Date to follow the tenth anniversary of the Mode Change Date. On or after such first Stated Interest Payment Date, the Bonds will be subject to redemption at a redemption price of 100% of the principal amount thereof, plus accrued interest, if any, to the Redemption Date.

(b) If, on the Mode Change Date, the remaining term of the Bonds, in the case of Fixed Rate Bonds, or the length of the Interest Period, in the case of Term Rate Bonds, is equal to or less than ten years, the Bonds will not be subject to optional redemption.

The foregoing provisions may be altered by the Borrower at the commencement of a Term Rate Period or a Fixed Rate conversion by notice in accordance with the Agreement.

Mandatory Taxability Redemption. The Outstanding Bonds are subject to mandatory redemption at any time at a redemption price of 100% of the principal amount of the Bonds so redeemed plus accrued interest to the redemption date in the event (i) the Borrower delivers to the Trustee and the provider of the Credit Facility (if such Bonds are supported by a Credit Facility) an opinion of Bond Counsel obtained by the Company stating that interest on the Bonds is or will become includable in gross income of the owners thereof for federal income tax purposes, or (ii) it is finally determined by the Internal Revenue Service or a court of competent jurisdiction, as a result of (A) a proceeding in which the Borrower has participated or been given notice and an opportunity to participate, and (B) either a failure by the Borrower to observe any covenant or agreement undertaken in or pursuant to this Agreement, or the inaccuracy of any representation made by the Borrower in or pursuant to this Agreement, that interest payable on the Bonds is includable for federal income tax purposes in the gross income of any owner thereof (other than an owner which is a "substantial user" or a "related person" within the meaning of section 147(a) of the Internal Revenue Code of 1986, as amended. Any determination under clause (ii) above will not be considered final for this purpose until the earliest of the conclusion of any appellate review, the denial of appellate review or the expiration of the period for seeking appellate review. Redemption described under this subheading shall be in whole unless not later than 45 days prior to the redemption date the Borrower delivers to the Trustee and the provider of the Credit Facility (if such Bonds are supported by a Credit Facility) an opinion of Bond Counsel to the effect that a redemption of less than all of the Bonds will preserve the tax-exempt status of interest on the remaining Bonds outstanding subsequent to such redemption. Except as provided in the next sentence, any redemption described under this subheading shall be made on the 60th day after the date on which the opinion described in clause (i) is delivered or the determination described in clause (ii) becomes final or on such earlier date as the Borrower may designate by notice given to the Trustee at least 45 days prior to such designated date. Any Bond in the Commercial Paper Mode or the Term Rate Mode that has a Purchase Date prior to the redemption date established for that Bond

pursuant to the preceding sentence shall be redeemed on that Purchase Date. If such redemption shall occur in accordance with the terms of this Agreement, then such failure by the Borrower to observe such covenant or agreement, or the inaccuracy of any such representations, will not, in and of itself, constitute a Default under the Agreement.

If the Trustee receives written notice from any Bondowner stating that (i) such Bondowner has been notified in writing by the Internal Revenue Service that it proposes to include the interest on the Bonds in the gross income of such owner for federal income tax purposes, or any other proceeding has been instituted against such owner which may lead to a like determination, and (ii) such owner will afford the Borrower the opportunity to participate at its own expense in the proceeding, either directly or in the name of such owner, until the conclusion of any appellate review, and the Trustee has examined such written notice and it appears to be accurate on its face, then the Trustee shall promptly give notice thereof to the Borrower, the Issuer and each Bondowner whose Bonds may be affected. The Trustee shall thereafter keep itself reasonably informed of the progress of any administrative proceedings or litigation relating to such notice.

The Borrower shall keep the Trustee informed of the progress of any such proceeding and shall give written notice to the Trustee within 45 days after it has actual knowledge of a final determination as described above.

Notice of Redemption. Except as otherwise provided in the Agreement, notice of redemption will be given by mail by the Trustee to the Remarketing Agent, the Paying Agent, the registered owners of any Bonds designated for redemption in whole or in part and to the Securities Depository no less than fifteen nor more than 30 days (30 days and 45 days, respectively, for Bonds in the Term Rate Mode or Fixed Rate Mode) prior to the Redemption Date. Each notice of redemption will state the Redemption Date, the redemption place and the redemption price, the maturity dates of the Bonds to be redeemed and will designate the numbers of the Bonds to be redeemed if less than all of the Outstanding Bonds of a maturity are to be redeemed, will (in the case of any Bond called for redemption in part only) state the portion of the principal amount thereof which is to be redeemed, and will state that the interest thereon or portions thereof designated for redemption will cease to accrue from and after such Redemption Date and that on such Redemption Date there will become due and payable on each of the Bonds or portions thereof designated for redemption the redemption price thereon; provided that if less than all of the Bonds are to be redeemed, Bonds purchased by the Borrower from moneys made available by the Borrower will be redeemed prior to any other Bonds. While the Bonds are held in the Book-Entry Only System, such notice will be sent only to DTC as registered owner of the Bonds. Any optional redemption may state that it is conditional on the deposit with the Trustee, on or before the Redemption Date, of the redemption price and that if such deposit is not made, such notice will be of no effect and the Bonds will not be redeemed on the Redemption Date.

Purchase In Lieu of Redemption. In lieu of redemption under the Agreement, the Borrower may purchase some of or all of the Bonds called for redemption if the Borrower (i) gives a notice to the Trustee by the Business Day before the redemption date that it wishes to purchase Bonds up to the principal amount specified in such notice and (ii) provides sufficient funds to the Trustee for such purchase on or before the redemption date. Any Bonds so purchased will remain outstanding unless surrendered by the Borrower to the Trustee with instructions to cancel such Bonds.

Book-Entry-Only System

Portions of the following information concerning DTC and DTC's book-entry system have been obtained from DTC. The Issuer, the Borrower, and the Underwriter make no representation as to the accuracy of such information.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered Bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code,

and a "clearing agency" registered pursuant to the provisions of Section 17A of the Bonds Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Bonds Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Bonds and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

So long as DTC serves as securities depository for the Bonds, redemption and other notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the

Trustee, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Tender Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Tender Agent's DTC account.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor Bonds depository). In that event, Bond certificates will be printed and delivered to DTC.

THE GUARANTY

In connection with the issuance of the Bonds, the Guarantor will deliver to the Trustee for the benefit of the Bondholders its guaranty of the full and prompt payment when due of the principal of, premium, if any, and interest on, and purchase price of, the Bonds. The Guaranty will state that it is absolute and unconditional.

The Guarantor has agreed that if it merges with or transfers substantially all of its assets to another legal entity, such entity will expressly, irrevocably and unconditionally assume the performance of all of the Guarantor's obligations under the Guaranty.

UNDERWRITING

J.P. Morgan Securities Inc. (the "Underwriter") has agreed, subject to certain conditions, to purchase the Bonds from the Issuer at a price equal to 100% of the principal amount thereof and will receive from the Borrower a fee of $112,000 for its services as Underwriter, plus reimbursement for certain out-of-pocket expenses. The Underwriter has agreed to purchase all of the Bonds if any are purchased. The Bonds may be offered and sold to certain dealers (including dealers depositing Bonds into investment accounts) and to others at prices lower than the public offering price set forth on the cover page of this Official Statement. After the Bonds are released for sale to the public, the public offering price and other selling terms may from time to time be varied by the Underwriter. The Borrower has agreed to indemnify the Underwriter and the Issuer against certain civil liabilities.

The Underwriter (and its affiliates) performs investment banking and other financial services for the Borrower and certain of its affiliates from time to time for which it receives customary arranging, agency, underwriting, investment banking and financial advisory fees and commissions.

CONTINUING DISCLOSURE

The Guarantor and the Borrower have agreed to provide the following:

(a) The Guarantor has agreed to provide annually to each nationally recognized municipal securities information repository ("NRMSIR") and to the state information depository, if any, for the Commonwealth of Massachusetts (the "SID"), not later than 120 days after the end of each fiscal year, commencing with the fiscal year ending March 31, 2006, an Annual Report consisting of:

(i) the Guarantor's balance sheet at the end of the preceding fiscal year, together with statements of income, retained earnings and cash flows for the year then ended, prepared in accordance with generally accepted accounting principles, accompanied by the report of the Guarantor's independent accountants;

(ii) operating and summary financial data for the preceding fiscal year corresponding to the information in the Official Statement under the captions "Operating Revenues," "Operating Expenses," "Ratio of Earnings to Fixed Charges," "Plant Assets" and "Liquidity and Capital Resources."

(b) The Guarantor has agreed to provide to each NRMSIR and the SID, copies of the Guarantor's quarterly reports to the Federal Energy Regulatory Commission (the "FERC") (on FERC Form 3-Q) within 15 days of the filing thereof with the FERC. If such reports (or any successor report) are no longer required to be filed with the FERC, the Guarantor will file with each NRMSIR and the SID unaudited summary financial reports consisting of a balance sheet and statements of income, retained earnings and cash flows for the period then ended for the quarters ending June 30, September 30 and December 31 of each year, within 55 days of the close of the quarter. Such unaudited reports will contain the financial statements described in paragraph (a)(i) above with respect to the period then ended, and they will be prepared in accordance with generally accepted accounting principles, except that footnotes may be omitted.

(c) The Borrower has agreed to provide in a timely manner, to each NRMSIR and to the SID, notice of the occurrence of any of the following events listed in clause (b)(5)(i)(C) of Rule 15c2-12 under the Securities Exchange Act of 1934 with respect to the Bonds, if applicable, if such event is material:

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults;

(iii) unscheduled draws on credit enhancements reflecting financial difficulties;

(iv) substitution of credit or liquidity providers, or their failure to perform;

(v) adverse tax opinions or events affecting the tax-exempt status of the Bonds;

(vi) modifications to rights of holders of the Bonds;

(vii) Bond calls;

(viii) defeasances;

(ix) release, substitution, or sale of property securing repayment of the Bonds; and

(x) rating changes with respect to the Bonds.

(d) The Guarantor has agreed to provide, in a timely manner, to (1) each NRMSIR or the Municipal Securities Rulemaking Board and (2) to the SID, if any, notice of a failure of the Guarantor to provide the required annual financial information on or before the date specified in its written continuing disclosure undertaking.

The Guarantor and the Borrower have not undertaken to give notice of the occurrence of any event other than described in (c) and (d) above. No other person has undertaken to give notice of the occurrence of any event described in the Rule. To date, the Guarantor and the Borrower have complied in all material respects with their continuing disclosure undertakings, except that the Guarantor's quarterly report to the Federal Energy Regulatory Commission relating to the quarter ended June 30, 2005 was filed with the NRMSIRs on December 8, 2005.

TAX EXEMPTION

In the opinion of Edwards Angell Palmer & Dodge LLP, Bond Counsel to the Company ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"), except that no opinion is expressed as to the status of interest on any Bond for any period that such Bond is held by a "substantial user" of the facilities financed or refinanced by the Bonds or by a "related person" within the meaning of Section 147(a) of the Code. Bond Counsel observes, however, that interest on the Bonds is a specific preference item for purposes of the federal individual and corporate alternative minimum taxes.

Bond Counsel is also of the opinion that, under existing law, interest on the Bonds and any profit on the sale of the Bonds are exempt from Massachusetts personal income taxes and that the Bonds are exempt from Massachusetts personal property taxes. Bond Counsel has not opined as to other Massachusetts tax consequences arising with respect to the Bonds. Prospective Bondowners should be aware, however, that the Bonds are included in the measure of Massachusetts estate and inheritance taxes, and the Bonds and the interest thereon are included in the measure of certain Massachusetts corporate excise and franchise taxes. Bond Counsel has not opined as to the taxability of the Bonds or the income therefrom under the laws of any state other than Massachusetts. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

The Code imposes various requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. Failure to comply with these requirements may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The Issuer and the Company have covenanted to comply with such requirements to ensure that interest on the Bonds will not be included in federal gross income. The opinion of Bond Counsel assumes compliance with these covenants. Certain requirements and procedures contained or referred to in the Loan and Trust Agreement, and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Further, no assurance can be given that pending or future legislation, including amendments to the Code, if enacted into law, or any proposed legislation, including amendments to the Code, or any regulatory or administrative development with respect to existing law, will not adversely affect the value of, or the tax status of interest on, the Bonds. Prospective Bondowners are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from Massachusetts personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Bondowner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Bondowner or the Bondowner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences, and Bondowners should consult with their own tax advisors with respect to such consequences.

LEGALITY OF THE BONDS FOR INVESTMENT AND DEPOSIT

The Act provides that the Bonds are legal investments in which all public officers and public bodies of The Commonwealth of Massachusetts, its political subdivisions, all municipalities and municipal subdivisions, all insurance companies and associations, all banks, banking associations, trust companies, savings banks and savings associations, including cooperative banks, building and loan associations, investment companies and other fiduciaries may properly and legally invest funds in their control or belonging to them. The Act also provides that the Bonds are securities that may properly and legally be deposited with and received by all public officers and bodies of The Commonwealth of Massachusetts or any agency or political subdivision thereof and all municipalities

and public corporations for any purposes for which the deposit of bonds or other obligations of The Commonwealth of Massachusetts is now or may hereafter by authorized by law.

LEGAL MATTERS

Certain legal matters incidental to the authorization and issuance of the Bonds by the Issuer are subject to the approval of Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel, whose opinion approving the validity and tax-exempt status of the Bonds will be delivered with the Bonds. A copy of the proposed form of such opinion is attached hereto as Appendix C. Edwards Angell Palmer & Dodge LLP and Gregory A. Hale, Esq., Deputy General Counsel of the Borrower and the Guarantor, will pass on certain legal matters for the Borrower and the Guarantor. Certain legal matters will be passed on for the Underwriter by its counsel, Ballard Spahr Andrews & Ingersoll, LLP, Philadelphia, Pennsylvania.

APPENDIX A

MASSACHUSETTS ELECTRIC COMPANY

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APPENDIX A

MASSACHUSETTS ELECTRIC COMPANY

Forward-looking information: This report contains forward-looking statements. Throughout this report, forward-looking statements can be identified by the words or phrases "will likely result", "are expected to", "will continue", "is anticipated", "estimated", "projected", "believe", "hopes", or similar expressions. Although management believes that, in making any such statements, its expectations are based on reasonable assumptions, any such statements may be influenced by factors that could cause actual outcomes and results to differ materially from those projected. Important factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to:

(a) the impact of further electric industry restructuring;

(b) the impact of general economic changes in New England;

(c) federal and state regulatory developments and changes in law;

(d) changes in accounting rules and interpretations which may have an adverse impact on Massachusetts Electric's statements of financial position, reported earnings and cash flows;

(e) timing and adequacy of rate relief, including failure to recover costs currently deferred under the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation", as amended;

(f) adverse changes in electric load;

(g) climatic changes or unexpected changes in weather patterns; and

(h) acts of terrorism.

DESCRIPTION OF BUSINESS

Massachusetts Electric Company (the Company) is a wholly owned subsidiary of National Grid USA (NGUSA) operating in Massachusetts. NGUSA is a Delaware corporation and an indirect wholly owned subsidiary of National Grid plc. National Grid (NG) is an international network utility company with electricity and gas transmission and distribution interests in the United Kingdom and the United States.

The Company's business is the distribution of electricity at retail. The Company provides electric service to approximately 1,230,000 customers in an area comprising approximately 45 percent of The Commonwealth of Massachusetts. The population of the service area is approximately 2,878,000 (2003 Population Estimate, US Census Bureau). The Company's service area consists of 171 cities and towns including the highly diversified commercial and industrial cities of Worcester, Lowell, and Quincy, the Interstate 495 high technology belt, and many suburban communities and rural towns. The economy of the area is diversified. Principal industries served by the Company include computer manufacturing and related businesses, electrical and industrial machinery, plastic goods, fabricated metals and paper, and chemical products. In addition, a broad range of professional, banking, medical, and educational institutions are served. During the fiscal year ended March 31, 2005, 50 percent of the Company's revenue from the sale and delivery of electricity was derived from residential customers, 38 percent from commercial customers, 11 percent from industrial customers, and 1 percent from others. Effective March 1, 1998, the Company's customers gained the right to choose their power supplier pursuant to legislation enacted in Massachusetts and settlement agreements approved by state and federal regulators. Customers may buy power on the competitive market, or may continue to buy it from the Company. Customers who elect to buy their power from the Company do so under Default Service, also known as Basic Service, a market based rate available to all customers. To provide Default Service, the Company has and continues to enter into power supply contracts with third parties and passes these power supply costs through to customers.

Power is delivered to the Company by New England Power Company (NEP), the Company's transmission affiliate, the New England Power Pool (NEPOOL), and the Independent System Operator—New England (ISO-NE) pursuant to transmission tariffs approved by the Federal Energy Regulatory Commission. The Company recovers these transmission costs through charges to its distribution customers. In addition, the Company's rates, which are approved by the Massachusetts Department of Telecommunications and Energy (MDTE), include a non-bypassable charge for the costs of NEP's former generating business which were not recovered through the sale of that business.

The properties of the Company consist principally of substations and distribution lines interconnected with transmission and other facilities of NEP. At March 31, 2005, the Company owned 230 substations, which had an aggregate capacity of 3,674,284 kVA, 185,506 line transformers with the capacity of 9,694,303 kVA, and 24,259 pole or conduit miles of distribution lines. The Company also owns 185 circuit miles of transmission lines.

Substantially all of the properties and franchises of the Company are subject to the liens of indentures under which mortgage bonds have been issued. For details of the mortgage liens on these properties, see Note H, Long-term Debt, in Notes to Financial Statements.

EMPLOYEES

At March 31, 2005, the Company had approximately 1,251 employees. Of the 1,251 employees, approximately 932 are members of labor organizations. Collective bargaining agreements with the Utility Workers Union of America, AFL-CIO, the Brotherhood of Utility Workers, Council of the UWUA, and the International Brotherhood of Electrical Workers expire in May of 2007. The Company believes its relations with its employees are good.

RATES

Rates for services rendered by the Company for the most part are subject to approval by the MDTE. A 1997 Restructuring Settlement Agreement provided for the unbundling of the service provided by the Company and allowed for the implementation of electric retail access. The Restructuring Settlement Agreement set the Company's distribution rates, and provided for the payment of a Contract Termination Charge (CTC) by the Company to NEP for the termination of NEP's wholesale all-requirements supply contract with the Company. CTC costs are those costs incurred by NEP in connection with its former generation business. These distribution rates were later adjusted by the Company's Merger Settlement Agreement, approved by the MDTE in March 2000, which governs rates subsequent to the merger of Eastern Edison Company into the Company on May 1, 2000 and provides for a long-term rate plan, which became effective on May 1, 2000. As part of the rate plan, the Company instituted a $10 million settlement credit that terminated on March 1, 2005. During this period, known as the Rate Freeze Period, distribution rates (after the reduction for the $10 million settlement credit) were frozen. During the period from March 1, 2005 through December 31, 2009, the Rate Index Period, subsequent to the increase in distribution rates resulting from the termination of the $10 million settlement credit, the Company's distribution rates will be adjusted, upward or downward, based upon the movement of a distribution cents per kilowatt-hour index of similarly unbundled distribution utilities in New England, New York, Pennsylvania and New Jersey. The Company has determined that its initial relative position against this index of utilities established using distribution rates in effect July 1, 2004 was 87%. On July 1 of each succeeding year, the Company will update the regional index rate and, based upon the movement, upward or downward, of this regional index rate, will adjust its own distribution rates accordingly effective March 1 of the following year. During 2009, the Company will file a distribution cost of service to determine the share of merger savings that it will be able to include in its cost of service from January 2010 through May 2019, in accordance with a sharing mechanism defined in the rate plan. The Company will be allowed to retain 100% of annual earned savings up to $70 million and 50% of annual earned savings between $70 million and $145 million (all figures pre-tax). Earned savings represents the difference between annual distribution revenue and the company's annual cost of providing service, including a regional average authorized return.

In December 2004, the MDTE approved a comprehensive settlement agreement between the Company, its wholesale affiliate NEP, and the Massachusetts Attorney General, which addressed contract termination charges from NEP to the Company as well as the recovery of certain supply-related costs. For the Company, the settlement provided for (i) deferred rate recovery of an estimated $66 million of power supply-related costs (of which $40.5 million has been recognized on the balance sheet at March 31, 2005), with interest, until 2010, and (ii) one time customer credits of $10 million, reflecting $8.6 million of reduced costs due to recent federal tax law changes and $1.4 million to reflect increased supply costs resulting from reclassifying certain customers from default service to standard offer service. For NEP, the settlement resolved a broad range of outstanding wholesale rate issues, including the reasonableness of the proceeds from the litigation and sale associated with the NEP settlement on the Millstone 3 nuclear generating unit, for a settlement credit of about $10 million.

Rate schedules applicable to electric services rendered by the Company are on file with the MDTE.

Recovery of Demand-Side Management Expenditures

The Company offers energy efficiency programs, usually referred to in the industry as Demand-Side Management (DSM) programs, which are designed to help customers use electricity efficiently, as a part of meeting the Company's regulatory requirements and customers' needs for energy services.

The Company regularly files its calendar year DSM programs with the MDTE and with the Division of Energy Resources (DOER). The MDTE and DOER are responsible for reviewing and approving the Company's DSM plans on a prospective basis. Funding to support these efforts is authorized through legislation which mandates a DSM charge on all customer bills equal to 0.25¢ per kWh. The DSM charge is authorized through 2007 and provides for the recovery of DSM expenses on a current basis. The Company's actual expenditures for the calendar years 2003 and 2004 are summarized in the following table:

Year	DSM Expense
2003	$52 million
2004	$50 million

Since 1990, the Company has been allowed to earn incentives based on the results of its DSM programs. The Company must be able to demonstrate the electricity savings produced by its DSM programs to the MDTE before full incentives are recorded. The Company must be able to demonstrate the electricity savings produced by its DSM programs to the MDTE before final incentives are approved. The Company recorded $4.5 million and $4.4 million of before-tax incentives in fiscal years 2004 and 2005, respectively.

REGULATORY AND ENVIRONMENTAL MATTERS

Many of the Company's activities are subject to regulation by various federal and state agencies. Under the Public Utility Holding Company Act of 1935 (1935 Act), many transactions are presently subject to the jurisdiction of the Securities and Exchange Commission (SEC). Repeal of the 1935 Act will be effective February 8, 2006. Under the Federal Power Act, the Company is subject to the jurisdiction of the FERC. In addition, federal environmental agencies have broad jurisdiction over environmental matters. The Company is also subject to the jurisdiction of regulatory bodies of the state and municipalities in which it operates. For a comprehensive discussion of environmental reserves, see Note C – Commitments and Contingencies, in the Notes to the Financial Statements.

SELECTED FINANCIAL DATA

The following tables set forth selected financial information for the Company for the years ended March 31, 2002 through year ended March 31, 2005 which have been derived from the financial statements of the Company, and should be read in connection therewith.

(In 000's)	**Year Ended March 31, 2005**	Year Ended March 31, 2004	Year Ended March 31, 2003	Year Ended March 31, 2002
Operating revenues	**$ 1,964,091**	$ 1,993,505	$ 1,734,576	$ 2,033,069
Operating income*	**$ 122,125**	$ 60,873	$ 109,943	$ 104,955
Total assets	**$ 3,286,625**	$ 3,123,785	$ 3,056,744	$ 2,884,328

* Operating income for the year ended March 31, 2004 includes a one time charge for a voluntary employee retirement offer (VERO) of $61 million (pre-tax).

CRITICAL ACCOUNTING POLICIES

There are certain critical accounting policies that are based on assumptions and conditions, that if changed, could have a material effect on the financial condition, results of operations and liquidity of the Company. The following accounting policies are particularly important to the financial condition and results of operations of the Company: regulatory accounting, revenue recognition, goodwill accounting and pensions.

Regulatory Accounting

Electric utilities are subject to certain accounting standards that are generally not applicable to other business enterprises. The Company applies the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation" (FAS 71), which requires regulated entities, in appropriate circumstances, to establish regulatory assets or liabilities, and thereby defer the income statement impact of certain charges or revenues because they are expected to be collected or refunded through future customer billings.

Revenue Recognition

Revenues are based on billing rates authorized by the MDTE. The Company follows the policy of accruing the estimated amount of base rate revenues for electricity delivered but not yet billed (unbilled revenues), to match costs and revenues more closely. The Company records revenues in an amount management believes to be recoverable pursuant to provisions of approved settlement agreements and applicable law. The Company normalizes the difference between revenue and expenses from energy conservation programs, standard offer/default service and transmission service.

Goodwill

The Company applies the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets" (FAS 142). In accordance with FAS 142, goodwill must be reviewed for impairment at least annually for events or circumstances that may indicate that the asset may be impaired. The Company utilizes a discounted cash flow approach incorporating its most recent business plan forecasts in the performance of the annual goodwill impairment test. The result of the annual analysis determined that no adjustment to the goodwill carrying value was required.

Pensions

The Company has recognized an additional minimum pension liability of $127 million on its March 31, 2005 balance sheet reflecting an under funded pension obligation, see Note D - Employee Benefits in the Notes to the Financial Statements.

OPERATING REVENUES

Electric sales were 21,754,800 MWh and 21,673,274 MWh in fiscal years 2005 and 2004, respectively. An analysis by customer class is provided below.

Electric Sales Volumes (MWh) Actual		
	FY 2005	FY 2004
Residential	**8,451,200**	8,450,119
Commercial*	**9,253,600**	9,147,224
Industrial	**4,050,000**	4,075,931
Total	**21,754,800**	21,673,274

Electric Sales Volumes (MWh) Weather-Normalized		
	FY 2005	FY 2004
Residential	**8,444,400**	8,275,700
Commercial*	**9,254,600**	9,048,300
Industrial	**4,052,200**	4,062,600
Total	**21,751,200**	21,386,600

* Includes Streetlighting and Sales for Resale.

Customer Classes

- Residential customer sales are to single as well as multi-family residences and group homes, farms, and religious institutions (churches, schools, seminaries, retreats, conference centers, etc.).
- Commercial sales are to small and large commercial accounts including office, warehouse, retail, schools, hotel, restaurant, hospitals/health, government and street lighting.
- Industrial sales are to small and large industrial accounts, including plants, factories, mills and any other establishments that primarily engage in the manufacturing of finished, intermediate, durable or non-durable goods.

Weather was more extreme than normal in FY04 but very close to normal in FY05. Thus, weather-normalized MWh are lower than actual MWh in FY04 but nearly equal to actual MWh in FY05.

The residential and commercial classes are the most weather-sensitive, due mainly to cooling load, and hence show the largest adjustments for weather. The industrial class is only slightly weather-sensitive. Streetlighting and sales for resale are not adjusted for weather

Electric revenues were approximately $2 billion for both fiscal years 2005 and 2004. The following table details the components by type.

Revenues ($'s in 000's)		
	FY 2005	FY 2004
Retail Sales:		
Residential	**$ 953,352**	$ 916,265
Commercial	**723,563**	740,411
Industrial	**223,066**	250,251
Other	**18,363**	18,973
Refund provisions	**30,460**	49,846
Unbilled revenue	**(1,772)**	2,460
Other revenues	**17,059**	15,299
Total	**$ 1,964,091**	$ 1,993,505

OPERATING EXPENSES

Operating expenses for the Company were approximately $1.8 billion and $1.9 billion in fiscal years 2005 and 2004, respectively. The components of operating expenses are as follows:

Operating Expenses ($'s in 000's)		
	FY 2005	FY 2004
Purchased electric energy	**$ 1,201,357**	$ 1,253,707
Employee benefits	**34,846**	51,119
Voluntary early retirement offer	**-**	61,100
Depreciation	**93,529**	90,229
Taxes other than income taxes, municipal property taxes	**26,337**	28,107
Taxes other than income taxes, other	**7,287**	9,976
Federal income taxes	**45,000**	19,236
State income taxes	**10,799**	4,706
Other operations	**422,811**	414,452
Total operating expenses	**$ 1,841,966**	$ 1,932,632

GROSS MARGIN

Gross Margin ($'s in 000's)		
	FY 2005	FY 2004
Operating revenues	**$ 1,964,091**	$ 1,993,505
Less: Purchased electric energy	**(1,201,357)**	(1,253,707)
Rate recoverable costs	**(203,132)**	(182,969)
Gross margin	**$ 559,602**	$ 556,829

RATIO OF EARNINGS TO FIXED CHARGES

Computation of Ratio of Earnings to Fixed Charges
($'s in 000's)

	FY 2005	FY 2004
Net Income*	**$ 98,521**	$ 34,758
Add income taxes and fixed charges:		
Current federal income taxes	**21,070**	(1,414)
Deferred federal income taxes	**25,182**	21,935
Investment tax credits - net	**(1,251)**	(1,284)
Current state income taxes	**5,250**	3,234
Deferred state income taxes	**5,549**	1,471
Income taxes credited to "Other income"	**(718)**	(424)
Interest on long term debt	**16,580**	20,081
Interest on short-term debt and other	**8,969**	5,498
Net earnings available for fixed charges	**$ 179,152**	$ 83,855
Fixed Charges:		
Interest on long term debt	**$ 16,580**	$ 20,081
Interest on short-term debt and other	**8,969**	5,498
Total fixed charges	**$ 25,549**	$ 25,579
Ratio of earnings to fixed charges	**7.01**	3.28

* FY 2004 net income includes a one time charge for a voluntary employee retirement offer (VERO) of $61 million (pre-tax). Excluding this charge, the ratio of earnings to fixed charges is 5.67%.

PLANT ASSETS

Utility plant was approximately $2.5 billion. The components of utility plant are as follows:

Utility Plant **At March 31 ($'s in 000's)**	**2005**
Transmission	$ 36,519
Distribution	2,307,741
General	115,997
Total	$2,460,257

CAPITAL EXPENDITURES AND FINANCING

The Company conducts a continuing review of its capital and financing programs. These programs and the estimates are subject to revision based upon changes in assumptions as to load growth, rates of inflation, receipt of adequate and timely rate relief, the availability and timing of regulatory approvals, new environmental and legal or regulatory requirements, total costs of major projects, technological changes, and the availability and costs of external sources of capital.

The Company's utility plant expenditures are estimated to be approximately $175 million in fiscal year 2006. At March 31, 2005, substantial commitments have been made relative to the future planned expenditures.

Capital expenditures were approximately $147 million in fiscal year 2005.

RESULTS OF OPERATIONS

EARNINGS

Net income for the year ended March 31, 2005, increased by approximately $64 million from the comparable period in the prior year. The increase is primarily due to a decrease in employee benefit expenses. Fiscal year 2004 employee benefit expenses included a one time voluntary employee retirement offer of $61 million.

REVENUES

Operating revenue for the year ended March 31, 2005 decreased by approximately $29 million compared to the same period in 2004. The decrease in revenue is primarily due to lower purchase power costs being recovered (see decrease in purchased electric energy below), partially offset by increased transmission expenses being recovered and approval to recover certain power supply related costs.

OPERATING EXPENSES

Purchased electric energy decreased approximately $52 million for the year ended March 31, 2005 compared with the same period in 2004. The volume of MWh sold for the year ended March 31, 2004 remained relatively unchanged as compared to the prior year. These costs do not impact electric margin or net income as the Company's rate plans allow full recoverability of these costs from customers.

Operation and maintenance expense for the year ended March 31, 2005 decreased approximately $69 million compared with the same period in 2004. This was primarily a result of a decrease in employee benefit expenses as a result of the fiscal year 2004 one time voluntary employee retirement offer of $61 million, a decrease in customer services expenses of $8 million, and various other expense decreases, partially offset by an increase in transmission expenses.

Income taxes for the year ended March 31, 2005 increased by approximately $32 million compared with the same period in 2004 as a result of a higher book taxable income.

LIQUIDITY AND CAPITAL RESOURCES

Short Term. At March 31, 2005, the Company's principal sources of liquidity included cash and cash equivalents of $9 million and accounts receivable of $323 million. The Company has a negative working capital balance of $248 million primarily due to short-term debt to affiliates of $291 million. As discussed below, the Company believes it has sufficient cash flow and borrowing capacity to fund such deficits as necessary in the near term.

Net cash provided by operating activities increased by approximately $25 million for the fiscal year ended March 31, 2005 from the comparable period in the prior year. The primary reasons for the increase in operating cash flow are:

- Net income increased by approximately $64 million (see Earnings discussion above).
- Prepaid pension increased by approximately $27 million. This was primarily due to an increase in contributions net of the benefit expenses accrued.
- Deferred taxes increased by approximately $7 million. This was due mainly to timing differences associated with the large under-recovery and regulatory deferral of costs relating to all fully normalizing rate clauses in fiscal 2005.
- Accounts payable increased by approximately $39 million. This was due to an increase of $32 million in accounts payable due to the timing of purchased power billing payments and a $7 million increase in accounts payable to associated companies.
- Regulatory assets increased by approximately $64 million. This increase was primarily due to an increase of $40 million due to the standard offer recovery from the rate settlement and an increase in the environmental provision resulting in an offsetting regulatory asset adjustment of $20 million.

Net cash used in investing activities remained relatively unchanged for the year ended March 31, 2005 as compared to the prior year.

National Grid USA and certain subsidiaries, including the Company, with regulatory approval, operate a money pool to more effectively utilize cash resources and to reduce outside short-term borrowings. Short-term borrowing needs are met first by available funds of the money pool participants. Borrowing companies pay interest at a rate designed to approximate the cost of outside short-term borrowings. Companies that invest in the pool share the interest earned on a basis proportionate to their average monthly investment in the money pool. Funds may be withdrawn from or repaid to the pool at any time without prior notice.

Net cash provided by financing activities decreased by $23 million for the fiscal year ended March 31, 2005 as compared to the comparable period in the prior year. This decrease was caused by increased net reductions in long-term debt of $12 million, no cash used to retire preferred stock in fiscal year 2005 as compared to $5 million in fiscal year 2004 and decreased short-term borrowings from affiliates of $17 million.

Long-Term Liquidity. The Company's total capital requirements consist of amounts for its construction program, working capital needs, and maturing debt issues.

FINANCIAL STATEMENTS

Unaudited Financial Statements

- Statements of Income and Statements of Retained Earnings for the three months and six months ended September 30, 2005 and 2004
- Balance Sheets at September 30, 2005 and March 31, 2005
- Statements of Cash Flows for the six months ended September 30, 2005 and 2004

Report of Independent Auditors

Audited Financial Statements

- Statements of Income, Statements of Comprehensive Income and Statements of Retained Earnings for the fiscal years ended March 31, 2005 and 2004
- Balance Sheets at March 31, 2005 and 2004
- Statements of Cash Flows for the fiscal years ended March 31, 2005 and 2004

MASSACHUSETTS ELECTRIC COMPANY

Statements of Income

Periods Ended September 30

(Unaudited)

(In thousands)

	Quarter		Six Months	
	2005	2004	2005	2004
Operating revenue	$ 569,243	$ 492,264	$ 1,036,173	$ 912,834
Operating expenses:				
Purchased electric energy:				
Non-affiliates	319,167	261,178	559,897	488,163
Contract termination charges from New England Power Company, an affiliate	45,787	43,946	84,381	70,362
Other operation	102,018	98,302	204,633	193,468
Maintenance	13,136	11,118	22,686	20,904
Depreciation	24,316	23,823	48,342	46,880
Taxes, other than income taxes	7,568	9,746	16,783	18,882
Income taxes	18,748	15,193	32,105	25,079
Total operating expenses	530,740	463,306	968,827	863,738
Operating income	38,503	28,958	67,346	49,096
Other income (expense), net	243	(861)	146	(513)
Operating and other income	38,746	28,097	67,492	48,583
Interest:				
Interest on long-term debt	3,012	4,415	5,991	8,920
Other interest	3,554	1,514	6,503	2,641
Total interest	6,566	5,929	12,494	11,561
Net income	$ 32,180	$ 22,168	$ 54,998	$ 37,022

Statements of Retained Earnings

Retained earnings at beginning of period	$ 324,796	$ 218,529	$ 302,032	$ 203,729
Net income	32,180	22,168	54,998	37,022
Dividends declared on cumulative preferred stock	(55)	(55)	(109)	(109)
Retained earnings at end of period	$ 356,921	$ 240,642	$ 356,921	$ 240,642

MASSACHUSETTS ELECTRIC COMPANY
Balance Sheets
(In thousands)
(Unaudited)

	September 30, 2005	March 31, 2005 (Restated)
ASSETS		
Utility plant, at original cost	$ 2,527,090	$ 2,460,257
Less accumulated provision for depreciation	(876,983)	(841,982)
	1,650,107	1,618,275
Construction work in progress	33,815	40,020
Net utility plant	1,683,922	1,658,295
Goodwill, net of amortization	1,023,272	1,023,272
Pension intangible	5,012	5,012
Current assets:		
Cash and cash equivalents	10,754	8,699
Accounts receivable:		
From electric energy service, including unbilled revenue	336,434	316,050
Other (including $4,588 and $15,580 from affiliates)	11,178	21,685
Less reserve for doubtful accounts	(14,357)	(15,136)
Total accounts receivable	333,255	322,599
Materials and supplies, at average cost	8,619	9,939
Prepaid and other current assets	22,208	9,475
Deferred federal and state income taxes	16,728	-
Total current assets	391,564	350,712
Regulatory assets	111,475	112,938
Prepaid pension, net of additional minimum pension liability	2,292	-
Deferred charges and other assets	19,759	20,196
	$ 3,237,296	$ 3,170,425
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock, par value $25 per share, authorized and outstanding 2,398,111 shares	$ 59,953	$ 59,953
Other paid-in capital	1,508,991	1,508,991
Retained earnings	356,921	302,032
Accumulated other comprehensive loss	(123,239)	(123,277)
Total common equity	1,802,626	1,747,699
Cumulative preferred stock, par value $100 per share	4,727	4,727
Long-term debt	174,362	184,311
Total capitalization	1,981,715	1,936,737
Current liabilities:		
Long-term debt due within one year	-	10,000
Short-term debt to affiliates	338,600	291,300
Accounts payable (including $80,057 and $98,789 to affiliates)	232,917	260,145
Accrued liabilities:		
Deferred federal and state income taxes	-	1,693
Interest	4,702	4,911
Other accrued expenses	31,240	25,857
Customer deposits	4,785	4,378
Dividends payable	54	54
Total current liabilities	612,298	598,338
Deferred federal and state income taxes	230,071	209,786
Unamortized investment tax credits	8,865	9,475
Accrued pension and other post-retirement benefits	37,874	55,414
Other reserves and deferred credits	366,473	360,675
	$ 3,237,296	$ 3,170,425

MASSACHUSETTS ELECTRIC COMPANY
Statements of Cash Flows
For the Six Months Ended September 30
(In thousands)
(Unaudited)

	2005	2004 (Restated)
Operating activities:		
Net income	$ 54,998	$ 37,022
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	48,342	46,880
Deferred income taxes and investment tax credits, net	921	10,409
Allowance for funds used during construction	(252)	(132)
Changes in assets and liabilities:		
Decrease in accounts receivable, net and unbilled revenues	(10,656)	(24,134)
Decrease (increase) in materials and supplies	1,320	(908)
Increase in prepaid and other current assets	(12,733)	(906)
Increase (decrease) in regulatory assets	1,463	(9,725)
(Decrease) increase in deferred charges and other assets	294	(1,495)
Increase (decrease) in accounts payable	(27,228)	33,375
Increase in other current liabilities	5,581	7,047
Decrease in accrued pension and other post-retirement benefits	(17,540)	(20,861)
Other, net	(181)	5,662
Net cash provided by operating activities	44,329	82,234
Investing activities:		
Plant expenditures, excluding allowance for funds used during construction	(70,033)	(66,170)
Proceeds received from sale of non-utility property	362	-
Other investing activities	206	13
Net cash used in investing activities	(69,465)	(66,157)
Financing activities:		
Dividends paid on preferred stock	(109)	(109)
Reductions in long-term debt	(20,000)	(15,000)
Changes in short-term debt	47,300	(2,600)
Net cash provided (used in) by financing activities	27,191	(17,709)
Net increase (decrease) in cash and cash equivalents	2,055	(1,632)
Cash and cash equivalents at beginning of period	8,699	8,115
Cash and cash equivalents at end of period	10,754	6,483

Report of Independent Auditors

To the Stockholders and Board of Directors of
Massachusetts Electric Company:

In our opinion, the accompanying balance sheets and the related statements of income, of comprehensive income, of retained earnings and of cash flows present fairly, in all material respects, the financial position of Massachusetts Electric Company, a wholly owned subsidiary of National Grid USA, at March 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP

Boston, Massachusetts
May 18, 2005

Massachusetts Electric Company

Statements of Income

Year ended March 31 (In thousands)	2005	2004
Operating revenue	**$1,964,091**	$1,993,505
Operating expenses:		
Purchased electric energy:		
Non-affiliates	**1,046,986**	1,064,858
Contract termination charges from New England Power Company, an affiliate	**154,371**	188,849
Other operation	**420,359**	476,882
Maintenance	**37,298**	49,789
Depreciation	**93,529**	90,229
Taxes, other than income taxes (Note J)	**33,624**	38,083
Income taxes (Note E)	**55,799**	23,942
Total operating expenses	**1,841,966**	1,932,632
Operating income	**122,125**	60,873
Other income (expense):		
Other income (expense), net	**1,702**	(658)
Operating and other income	**123,827**	60,215
Interest:		
Interest on long-term debt	**16,580**	20,081
Other interest	**8,726**	5,376
Total interest	**25,306**	25,457
Net income	**$ 98,521**	$ 34,758

Statements of Comprehensive Income

Year ended March 31 (In thousands)	2005	2004
Net income	**$ 98,521**	$ 34,758
Other comprehensive income (loss):		
Unrealized gain (loss) on securities, net of taxes of $(1) and $131, respectively	**(1)**	243
Change in additional minimum pension liability, net of taxes of $1,848 and $19,386, respectively	**389**	28,876
Comprehensive income	**$ 98,909**	$ 63,877

Statements of Retained Earnings

Year ended March 31 (In thousands)	2005	2004
Retained earnings at beginning of year	**$ 203,729**	$ 169,472
Net income	**98,521**	34,758
Dividends declared on cumulative preferred stock	**(218)**	(312)
Premium on redemption of preferred stock	**-**	(189)
Retained earnings at end of year	**$ 302,032**	$ 203,729

The accompanying notes are an integral part of these financial statements

Massachusetts Electric Company

Balance Sheets

At March 31 (In thousands)	2005	2004
Assets		
Utility plant, at original cost	**$2,460,257**	$2,342,310
Less accumulated provisions for depreciation	**(841,982)**	(781,484)
	1,618,275	1,560,826
Construction work in progress	**40,020**	34,942
Net utility plant	**1,658,295**	1,595,768
Goodwill	**1,023,272**	1,023,272
Pension intangible	**5,012**	5,296
Current assets:		
Cash and cash equivalents	**8,699**	8,115
Accounts receivable:		
From electric energy services, including unbilled revenues (Note A-3)	**316,050**	301,954
Other (including $15,580 and $8,256 from affiliates)	**21,685**	14,722
Less reserves for doubtful accounts	**(15,136)**	(12,296)
Total accounts receivable	**322,599**	304,380
Materials and supplies, at average cost	**9,939**	9,682
Prepaid and other current assets	**9,475**	1,963
Total current assets	**350,712**	324,140
Regulatory assets	**112,938**	48,017
Prepaid pension	**116,200**	107,122
Deferred charges and other assets (Note B)	**20,196**	20,170
Total assets	**$3,286,625**	$3,123,785
Capitalization and Liabilities		
Capitalization:		
Common stock, par value $25 per share, authorized and outstanding 2,398,111 shares	**$ 59,953**	$ 59,953
Other paid-in capital	**1,508,991**	1,508,991
Retained earnings	**302,032**	203,729
Accumulated other comprehensive loss (Note K)	**(123,277)**	(123,665)
Total common equity	**1,747,699**	1,649,008
Cumulative preferred stock, par value $100 per share (Note G)	**4,727**	4,727
Long-term debt (Note H)	**184,311**	213,209
Total capitalization	**1,936,737**	1,866,944
Current liabilities:		
Long-term debt due within one year (Note H)	**10,000**	39,000
Short-term debt to affiliates (Note F)	**291,300**	220,575
Accounts payable (including $98,789 and $92,376 to affiliates)	**260,145**	232,790
Accrued liabilities:		
Taxes	**-**	15,611
Deferred federal and state income taxes (Note E)	**1,693**	1,458
Interest	**4,911**	5,045
Other accrued expenses (Note F)	**25,857**	34,894
Customer deposits	**4,378**	4,069
Dividends payable	**54**	54
Total current liabilities	**598,338**	553,496
Deferred federal and state income taxes (Note E)	**209,786**	176,174
Unamortized investment tax credits	**9,475**	10,726
Accrued pension and other post-retirement benefits	**45,044**	47,283
Additional minimum pension liability	**126,570**	131,503
Other reserves and deferred credits	**360,675**	337,659
Commitments and contingencies (Note C)		
Total capitalization and liabilities	**$3,286,625**	$3,123,785

The accompanying notes are an integral part of these financial statements.

Massachusetts Electric Company

Statements of Cash Flows

Year ended March 31 (In thousands)	2005	2004
Operating activities:		
Net income	**$ 98,521**	$ 34,758
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**93,529**	90,229
Deferred federal and state income taxes and investment tax credits, net	**30,099**	22,919
Allowance for borrowed funds used during construction	**(244)**	(122)
Changes in current operating assets and liabilities:		
Increase in accounts receivable, net and unbilled revenues	**(18,219)**	(37,418)
(Increase) decrease in materials and supplies	**(257)**	214
(Increase) decrease in prepaid and other current assets	**(7,512)**	183
(Increase) decrease in prepaid pension	**(9,078)**	17,957
Increase in regulatory assets	**(64,921)**	(757)
Increase in deferred charges and other assets	**(143)**	(1,734)
Increase (decrease) in accounts payable	**27,355**	(11,653)
Decrease in other current liabilities	**(24,473)**	(19,750)
(Decrease) increase in accrued pensions and other post-retirement benefits	**(2,239)**	9,981
Other, net	**12,218**	5,179
Net cash provided by operating activities	**$ 134,636**	$ 109,986
Investing activities:		
Plant expenditures, excluding allowance for funds used during construction	**$(147,183)**	$(148,279)
Proceeds received for sale of fixed assets	**509**	202
Other investing activities	**115**	925
Net cash used in investing activities	**$(146,559)**	$(147,152)
Financing activities:		
Dividends paid on preferred stock	**$ (218)**	$ (407)
Proceeds from long-term debt	**40,000**	-
Reductions in long-term debt	**(98,000)**	(46,000)
Preferred stock – retirements	**-**	(5,400)
Premium on redemption of preferred stock	**-**	(189)
Increase in short-term debt due to affiliates	**70,725**	87,425
Net cash provided by financing activities	**$ 12,507**	$ 35,429
Net increase (decrease) in cash and cash equivalents	**$ 584**	$ (1,737)
Cash and cash equivalents at beginning of year	**8,115**	9,852
Cash and cash equivalents at end of year	**$ 8,699**	$ 8,115
Supplementary Information:		
Interest paid, less amounts capitalized	**$ 22,917**	$ 22,835
Federal and state income taxes paid	**$ 49,368**	$ 16,043

The accompanying notes are an integral part of these financial statements

Massachusetts Electric Company

Notes to Financial Statements

Note A - Significant Accounting Policies

1. Nature of Operations:
Massachusetts Electric Company (the Company) is a wholly owned subsidiary of National Grid USA (National Grid) operating in Massachusetts. The Company's business is the distribution of electricity at retail. Electric service is provided to approximately 1,230,000 customers in 171 cities and towns having a population of approximately 2,878,000 (2003 Population Estimate, US Census Bureau). The properties of the Company consist principally of substations and distribution lines interconnected with transmission and other facilities of New England Power Company (NEP), the Company's transmission affiliate. Pursuant to legislation enacted in Massachusetts and settlement agreements approved by state and federal regulators (Massachusetts Settlement), effective March 1, 1998, the Company terminated its all-requirements contract with NEP, under which it had previously purchased all of its electric energy requirements. Under the Massachusetts Settlement, NEP recovers its above-market generation commitments through a contract termination charge (CTC), which the Company collects from its distribution customers.

2. System of Accounts:
The accounts of the Company are maintained in accordance with the Uniform System of Accounts prescribed by regulatory bodies having jurisdiction.

In preparing the financial statements, management is required to make estimates that affect the reported amounts of assets and liabilities and disclosures of asset recovery and contingent liabilities as of the date of the balance sheets and revenues and expenses for the period. These estimates may differ from actual amounts if future circumstances cause a change in the assumptions used to calculate these estimates. In addition, certain reclassifications have been made to conform the prior year with the 2005 presentation.

3. Electric Utility Revenue:
Revenues are based on billing rates authorized by the Massachusetts Department of Telecommunications and Energy (MDTE). The Company follows the policy of accruing the estimated amount of base rate revenues for electricity delivered but not yet billed (unbilled revenues), to match costs and revenues more closely. The unbilled revenues included in accounts receivable at both March 31, 2005 and 2004 was approximately $28 million and $30 million, respectively. During 2005 and 2004, the Company recorded revenues in an amount management believes to be recoverable pursuant to provisions of approved settlement agreements and the Massachusetts Electric Industry Restructuring Act. The Company normalizes the difference between revenue and expenses from energy conservation programs, standard offer/default service, transmission service, and the CTCs.

4. Allowance for Funds Used During Construction (AFUDC):
The Company capitalizes AFUDC as part of construction costs. AFUDC represents an allowance for the cost of funds used to finance construction. AFUDC is capitalized in "Utility plant" with offsetting noncash credits to "Interest". This method is in accordance with an established rate-making practice under which a utility is permitted a return on, and the recovery of, prudently incurred capital costs through their ultimate inclusion in rate base and in the provision for depreciation. The composite AFUDC rates were 1.8 percent and 1.1 percent for the years ended March 31, 2005 and 2004, respectively.

Notes to Financial Statements

5. Depreciation:
Depreciation is provided annually on a straight-line basis. The provision for depreciation as a percentage of weighted average depreciable property was 3.9 percent and 4.0 percent for the years ended March 31, 2005 and 2004, respectively.

6. Service Company Charges:
National Grid USA Service Company, Inc., an affiliated service company operating pursuant to the provisions of Section 13 of the Public Utility Holding Company Act of 1935 (1935 Act), furnished services to the Company at the cost of such services. These costs amounted to $178,148,000 and $165,431,000, including capitalized construction costs of $46,347,000 and $18,700,000, for the years ended March 31, 2005 and 2004, respectively.

7. Cash and Cash Equivalents:
The Company classifies short-term investments with a maturity of 90 days or less at time of purchase as cash equivalents.

8. Derivatives:
The Company accounts for derivative financial instruments under Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivatives and Hedging Activities" (FAS 133), and SFAS No. 149, "Amendment of SFAS No. 133 on Derivative Instruments and Hedging Activities," as amended. Under the provisions of FAS 133, all derivatives except those qualifying for the normal purchase/normal sale exception are recognized on the balance sheet at their fair value. Fair value is determined using current quoted market prices.

9. Related Party Reimbursement:
In accordance with the Credit and Operating Support Agreement dated March 26, 1996 between the Company and the Company's distribution affiliate, Nantucket Electric Company (Nantucket), following the end of each fiscal year, the Company will reimburse Nantucket an amount equal to the difference between Nantucket's actual net income for the fiscal year and the net income necessary for Nantucket to earn a return on common equity (ROE) equivalent to the Nantucket's MDTE approved weighted average allowed ROE for the fiscal year, currently 11 percent. Notwithstanding the above, to the extent Nantucket's actual ROE for the year exceeds its allowed ROE, there will be no reimbursement. This reimbursement shall constitute additional revenue to Nantucket and an expense to the Company. As a result, for the years ended March 31, 2005 and 2004, the Company reimbursed Nantucket $1.2 million and $1.8 million, respectively.

10. Utility Plant:
The cost of additions to utility plant and replacements of retirement units of property are capitalized. Costs include direct material, labor, overhead and AFUDC. Replacement of minor items of utility plant and the cost of current repairs and maintenance are charged to expense. Whenever utility plant is retired, its original cost, together with the cost of removal, less salvage, is charged to accumulated depreciation.

11. Goodwill:
In accordance with SFAS No. 142 "Goodwill and Other Intangible Assets", the Company reviews its goodwill annually for impairment and when events or circumstances indicate that the asset may be impaired. The Company utilized a discounted cash flow approach incorporating its most recent business plan forecasts in the performance of the annual goodwill impairment test. The result of the annual analysis determined that no adjustment to the goodwill carrying value was required.

Notes to Financial Statements

12. Income Taxes:
Income taxes have been computed utilizing the asset and liability approach that requires the recognition of deferred tax assets and liabilities for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities (see Note E).

13. Additional Minimum Pension Liability:
SFAS No. 87 "Employers' Accounting for Pensions" states that if a pension plan's accumulated benefit obligation (ABO) exceeds the fair value of plan assets, the employer shall recognize in the statement of financial position a liability that is at least equal to the unfunded ABO with an offsetting charge to a pension intangible, to the extent the plan has an unrecognized prior service cost, and to other comprehensive income. (see Note D and Note K).

14. New Accounting Standards:
On December 8, 2003, President Bush signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act). The Act expands Medicare, primarily by adding a prescription drug benefit for Medicare-eligibles starting in 2006. The Act provides employers currently sponsoring prescription drug programs for Medicare-eligibles with a range of options for coordinating with the new government-sponsored program to potentially reduce program cost. These options include supplementing the government program on a secondary payor basis or accepting a direct subsidy from the government to support a portion of the cost of the employer's program.

Paragraph 40 of the Financial Accounting Standards Board's (FASB) SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" requires that presently enacted changes in laws impacting employer-sponsored retiree health care programs which take effect in future periods be considered in current-period measurements for benefits expected to be provided in those future periods. Therefore, under FAS 106 guidance, measures of plan liabilities and annual expense on or after the date of enactment should reflect the effects of this Act. Pursuant to guidance from the FASB under FSP FAS 106-2, the retiree health obligations will reflect the estimated subsidy payments expected from the federal government for the participant groups anticipated to qualify for the subsidy. Participant groups who are not expected to qualify, or have not yet been determined whether they will qualify, for the federal subsidy will not impact the retiree health obligations. If any portion of this group is subsequently determined to qualify for the subsidy, the retiree health care obligations will be adjusted at the time of that determination. The Company adopted the provisions of FAS 106-2 on July 1, 2004. The impact is presented in Note D – Employee Benefits. Any decrease in expense that results from the Act will be deferred and will be credited to customers.

In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" (FIN 47). FIN 47 will result in (a) more consistent recognition of liabilities relating to asset retirement obligations, (b) more information about expected future cash outflows associated with those obligations and (c) more information about investments in long-lived assets because additional asset retirement costs will be recognized as part of the carrying amounts of the assets.

Notes to Financial Statements

FIN 47 clarifies that the term conditional asset retirement obligation as used in FASB Statement No. 143, "Accounting for Asset Retirement Obligations", refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though the uncertainty exists about the timing and (or) method of settlement. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation.

This statement will be effective for the fiscal year ended March 31, 2006 for the Company. The adoption of FIN 47 is not expected to have a material impact on the Company's results of operations or its financial position.

15. Comprehensive Income

Comprehensive income consists of net income and other gains and losses affecting common equity that, under generally accepted accounting principles, are excluded from net income. For the Company, the components of accumulated other comprehensive income consist of unrealized gains and losses on marketable equity investments and additional minimum pension liability.

Note B – Regulatory Environment and Accounting Implications

Rates for services rendered by the Company for the most part are subject to approval by the Massachusetts Department of Telecommunications and Energy (MDTE). In March 2000, the MDTE approved a long-term rate plan for the Company, which became effective on May 1, 2000. As part of the rate plan, the Company instituted a $10 million settlement credit that terminated on March 1, 2005. During this period, known as the Rate Freeze Period, distribution rates (after the reduction for the $10 million settlement credit) were frozen. During the period from March 1, 2005 through December 31, 2009, the Rate Index Period, subsequent to the increase in distribution rates resulting from the termination of the $10 million settlement credit, the Company's distribution rates will be adjusted, upward or downward, based upon the movement of a distribution cents per kilowatt-hour index of similarly unbundled distribution utilities in New England, New York, Pennsylvania and New Jersey. The Company has determined that its initial relative position against this index of utilities established using distribution rates in effect July 1, 2004 was 87%. On July 1 of each succeeding year, the Company will update the regional index rate and, based upon the movement, upward or downward, of this regional index rate, will adjust its own distribution rates accordingly effective March 1 of the following year. During 2009, the Company will file a distribution cost of service to determine the share of merger savings that it will be able to include in its cost of service from January 2010 through May 2019, in accordance with a sharing mechanism defined in the rate plan. The Company will be allowed to retain 100% of annual earned savings up to $70 million and 50% of annual earned savings between $70 million and $145 million (all figures pre-tax). Earned savings represents the difference between calendar year 2008 distribution revenue and the company's cost of providing service, including a regional average authorized return.

Notes to Financial Statements

In December 2004, the MDTE approved a comprehensive settlement agreement between the Company, its wholesale affiliate, New England Power Company (NEP), and the Massachusetts Attorney General, which addressed contract termination charges from NEP to the Company as well as the recovery of certain supply-related costs. For the Company, the settlement provided for (i) deferred rate recovery of an estimated $66 million of power supply-related costs (of which $40.5 million has been recognized on the balance sheet at March 31, 2005), with interest, until 2010, and (ii) one time customer credits of $10 million, reflecting $8.6 million of reduced costs due to recent federal tax law changes and $1.4 million to reflect increased supply costs resulting from reclassifying certain customers from default service to standard offer service. The Company anticipates incurring the remainder of the power supply-related costs in fiscal year 2006. For NEP, the settlement resolved a broad range of outstanding wholesale rate issues, including the reasonableness of the proceeds from the litigation and sale associated with the NEP settlement on the Millstone 3 nuclear generating unit, for a settlement credit of about $10 million.

Because electric utility rates have historically been based on a utility's costs, electric utilities are subject to certain accounting standards that are not applicable to other business enterprises in general. The Company applies the provisions of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation", which requires regulated entities, in appropriate circumstances, to establish regulatory assets or liabilities, and thereby defer the income statement impact of certain charges or revenues because they are expected to be collected or refunded through future customer billings.

The components of regulatory assets (liabilities) are as follows:

At March 31 (In thousands)	2005	2004
Regulatory assets included in accounts receivable:		
Rate adjustment mechanisms	**$ 87,916**	$ 105,448
Regulatory liabilities included in other accrued expenses:		
Rate adjustment mechanisms	**(4,743)**	(10,201)
Total net regulatory assets current	**83,173**	95,247
Regulatory assets:		
Unamortized losses on reacquired debt	**7,213**	6,751
LT portion of standard offer under-recovery	**40,499**	-
Environmental response costs	**61,455**	41,266
Other	**3,771**	-
Regulatory liabilities included in other reserves and deferred credits:		
Deferred FAS No. 109	**(2,286)**	(2,926)
Revaluation - Pensions and OPEB	**(58,338)**	(60,486)
Environmental response costs	**(58,651)**	(56,437)
Storm fund reserve	**(18,014)**	(13,424)
Cost of removal	**(126,267)**	(117,245)
Other	**(3,159)**	(1,027)
Total net regulatory liabilities long term	**(153,777)**	(203,528)
Net regulatory assets (liabilities)	**$ (70,604)**	$ (108,281)

Massachusetts Electric Company

Notes to Financial Statements

Note C - Commitments and Contingencies

1. Plant Expenditures:
The Company's utility plant expenditures are estimated to be approximately $175 million in 2006. At March 31, 2005, substantial commitments had been made relative to future planned expenditures.

2. Hazardous Waste:
The normal ongoing operations and historic activities of the Company are subject to various federal, state and local environmental laws and regulations. Like most other industrial companies, our transmission and distribution companies use or generate some hazardous and potentially hazardous wastes and by-products. Under federal and state Superfund laws, potential liability for the historic contamination of property may be imposed on responsible parties jointly and severally, without fault, even if the activities were lawful when they occurred.

The United States Environmental Protection Agency (EPA), the Massachusetts Department of Environmental Protection (DEP), as well as private entities have alleged that the Company is a potentially responsible party (PRP) under state or federal law for a number of sites at which hazardous waste is alleged to have been disposed. Our most significant liabilities relate to former manufactured gas plant (MGP) facilities formerly owned or operated by our predecessors. The Company is currently investigating and remediating, as necessary, those MGP sites and certain other properties under agreements with the EPA and DEP.

We believe that our ongoing operations, and our approach to addressing conditions at historic sites, are in substantial compliance with all applicable environmental laws, and that the obligations imposed on us are not likely to have a material adverse impact on our financial condition, results of operations or cash flows. In 1993, the MDTE approved a settlement agreement that provides for rate recovery of remediation costs of former MGP sites and certain other hazardous waste sites located in Massachusetts. Under that agreement, qualified costs related to these sites are paid out of a special fund established on the Company's books. Rate-recoverable contributions of approximately $5 million are added annually to the fund along with interest, lease payments, and any recoveries from insurance carriers and other third parties.

The Company has recovered amounts from certain insurers, and, where appropriate, the Company intends to seek recovery from other insurers and from other PRPs, but it is uncertain whether, and to what extent, such efforts will be successful. At March 31, 2005 and March 31, 2004, the Company had total reserves for environmental response costs of approximately $61 million and $41 million, respectively which includes reserves established in connection with the Company's hazardous waste fund referred to above. The increase in the liability follows a recent review and reflects experience by the National Grid USA companies in restoring similar sites.

Massachusetts Electric Company

Notes to Financial Statements

Note D - Employee Benefits

Summary
The Company participates in a non-contributory defined benefit pension plan and a post-retirement benefit plan other than pensions (PBOPs) (the Plans) covering substantially all employees. The pension plan is a noncontributory, tax-qualified defined benefit plan which provides all employees of National Grid USA and its subsidiaries with a minimum retirement benefit. Under the pension plan a participant's retirement benefit is computed using formulas based on percentages of highest average compensation computed over five consecutive years. The compensation covered by the pension plan includes salary, bonus and incentive share awards. Non-union employees hired after July 15, 2002 participate under a noncontributory defined benefit cash balance design.

Supplemental nonqualified, non-contributory executive retirement programs provide additional defined pension benefits for certain executives.

PBOPs provide health care and life insurance coverage to eligible retired employees. Eligibility is based on certain age and length of service requirements and in some cases retirees must contribute to the cost of their coverage.

Funding Policy
Absent unusual circumstances, the Company's funding policy is to contribute to the plans each year the maximum tax-deductible amount for that year. However, the contribution for any year will not be less than the minimum contribution required by federal law or greater than the maximum tax-deductible amount.

Investment Strategy
The Company manages the Plans' investments to minimize the long-term cost of operating the Plans, with a reasonable level of risk. Risk tolerance is determined as a result of a periodic asset/liability study which analyzes the plans' liabilities and funded status and results in the determination of the allocation of assets across equity and fixed income. Equity investments are broadly diversified across U.S. and non-U.S. stocks, as well as across growth, value and small and large capitalization stocks. Likewise, the fixed income portfolio is broadly diversified across the various fixed income market segments. Small investments are also held in private equity, real estate and timber, with the objective of enhancing long-term returns while improving portfolio diversification. Investment risk and return is reviewed by an investment committee on a quarterly basis.

The target asset allocation for the plans is:

	Pension Benefits		PBOPs	
	2005	2004	**2005**	2004
U.S. Equities	**44%**	42%	**50%**	45%
Global Equities (including U.S.)	**7%**	7%	**-**	-
Non-U.S. Equities	**11%**	11%	**15%**	15%
Fixed Income	**35%**	35%	**35%**	40%
Private Equity and Property	**3%**	5%	**-**	-
	100%	100%	**100%**	100%

Expected Rate of Return on Assets
The estimated rate of return for various passive asset classes is based both on analysis of historical rates of return and forward looking analysis of risk premiums and yields. Current market conditions, such as inflation and interest rates, are evaluated in connection with the setting of our long-term assumption. A small premium is added for active management of both equity and fixed income. The rates of return for each asset class are then weighted in accordance with our target asset allocation, and the resulting long-term return on asset rate is then applied to the market-related value of assets.

Pension Benefits:
The Company's net pension cost for the years ended March 31, 2005 and 2004 included the following components:

(In thousands)	2005	2004
Service cost-benefits earned during the period	$ 7,846	$ 7,571
Plus (less):		
Interest cost on projected benefit obligation	25,387	24,779
Return on plan assets at expected long-term rate	(33,483)	(30,678)
Amortization of net loss	543	573
Amortization of prior service cost	9,344	8,841
Curtailment loss	-	417
Benefit (income)/cost	$ 9,637	$ 11,503
Special termination benefits not included above	$ -	$ 31,037

The following weighted average assumptions were used to determine the net periodic pension cost at March 31, 2005 and 2004.

	2005	2004
Discount rate	5.75%	6.25%
Rate of compensation increase	4.70%	4.63%
Expected return on plan assets	8.50%	8.50%

The funded status of the pension plan cannot be presented separately for the Company as the Company participates in the plan with certain other National Grid USA subsidiaries.

The following table provides a reconciliation of the changes in the National Grid companies' pension plan's fair value of assets for the fiscal years ended March 31, 2005 and 2004.

(In millions)	2005	2004
Reconciliation of change in plan assets:		
Fair value of plan assets at beginning of period	$ 1,102	$ 869
Actual return on plan assets during year	83	256
Company contributions	59	75
Benefits paid from plan assets	(113)	(98)
Fair value of plan assets at end of period	$ 1,131	$ 1,102

Notes to Financial Statements

The following table provides a reconciliation of the National Grid companies' pension plan's percentage distribution of the fair market value of the types of assets held in the pension plan's trust for the fiscal years ended March 31, 2005 and 2004.

	2005	2004
Distribution of plan assets:		
Debt securities	34%	34%
Equity securities	64%	63%
Property/real estate	-	1%
Other	2%	2%
	100%	100%

The expected contribution to the National Grid companies' pension plan during fiscal year 2006 is approximately $59 million.

The following table provides the changes in the National Grid companies' pension plan's benefit obligations, reconciliation of the benefit obligation, funded status, amounts recognized in the balance sheet and the assumptions used in developing the obligations at March 31:

(In millions)	2005	2004
Accumulated benefit obligation	$ 1,255	$ 1,249
Change in benefit obligation:		
Benefit obligation at beginning of period	$ 1,425	$ 1,258
Service cost	22	20
Interest cost	79	78
Actuarial (gain)/loss	16	93
Benefits paid	(113)	(98)
Curtailments	-	(4)
Special termination benefits	-	78
Benefit obligation at end of period	$ 1,429	$ 1,425

(In millions)	2005	2004
Funded status	$ (299)	$ (323)
Unrecognized actuarial loss	545	543
Unrecognized prior service cost	13	14
Net amount prepaid	$ 259	$ 234

Notes to Financial Statements

(In millions)	2005	2004
Amounts recognized on the balance sheet consist of:		
Accrued benefit liability	$ (125)	$ (148)
Intangible asset	15	16
Regulatory assets	56	62
Accumulated other comprehensive income	313	304
Net amount recognized on the balance sheet	$ 259	$ 234

The following weighted average assumptions were used to determine the pension benefit obligation at March 31, 2005 and 2004.

	2005	2004
Discount rate	5.75%	5.75%
Average rate of increase in future compensation level	4.30%	4.63%
Expected long-term rate of return on assets	8.25%	8.50%

The following pension benefit payments, which reflect expected future services, as appropriate, are expected to be paid from the National Grid companies' pension plans:

(In millions)	Pension Benefits
2006	$ 94
2007	$ 90
2008	$ 86
2009	$ 83
2010	$ 85
2011-2015	$ 465

Additional Minimum Liability (AML): Statement of Financial Accounting Standards 87 "Employers' Accounting for Pensions" states that if a pension plan's ABO exceeds the fair value of plan assets, the employer shall recognize in the statement of financial position a liability that is at least equal to the unfunded ABO with an offsetting charge to other comprehensive income. Due to the severe downturn in the capital markets in the past, the Company's ABO at March 31, 2005 and 2004 was greater than the fair value of plan assets. As such, at March 31, 2005 and 2004, the Company has recognized an additional minimum pension liability of $127 million and $132 million, respectively, on its balance sheet reflecting the under funded pension obligation.

The Company has also recognized an allocated share of the additional minimum pension liability of its affiliated service company of approximately $50 million and $48 million at March 31, 2005 and 2004, respectively, which is recorded in accounts payable on the balance sheet with an offsetting charge to other comprehensive income.

PBOPs: The Company provides health care and life insurance coverage to eligible retired employees. Eligibility is based on certain age and length of service requirements and in some cases retirees must contribute to the cost of their coverage.

Notes to Financial Statements

The Company's total cost of PBOPs for the years ended March 31, 2005 and 2004 included the following components:

(In thousands)	2005	2004
Service cost - benefits earned during the period	$ 3,691	$ 3,857
Plus (less):		
Interest cost on projected benefit obligation	16,237	16,249
Return on plan assets at expected long-term rate	(12,194)	(10,696)
Amortization of prior service cost	(509)	(339)
Amortization of net loss	4,485	5,308
Curtailment loss	-	5,974
Benefit cost	$ 11,710	$ 20,353
Special termination benefits not included above	$ -	$ 3,706

The following weighted average assumptions were used to determine the net periodic post-retirement benefits cost at March 31, 2005 and 2004.

	2005	2004
Discount rate	5.75%	6.25%
Expected return on plan assets	7.63%	8.00%
Medical trend		
Initial	10.00%	10.00%
Ultimate	5.00%	5.00%
Year ultimate rate is reached	2009	2008

The following table provides a reconciliation of the Company's portion of the National Grid companies' PBOP fair value of assets for the fiscal years ended March 31, 2005 and 2004.

(In millions)	2005	2004
Reconciliation of change in plan assets:		
Fair value of plan assets at beginning of period	$ 130	$ 101
Actual return on plan assets during year	8	27
Company contributions	14	14
Benefits paid from plan assets	(14)	(12)
Fair value of plan assets at end of period	$ 138	$ 130

Notes to Financial Statements

The following table provides the percentage distribution of the fair market value of the types of assets held in the PBOP's trust at March 31.

	2005	2004
Distribution of plan assets:		
Debt securities	**45%**	38%
Equity securities	**54%**	61%
Other	**1%**	1%
	100%	100%

The Company expects to contribute approximately $13 million to its PBOP plan in fiscal year 2006.

The following provides the PBOP plan's reconciliation of the benefit obligation, funded status and the assumptions used in developing the obligations for the National Grid USA companies' PBOP plan at March 31:

(In millions)	2005	2004
Change in benefit obligation:		
Benefit obligation at beginning of period	**$ 310**	**$ 266**
Service cost	**4**	**4**
Interest cost	**16**	**16**
Actuarial (gain) / loss	**(14)**	**30**
Plan amendments	**(3)**	**(4)**
Benefits paid	**(14)**	**(12)**
Curtailments and special termination benefits	**-**	**10**
Benefit obligation at end of period	**$ 299**	**$ 310**

(In millions)	2005	2004
Funded status	**$ (161)**	$ (180)
Unrecognized prior service cost	**(6)**	(4)
Unrecognized actuarial loss	**124**	139
Net amount recognized	**$ (43)**	$ (45)

The following weighted average assumptions were used to determine post-retirement benefit obligation at March 31, 2005 and 2004.

	2005	2004
Discount rate	**5.75%**	5.75%
Expected long-term rate of return on assets		
Union	**8.50%**	9.00%
Non-union	**6.75%**	5.75%
Health care cost trend		
Initial	**10.00%**	10.00%
Ultimate	**5.00%**	5.00%
Year ultimate rate reached	**2010**	2009

Notes to Financial Statements

The following PBOP benefit payments and subsidies, which reflect expected future service, as appropriate, are expected to be paid:

(In millions)	Payments	Subsidies
2006	$ 15	$ -
2007	$ 16	$ 2
2008	$ 17	$ 2
2009	$ 18	$ 2
2010	$ 18	$ 2
2011-2015	$ 99	$ 10

The assumptions used in the health care cost trends have a significant effect on the amounts reported. A one percentage point change in the assumed rates would increase the accumulated postretirement benefit obligation (APBO) as of March 31, 2005 by approximately $40 million or decrease the APBO by approximately $36 million, and increase or decrease the net post-retirement cost for the year by approximately $3 million.

Medicare Act of 2003: The Medicare Prescription Drug, Improvement and Modernization Act was signed into law on December 8, 2003. It created a new Medicare prescription drug benefit (Medicare Part D) and a federal subsidy to sponsors of retiree healthcare plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. On May 19, 2004, the FASB issued Staff Position No. 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (the FSP). The FSP provides guidance on accounting for the effects of the Act, which resulted in a reduction in the APBO for the subsidy related to benefits attributed to past service. The reduction in the APBO represents a deferred actuarial gain in the amount of $34 million for the Company's postretirement benefits plan as of July 1, 2004. On January 21, 2005 final regulations were issued on the new Medicare prescription drug program. The impact on plan obligations as a result of the final regulations was not significant.

The reduction in net periodic benefit costs charged to the Company for the year ended March 31, 2005 included the following components:

(in thousands)	2005
Service cost	$ 289
Interest cost	1,473
Amortization of net loss	1,153
Net periodic benefit cost	$ 2,915
Annualized expense reduction	$ 3,887

This reduction in expense is being credited to the Company's customers.

Notes to Financial Statements

Voluntary Early Retirement Offers
At December 31, 2003, enrollment periods ended with respect to two voluntary early retirement offers (VEROs) made by National Grid USA. For the fiscal year ended March 31, 2004, the Company's expense related to the VEROs was approximately $61.1 million which is included in "Other operation" in the accompanying Statement of Income.

No similar early retirement offers were made in the fiscal year ended March 31, 2005.

Defined contribution plan
The Company also has a defined contribution pension plan (employee savings fund plan) that covers substantially all employees. Employer matching contributions of approximately $2 million and $3 million were expensed for the fiscal years ended March 31, 2005 and 2004.

Note E - Income Taxes

The Company and other subsidiaries participate with National Grid General Partnership, a wholly owned subsidiary of National Grid Group plc, in filing consolidated federal income tax returns. The Company's income tax provision is calculated on a separate return basis. Federal income tax returns have been examined and reported on by the Internal Revenue Service through March 22, 2000.

Total income taxes in the statements of income are as follows:

Year ended March 31, (In thousands)	**2005**	2004
Income taxes charged to operations	**$55,799**	$23,942
Income taxes credited to "Other income"	**(718)**	(424)
Total income taxes	**$55,081**	$23,518

Total income taxes, as shown above, consist of the following components:

Year ended March 31, (In thousands)	**2005**	2004
Current income taxes	**$24,982**	$ 599
Deferred income taxes	**31,350**	24,203
Investment tax credits, net	**(1,251)**	(1,284)
Total income taxes	**$55,081**	$23,518

Investment tax credits have been deferred and are being amortized over the estimated lives of the property giving rise to the credits.

Total income taxes, as shown above, consist of federal and state components as follows:

Year ended March 31 ,(In thousands)	**2005**	2004
Federal income taxes	**$44,395**	$18,876
State income taxes	**10,686**	4,642
Total income taxes	**$55,081**	$23,518

Consistent with rate-making policies of the MDTE, the Company has adopted comprehensive interperiod tax allocation (normalization) for temporary book/tax differences.

Notes to Financial Statements

Total income taxes differ from the amounts computed by applying the federal statutory tax rates to income before taxes. The reasons for the differences are as follows:

Year Ended March 31, (In thousands)	2005	2004
Computed tax at statutory rate	**$53,761**	$20,397
Increases (reductions) in tax resulting from:		
Amortization of investment tax credits	**(1,251)**	(1,284)
State income tax, net of federal income tax benefit	**6,361**	3,017
Tax return true-ups	**(1,014)**	-
All other differences	**(2,776)**	1,388
Total income taxes	**$55,081**	$23,518

The Company applies the provisions of SFAS No. 109, "Accounting for Income Taxes", which requires recognition of deferred income taxes for temporary differences that are reported in different years for financial reporting and tax purposes using the liability method. Under the liability method, deferred tax liabilities or assets are computed using the tax rates that will be in effect when temporary differences reverse. Generally, for regulated companies, the change in tax rates may not be immediately recognized in operating results because of rate-making treatment and provisions in the Tax Reform Act of 1986.

The following table identifies the major components of total deferred income taxes:

At March 31, (In millions)	2005	2004
Deferred tax asset:		
Plant related	**$ 35**	$ 30
Investment tax credits	**4**	4
All other	**26**	90
	65	124
Deferred tax liability:		
Plant related	**(316)**	(302)
All other	**39**	-
	(277)	(302)
Net deferred tax liability	**$ (212)**	$ (178)

There were no valuation allowances for deferred tax assets deemed necessary at March 31, 2005 and March 31, 2004, respectively.

Massachusetts Electric Company

Notes to Financial Statements

Note F - Short-term Borrowings and Other Accrued Expenses

At March 31, 2005 and 2004, the Company had approximately $291 million and $221 million, respectively, of short-term debt outstanding to affiliates. The Company has regulatory approval from the Securities and Exchange Commission, under the 1935 Act, to issue up to $400 million of short-term debt. National Grid USA and certain subsidiaries, including the Company, with regulatory approval, operate a money pool to more effectively utilize cash resources and to reduce outside short-term borrowings. Short-term borrowing needs are met first by available funds of the money pool participants. Borrowing companies pay interest at a rate designed to approximate the cost of outside short-term borrowings. Companies that invest in the pool share the interest earned on a basis proportionate to their average monthly investment in the money pool. Funds may be withdrawn from or repaid to the pool at any time without prior notice.

The components of other accrued expenses are as follows:

At March 31, (In thousands)	**2005**	2004
Rate adjustment mechanisms	**$ 4,743**	$10,201
Accrued wages and benefits	**12,889**	18,442
Other	**8,225**	6,251
Total	**$25,857**	$34,894

Note G - Cumulative Preferred Stock

A summary of cumulative preferred stock at March 31, 2005 and 2004 is as follows (in thousands except for share data):

	Shares Outstanding		Amount		Dividends Declared		Call Price
	2005	2004	**2005**	2004	**2005**	2004	
$100 par value-							
4.440% Series	**22,585**	22,585	**$2,259**	$ 2,259	**$100**	$100	$104.068
4.760% Series	**24,680**	24,680	**2,468**	2,468	**118**	117	103.730
6.990% Series	**-**	-	**-**	-	**-**	95	(a)
Total	**47,265**	47,265	**$4,727**	$4,727	**$218**	$312	

(a) Called on August 1, 2003 at $103.50.

The annual dividend requirement for cumulative preferred stock was approximately $218,000 and $312,000 for the years ended March 31, 2005 and 2004, respectively.

Massachusetts Electric Company

Notes to Financial Statements

Note H - Long-term Debt

A summary of long-term debt is as follows:

At March 31 (In thousands)

Series	Rate %	Maturity	2005	2004
First Mortgage Bonds:				
U(94-6)	8.520	November 30, 2004	-	10,000
U(95-1)	8.450	January 10, 2005	-	10,000
U(95-2)	8.220	January 24, 2005	-	10,000
U(95-7)	7.920	March 3, 2005	-	9,000
V(95-1)	6.720	June 23, 2005	10,000	10,000
V(96-1)	6.780	November 20, 2006	20,000	20,000
T(93-7)	6.660	June 23, 2008	5,000	5,000
T(93-8)	6.660	June 30, 2008	5,000	5,000
T(93-10)	6.110	September 8, 2008	10,000	10,000
T(93-11)	6.375	November 17, 2008	10,000	10,000
V(98-3)	5.720	November 24, 2008	25,000	25,000
U(94-2)	8.080	May 2, 2024	-	5,000
U(94-3)	8.030	June 14, 2024	-	5,000
U(94-4)	8.160	August 9, 2024	-	5,000
U(94-5)	8.850	November 7, 2024	-	1,000
U(95-6)	8.460	February 28, 2025	-	3,000
V(95-2)	7.630	June 27, 2025	10,000	10,000
V(95-3)	7.600	September 12, 2025	10,000	10,000
V(95-4)	7.630	September 12, 2025	10,000	10,000
V(97-1)	7.390	October 1, 2027	15,000	15,000
V(98-1)	6.910	January 12, 2028	20,000	20,000
V(98-2)	6.940	January 12, 2028	5,000	5,000
Pollution Control Revenue Bonds:				
1993	5.875	August 1, 2008	40,000	40,000
Unamortized discounts			(689)	(791)
Total long-term debt			$194,311	$252,209
Long-term debt due within one year			10,000	39,000
Total long-term debt, excluding current portion			$184,311	$213,209

Substantially all of the properties and franchises of the Company are subject to the lien of mortgage indentures under which the first mortgage bonds have been issued.

The Company is scheduled to make cash payments of approximately $10,000,000 in fiscal 2006, $20,000,000 in fiscal 2007, $0 in fiscal 2008, and $55,000,000 in fiscal 2009, $0 in fiscal 2010 and $110,000,000 thereafter, to retire maturing bonds.

At March 31, 2005 and 2004, the Company's long-term debt had a carrying value of $195,000,000 and $253,000,000 and had a fair value of approximately $204,000,000 and $277,000,000, respectively. The fair market value of the Company's long-term debt was estimated based on the quoted prices for similar issues or on the current rates offered to the Company for debt of the same remaining maturity.

Massachusetts Electric Company

Notes to Financial Statements

The Company unconditionally guarantees the full and prompt payment when due, whether at maturity or earlier by reason of acceleration or otherwise, of the principal and purchase price of, premium, if any, and interest on certain tax exempt bonds issued by the Massachusetts Development Finance Agency in connection with Nantucket Electric Company's financing of its first and second underground and submarine cable projects.

Note I - Restrictions on Retained Earnings Available for Dividends on Common Stock

As long as any preferred stock is outstanding, certain restrictions on payment of dividends on common stock would come into effect if the "junior stock equity" was, or by reason of payment of such dividends became, less than 25 percent of "Total capitalization". However, the junior stock equity at March 31, 2005 was 89.8 percent of total capitalization and, accordingly, none of the Company's retained earnings at March 31, 2005 were restricted as to dividends on common stock under the foregoing provisions.

Note J - Supplementary Income Statement Information

Advertising expenses, expenditures for research and development, and rents were not material and there were no royalties paid in 2005 or 2004. Taxes, other than income taxes, charged to operating expenses are set forth by class as follows:

Year ended March 31,(In thousands)	**2005**	2004
Municipal property taxes	**$26,337**	$28,107
Federal and state payroll and other taxes	**7,287**	9,976
Total taxes, other than income taxes	**$33,624**	$38,083

Note K - Accumulated Other Comprehensive Income (Loss)

(in 000's)	Unrealized Gain (Loss) on Available-for-Sale Securities	Additional Minimum Pension Liability Adjustment	Total Accumulated Other Comprehensive Income (Loss)
March 31, 2003	$ (56)	$ (152,728)	$ (152,784)
Other comprehensive income (loss):			
Unrealized gains (losses) on securities, net of taxes	243	-	243
Change in additional minimum pension liability, net of taxes	-	28,876	28,876
March 31, 2004	$ 187	$(123,852)	$(123,665)
Other comprehensive income (loss):			
Unrealized gains (losses) on securities, net of taxes	(1)	-	(1)
Change in additional minimum pension liability, net of taxes	-	389	389
March 31, 2005	$ 186	$(123,463)	$(123,277)

Massachusetts Electric Company

Notes to Financial Statements

Note L - Cost of Removal

In June 2001, the FASB issued Statement SFAS No. 143, "Accounting for Asset Retirement Obligations" (FAS 143). FAS 143 provides the accounting requirements for retirement obligations associated with tangible long-lived assets. FAS 143 became effective for fiscal years beginning after June 15, 2002. The Company adopted FAS 143 during the fiscal year ended March 31, 2004.

The Company does not have any material asset retirement obligations arising from legal obligations as defined under FAS 143. However, under the Company's current and prior rate plans it has collected through rates an implied cost of removal for its plant assets. This cost of removal collected from customers differs from the FAS 143 definition of an asset retirement obligation in that these collections are for costs to remove an asset when it is no longer deemed usable (i.e. broken or obsolete) and not necessarily from a legal obligation.

The cost of removal collected from customers has historically been embedded within accumulated depreciation (as these costs have charged over time through depreciation expense). With the adoption of FAS 143 the Company has reclassified the cost of removal collections to a regulatory liability account to more properly reflect the future usage of these collections. The Company estimates it has collected over time approximately $126 million and $117 million for cost of removal through March 31, 2005 and 2004, respectively.

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APPENDIX B

SUMMARY OF THE LOAN AND TRUST AGREEMENT

The following is a brief summary prepared by Edwards Angell Palmer & Dodge LLP, bond counsel, of certain provisions of the Loan and Trust Agreement dated as of December 1, 2005 (the "Agreement"), pertaining to the Bonds. This summary does not purport to be complete, and reference is made to the Agreement for full and complete statements of such and all provisions.

The Agreement provides for the following transactions: (i) the Issuer's issue of the Bonds; (ii) the Issuer's loan of the proceeds of the Bonds to the Borrower to refinance the costs of the Project; (iii) the Borrower's repayment of the loan from the Issuer through payment to the Trustee of all amounts necessary to pay the Bonds; and (iv) the Issuer's assignment to the Trustee in trust for the benefit and security of the Bondowners of the Revenues to be received under the Agreement.

Definitions of Certain Terms

In addition to terms defined elsewhere in the Agreement, the following terms have the following meanings in the Agreement, unless the context otherwise requires:

"All Hold Rate" means, as of any Auction Date, 45% of the Reference Rate in effect on such Auction Date.

"Auction" means each periodic implementation of the Auction Procedures.

"Auction Agent" means the auctioneer appointed in accordance with the Agreement.

"Auction Agreement" means an agreement between the Auction Agent and the Trustee pursuant to which the Auction Agent agrees to follow the procedures specified in the Agreement with respect to the Bonds while bearing interest at an Auction Rate, as such agreement may from time to time be amended or supplemented.

"Auction Date" means during any period in which the Auction Procedures are not suspended in accordance with the provisions of the Agreement, (i) if the Bonds are in a daily Auction Period, each Business Day, (ii) if the Bonds are in a Special Rate Period, the last Business Day of the Special Rate Period, and (iii) if the Bonds are in any other Auction Period, the Business Day next preceding each Interest Payment Date for such Bonds (whether or not an Auction shall be conducted on such date); provided, however, that the last Auction Date with respect to the Bonds in an Auction Period other than a daily Auction Period or a Special Rate Period shall be the earlier of (a) the Business Day next preceding the Interest Payment Date next preceding the Conversion Date for the Bonds and (b) the Business Day next preceding the Interest Payment Date next preceding the final maturity date for the Bonds; and provided, further, that if the Bonds are in a daily Auction Period, the last Auction Date shall be the earlier of (x) the Business Day next preceding the Conversion Date for the Bonds and (y) the Business Day next preceding the final maturity date for the Bonds. The last Business Day of a Special Rate Period shall be the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be two Auctions, one for the last daily Auction Period and one for the first Auction Period following the conversion.

"Auction Period" means (i) a Special Rate Period, (ii) with respect to Auction Rate Bonds in a daily mode, a period beginning on each Business Day and extending to but not including the next succeeding Business Day, (iii) with respect to Auction Rate Bonds in a seven-day mode, a period of generally seven days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) with respect to Auction Rate Bonds in a 28-day mode, a period of generally 28 days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the fourth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next

succeeding day which is followed by a Business Day), (v) with respect to Auction Rate Bonds in a 35-day mode, a period of generally 35 days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the fifth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (vi) with respect to Auction Rate Bonds in a semiannual mode, a period of generally six months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the next succeeding February 1 or August 1; provided, however, that if there is a conversion of Auction Rate Bonds from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), if there is a conversion from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and, if there is a conversion from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but not more than 35 days from such date of conversion.

"Auction Procedures" means the procedures for conducting Auctions for Bonds during an Auction Rate Period set forth in the Agreement.

"Auction Rate" means the rate of interest to be borne by Auction Rate Bonds during each Auction Period determined in accordance with the Agreement; provided, however, in no event may the Auction Rate exceed the Maximum Auction Rate. For each Auction Period, "Auction Rate" means (i) if Sufficient Clearing Bids exist, the Winning Bid Rate, provided, however, if all of the Bonds are the subject of Submitted Hold Orders, the All Hold Rate and (ii) if Sufficient Clearing Bids do not exist, the Maximum Auction Rate.

"Auction Rate Bonds" means the Bonds while they bear interest at an Auction Rate.

"Auction Rate Bond Mode" means the Mode during which all or any part of the Bonds bear interest at the Auction Rate.

"Bidder" means each Existing Owner and Potential Owner who places an Order.

"Bond Counsel" means any attorney at law or firm of attorneys of nationally recognized standing in matters pertaining to the federal tax exemption of interest on bonds issued by states and political subdivisions, and duly admitted to practice law before the highest court of any state of the United States.

"Bondowners" or "Owners" means the registered owners of the Bonds from time to time as shown in the books kept by the Paying Agent as bond registrar and transfer agent.

"Bonds" means the $28,000,000 Massachusetts Development Finance Agency Electric Utility Revenue Bonds (Nantucket Electric Company Issue), Series 2005, and any Bond or Bonds duly issued in exchange or replacement therefor.

"Broker-Dealer Agreement" means an agreement among the Auction Agent, the Issuer and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures described in the Agreement, as such agreement may from to time be amended or supplemented.

"Broker-Dealer" means any entity that is permitted by law to perform the function required of a Broker-Dealer described in the Agreement, that is a member of, or a direct participant in, the Securities Depository, that has been selected by the Issuer with the consent of J.P. Morgan Securities Inc., so long as J.P. Morgan Securities Inc. is a Broker-Dealer, and that is a party to a Broker-Dealer Agreement with the Auction Agent. With respect to Bonds bearing interest at an Auction Rate, the term "Business Day" shall not include April 14 or 15 or December 30 or 31 or days on which the Auction Agent or any Broker-Dealer are not open for business.

"Business Day" means a day on which banks in each of the cities in which the principal offices of the Trustee and the Paying Agent are located are not required or authorized to remain closed and on which the New York Stock Exchange is not closed. With respect to Bonds in Auction Rate Bond Mode, in addition to the other definition of "Business Day" included in the Agreement, the term Business Day does not include April 14 or 15 or December 30 or 31 or days on which the Auction Agent or any Broker-Dealer are not open for business.

"Commercial Paper Bond" means any Bond which is in the Commercial Paper Mode.

"Commercial Paper Mode" means, with respect to a particular Bond, the Mode during which such Bond bears interest at a Commercial Paper Rate.

"Commercial Paper Rate" means the interest rate (per annum) on any Bond in the Commercial Paper Mode.

"Continuing Disclosure Agreement" means the Continuing Disclosure Agreement dated as of the date of issuance of the Bonds between the Borrower and the Trustee, as originally executed and as it may be amended from time to time in accordance with its terms.

"Credit Facility" means any irrevocable transferable insurance policy, letter of credit or surety bond constituting a credit enhancement or liquidity facility.

"Daily Mode" means the Mode during which all or any part of the Bonds bear interest at the Daily Rate.

"Daily Rate" means the per annum interest rate on any Bond in the Daily Mode.

"Existing Owner" means a person who is listed as the beneficial owner of Bonds in the records of the Auction Agent.

"Fixed Rate" means the per annum interest rate on any Bond in the Fixed Rate Mode.

"Fixed Rate Bonds" means any Bonds in the Fixed Rate Mode.

"Fixed Rate Mode" means the Mode during which all or a particular portion of the Bonds bear interest at a Fixed Rate(s).

"Government or Equivalent Obligations" means (i) obligations issued or guaranteed by the United States; (ii) certificates evidencing ownership of the right to the payment of the principal of and interest on obligations described in clause (i), provided that such obligations are held in the custody of a bank or trust company satisfactory to the Trustee or the Issuer, as the case may be, in a special account separate from the general assets of such custodian; (iii) any open-end or closed-end management type investment company or trust registered under 15 U.S.C. §80(a)-1 et seq., provided that the portfolio of such investment company or trust is limited to obligations described in clause (i) and repurchase agreements fully collateralized by such obligations, and provided further that such investment company or trust shall take custody of such collateral either directly or through a custodian satisfactory to the Trustee or the Issuer; and (iv) tax-exempt obligations of any state or instrumentality, agency or political subdivision thereof which are fully secured by, or payments of principal and interest on which shall be made from, obligations described in clause (i) above.

"Guarantor" means Massachusetts Electric Company, a Massachusetts Public utility corporation.

"Guaranty" means the Guaranty dated December 1, 2005 made by the Guarantor, which guarantees the payment of Debt Service on the Bonds.

"Interest Payment Date" means each date on which interest is to be paid and is: (i) with respect to a Commercial Paper Bond, the Purchase Date; (ii) with respect to a Bond in the Daily Mode, the first Business Day of each month, (iii) with respect to a Bond in the Weekly Mode, the first Business Day of each month; (iv) with respect to a Bond in the Term Rate Mode, each Term Rate Interest Payment Date for such Bond; (v) with respect to a Bond in the Fixed Rate Mode, each Stated Interest Payment Date (beginning with the first Stated Interest Payment Date

that occurs no earlier than three months after the commencement of the Fixed Rate Mode for such Bond); and (vi) with respect to Bonds bearing interest at Auction Rates, means (a) when used with respect to any Auction Period other than a daily Auction Period or a Special Rate Period, the Business Day immediately following such Auction Period, (b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period, (c) when used with respect to a Special Rate Period of (i) seven or more but fewer than 92 days, the Business Day immediately following such Special Rate Period, or (ii) 92 or more days, each thirteenth Thursday after the first day of such Special Rate Period or the next Business Day if such Thursday is not a Business Day and on the Business Day immediately following such Special Rate Period, and (vii) any Mode Change Date and (viii) each Maturity Date.

"IRC" means the Internal Revenue Code of 1986, as it may be amended and applied to the Bonds from time to time.

"Mandatory Purchase Date" means (i) any Purchase Date for Bonds in the Commercial Paper Mode or the Term Rate Mode, (ii) any Mode Change Date involving a change from the Daily Mode or the Weekly Mode or the Auction Rate Bond Mode and (iii) the Substitution Tender Date.

"Maturity Date" means December 1, 2040.

"Maximum Rate" means, on any day, the least of (1) 10% per annum with respect to Bonds in Daily Mode, Weekly Mode or Commercial Paper Mode, or 14% per annum with respect to Bonds in Auction Rate Bond Mode, (2) the maximum rate on such date permitted by Massachusetts law, as the same may be modified by United States law of general application and (3) the maximum rate authorized from time to time by the Massachusetts Department of Telecommunications and Energy ("MDTE"), as set forth in the Agreement.

"Maximum Auction Rate" means, as of any Auction Date, the product of the Reference Rate multiplied by the Applicable Percentage; provided, however, the Maximum Auction Rate shall not exceed the Maximum Rate.

"Mode" means, as the context may require, the Commercial Paper Mode, the Daily Mode, the Weekly Mode, the Auction Rate Bond Mode, the Term Rate Mode or the Fixed Rate Mode.

"Mode Change Date" means with respect to any Bond in a particular Mode, the day on which another Mode for such Bond begins.

"Order" means a Hold Order, Bid or Sell Order.

"Outstanding," when used to modify Bonds, refers to Bonds issued under the Agreement, excluding: (i) Bonds which have been exchanged or replaced, or delivered to the Trustee for credit against a principal payment or a sinking fund installment; (ii) Bonds which have been paid; (iii) Bonds which have become due and for the payment of which moneys have been duly provided; and (iv) Bonds for which there have been irrevocably set aside sufficient funds, or Government or Equivalent Obligations described in clause (i), (ii) or (iv) of the definition thereof bearing interest at such rates, and with such maturities as will provide sufficient funds, to pay or redeem them, provided, however, that if any such Bonds are to be redeemed prior to maturity, the Issuer shall have taken all action necessary to redeem such Bonds and notice of such redemption shall have been duly mailed in accordance with the Agreement or irrevocable instructions so to mail shall have been given to the Trustee. With respect to Bonds bearing interest at Auction Rates, "Outstanding" has the meaning set forth above; provided, however, that for the purposes of the Auction Procedures on any Auction Date, (x) Auction Rate Bonds as to which the Borrower or any person known to the Auction Agent to be an Affiliate of the Borrower shall be the Existing Owner thereof shall be disregarded and deemed not to be Outstanding and (y) Auction Rate Bonds which are no longer outstanding as described under the heading "Defeasance" shall be deemed to be Outstanding.

"Paying Agent" means the Paying Agent designated from time to time.

"Potential Owner" means any person, including any Existing Owner, who may be interested in acquiring a beneficial interest in the Bonds in addition to the Bonds currently owned by such person, if any.

"Project" means the acquisition of land, site development, construction or alteration of buildings or the acquisition or installation of equipment, or any combination of the foregoing, in connection with the 46 kilovolt, 35 megawatt underground and submarine electric power cable and an associated fiber-optic cable for communications related to providing electric power starting in Hyannis (Barnstable), traversing Nantucket Sound, and terminating in Nantucket; (b) related substations and ancillary equipment, which cable, substations and equipment will be owned by the Borrower and used exclusively to furnish electricity to customers on the island of Nantucket; (c) the word "Project" also refers to the facilities (the "Project Facilities") which result or have resulted from the foregoing activities.

"Project Costs" means the costs of issuing the Bonds and carrying out the Project, including repayment of external loans and internal advances for the same to the extent permitted by the Agreement and the Tax Certificate, working capital expenditures directly related to the Project to the extent permitted by the IRC, and interest prior to, during and for up to one year after construction is substantially complete, but excluding general administrative expenses, overhead of the Borrower and interest on internal advances.

"Purchase Date" means (i) for a Bond in the Commercial Paper Mode, the last day of the Interest Period for such Bond, (ii) for a Bond in the Daily Mode or the Weekly Mode, any Business Day selected by the owner of said Bond pursuant to the Agreement and (iii) for a Bond in the Term Rate Mode, the last day of the Interest Period for such Bond (or the next Business Day is such last day is not a Business Day), but only if the owner thereof shall have elected to have such Bond purchased on such date.

"Purchase Price" means (i) an amount equal to the principal amount of any Bonds purchased on any Purchase Date, plus, in the case of any purchase of Bonds in the Daily Mode or the Weekly Mode, accrued interest, if any, to the Purchase Date, or (ii) an amount equal to the principal amount of any Bonds purchased on a Mandatory Purchase Date, plus, accrued interest, if any, to the Mandatory Purchase Date.

"Redemption Date" means the date fixed for redemption of Bonds subject to redemption in any notice of redemption given in accordance with the terms of the Agreement.

"Redemption Price" means an amount equal to the principal of and premium, if any, and accrued interest, if any, on the Bonds to be paid on the Redemption Date.

"Remarketing Agent" means the remarketing agent or remarketing agents appointed pursuant to the Agreement and its or their successors or assigns.

"Remarketing Agreement" means the remarketing agreement to be entered into by the Borrower and the Remarketing Agent in a form satisfactory to the Issuer, as from time to time amended or supplemented.

"Revenues" means all rates, mortgage payments, rents, fees, charges, and other income and receipts, including proceeds of insurance, eminent domain and sale, and including proceeds derived from any security provided hereunder, payable to the Issuer or the Trustee under the Agreement, excluding administrative fees of the Issuer, fees of the Trustee, reimbursements to the Issuer or the Trustee for expenses incurred by the Issuer or the Trustee, and indemnification of the Issuer and the Trustee.

"Securities Depository" means The Depository Trust Company and its successors and assigns or any other securities depository selected by the Issuer which agrees to follow the procedures required to be followed by such securities depository in connection with the Bonds.

"Special Rate Period" means any period of not less than seven nor more than 1,092 days which begins on an Interest Payment Date and ends on a Wednesday unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day.

"Stated Interest Payment Dates" means each December 1 and June 1.

"Sufficient Clearing Bids" means an Auction for which the aggregate principal amount of Bonds that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum

Auction Rate is not less than the aggregate principal amount of Bonds that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum Auction Rate.

"Tax Certificate" means the Tax Certificate and Agreement between the Issuer and the Borrower dated the date of original issuance of the Bonds.

"Tender Agent" means the Trustee, or such other person as may be appointed by the Borrower to perform the duties of Tender Agent hereunder, meeting the requirements of the Agreement.

"Term Rate" means the per annum interest rate for any Bond in the Term Rate Mode.

"Term Rate Interest Payment Dates" means, with respect to a Bond in the Term Rate Mode and for the current Interest Period for such Bond, each Stated Interest Payment Date occurring in such Interest Period (beginning with the first Stated Interest Payment Date that occurs no earlier than three months after the commencement of such Interest Period).

"Term Rate Mode" means the Mode during which all or any part of the Bonds bear interest at the Term Rate.

"Term Rate Period" means the period from (and including) the Mode Change Date to (but excluding) the last day of the first period that the Bonds shall be in the Term Rate Mode as established by the for the Bonds pursuant to the Agreement, and, thereafter, the period from (and including) the beginning date of each successive Interest Period selected for the Bonds while it is in the Term Rate Mode to (but excluding) the commencement date of the next succeeding Interest Period, including another Term Rate Period. Except as otherwise provided in the Agreement, an Interest Period for the Bonds in the Term Rate Mode must be at least 180 days in length.

"UCC" means the Massachusetts Uniform Commercial Code.

"Weekly Mode" means the Mode during which all or any part of the Bonds bear interest at the Weekly Rate.

"Weekly Rate" means the per annum interest rate on any Bond in the Weekly Mode

"Winning Bid Rate" means the lowest rate specified in any Submitted Bid which if selected by the Auction Agent as the Auction Rate would cause the aggregate principal amount of Bonds that are the subject of Submitted Bids specifying a rate not greater than such rate to be not less than the aggregate principal amount of Available Bonds.

Establishment of Funds

The Agreement creates three funds to be held by the Trustee: the Debt Service Fund, the Redemption Fund and the Construction Fund.

Debt Service Fund

The Debt Service Fund is established under the Agreement for the payment of the principal (including sinking fund installments, if any), redemption premium, if any, and interest on the Bonds.

Promptly after each Interest Payment Date, the Trustee shall transfer any excess amount in the Debt Service Fund to the Borrower unless there is then an Event of Default known to the Trustee with respect to payments to the Debt Service Fund or to the Trustee, the Paying Agent or the Issuer, in which case the excess shall be applied to such payments.

The Trustee shall transfer moneys from the Debt Service Fund to the Paying Agent for the payment of Bonds on or before the date on which such payment is to be made, provided that moneys set aside for the payment

of particular Bonds pursuant to the Agreement may be transferred to the Paying Agent in immediately available funds at the opening of business on the date on which the payment is to be made. (Section 309)

Redemption Fund

The Redemption Fund is established under the Agreement to be applied by the Trustee on behalf of the Issuer solely to the redemption of Bonds. The Trustee may, and upon written direction of the Borrower for specific purchases shall, apply moneys in the Redemption Fund to the purchase of Bonds for cancellation at prices not exceeding the price at which they are then redeemable (or next redeemable if they are not then redeemable), but not within the forty-five (45) days preceding a redemption date. Accrued interest on the purchase of Bonds shall be paid from the Debt Service Fund.

When moneys in the Redemption Fund are to be applied to the redemption of Bonds, the Trustee shall transfer such moneys to the Paying Agent on or before the redemption date, provided that moneys set aside for the redemption of particular Bonds pursuant to the Agreement may be transferred in immediately available funds at the opening of business on the redemption date.

If on any date the amount in the Debt Service Fund is less than the amount then required to be transferred to the Paying Agent to pay the principal and interest then due on the Bonds or if on any date an amount is then required to be paid to the United States as described in the Agreement, the Trustee shall apply the amount in the Redemption Fund (other than any sum irrevocably set aside for the redemption of particular Bonds or required to purchase Bonds under outstanding purchase contracts) first, to the satisfaction of such rebate payment and second, to the Debt Service Fund to the extent necessary to meet the deficiency. The Borrower shall remain liable for any sums which it has not paid into the Debt Service Fund and any subsequent payment thereof shall be used to restore the funds so applied.

If any moneys in the Redemption Fund are invested in accordance with the Agreement and a loss results therefrom so that there are insufficient funds to pay the redemption price of Bonds called for redemption in accordance with the Agreement, then the Borrower shall immediately supply the deficiency.

If moneys are transferred from the Project Fund pursuant to the Agreement, such moneys (and earnings thereon) shall be used to redeem Outstanding Bonds in inverse order of maturity on a Business Day within ninety (90) days of such transfer as designated in writing by the Borrower to the Trustee at least forty-five (45) days before the redemption date. If the amount transferred to the Redemption Fund as described in this paragraph is less than $50,000, the Trustee, upon written direction of the Borrower, shall use such amount as a credit against deposits otherwise required to be made therein with respect to principal instead of calling Bonds for redemption. (Section 310)

Construction Fund

A Construction Fund is established under the Agreement to be applied by the Trustee solely to the payment or reimbursement of Project Costs.

Completion or abandonment of construction of the Project will be evidenced by the filing with the Trustee and the Issuer of a certificate signed by the Borrower Representative stating that the Project has been substantially completed so as to permit commencement of operations or stating that construction of the Project has been permanently abandoned, and setting forth any Project Costs remaining to be paid from the Construction Fund. Any balance in such Fund not then needed to pay Project Costs shall be transferred to the Redemption Fund and applied as provided in the Agreement. (Section 501)

Application of Moneys

If available moneys in the Debt Service Fund after any required transfers from the Redemption Fund are not sufficient on any day to pay all principal (including sinking fund installments, if any), redemption price and interest on the Outstanding Bonds then due or overdue, such moneys (other than any sum in the Redemption Fund irrevocably set aside for the redemption of particular Bonds or required to purchase Bonds under outstanding purchase contracts) shall, after payment of all charges, disbursements and indemnities of the Trustee in accordance

with the Agreement, be applied (in the order such funds are named in this section) first to the payment of interest, including interest on overdue principal, in the order in which the same became due (pro rata with respect to interest which became due at the same time) and second to the payment of principal (including sinking fund installments, if any) and redemption premiums, if any, without regard to the order in which the same became due (in proportion to the amounts due). For this purpose interest on overdue principal shall be treated as coming due on the first day of each month. Whenever moneys are to be applied pursuant to the Agreement, such moneys shall be applied at such times, and from time to time, as the Trustee in its discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall exercise such discretion it shall fix the date (which shall be the first of a month unless the Trustee shall deem another date more suitable) upon which such application is to be made, and upon such date interest on the amounts of principal paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the fixing of any such date. When interest or a portion of the principal is to be paid on an overdue Bond, the Trustee may require presentation of the Bond for endorsement of the payment. (Section 311)

Remarketing of Bonds Tendered

The Remarketing Agent, subject to the terms of the Remarketing Agreement, shall offer for sale, and shall use its best efforts to sell, the Bonds in respect of which notice of tender has been given on the related Purchase Date. Unless otherwise instructed by the Borrower, the Remarketing Agent will offer for sale and use its best efforts to sell any Bonds subject to mandatory tender for purchase on the related Mandatory Purchase Date. Any such Bonds shall be offered: at a purchase price equal to the principal amount thereof, plus accrued interest, if any, to the Purchase Date or Mandatory Purchase Date, as the case may be, and pursuant to terms calling for payment of the purchase price on such Purchase Date or Mandatory Purchase Date, as the case may be, against delivery of such Bonds. In addition, the Remarketing Agent shall, unless otherwise directed by the Borrower, and subject to the terms of the Remarketing Agreement, offer for sale, and use its best efforts to sell any Bonds purchased by the Borrower. Any such Bonds shall be offered at a purchase price equal to the principal amount thereof, plus accrued interest to the sale date. (Section 424)

Payment for Purchase of Bonds

The Agreement provides that on each Purchase Date and Mandatory Purchase Date, the Bonds tendered or deemed tendered to the Tender Agent for purchase shall be purchased by the Tender Agent with funds received by the Tender Agent under the Agreement for the purchase price thereof. Funds for the payment of the purchase price shall be paid by the Tender Agent solely from the following sources: in the case of an optional tender for purchase, first, proceeds of the sale of the Bonds remarketed as described under the heading "Remarketing of Bonds Tendered" above, and second, amounts made available by the Borrower; in the case of a mandatory tender for purchase with respect to Term Rate Bonds, as described in the Agreement, solely from amounts made available by the Borrower; and in the case of a mandatory tender for purchase with respect to Bonds to be changed from one Mode to another Mode, as described in the Agreement, first, proceeds of the sale of the Bonds remarketed, and, second, amounts made available by the Borrower. (Section 425)

Covenants of the Borrower

In the Agreement, the Borrower covenants, among other things:

(a) The Borrower will not take or omit to take any action if such action or omission would cause interest on any Bonds to be included in the gross income of the owners thereof for federal income tax purposes.

(b) The Borrower will from time to time render such reports concerning compliance with the Agreement as the Trustee or the Issuer may reasonably request.

(c) The Borrower will maintain its existence as a corporation qualified to do business in Massachusetts and will not dissolve, dispose of or spin off all or substantially all of its assets, or consolidate with or merge into another entity or entities, or permit one or more other entities to consolidate with or merge into it, except that it may consolidate with or merge into one or more other entities or permit one or more other entities to consolidate with or merge into it, or transfer all or substantially all of its assets to one or more other entities (and thereafter dissolve or

not dissolve as it may elect), if the surviving, resulting or transferee entity or entities each is a corporation having the status and powers set forth in the Agreement, the transaction does not result in a conflict, breach or default referred to in the Agreement, the surviving, resulting or transferee entity or entities each assumes by written agreement with the Issuer and the Trustee all the obligations of the Borrower under the Agreement and notifies the Issuer and the Trustee of any change in the name of the Borrower. (Sections 1001, 1002, 1004, and 1005)

Events of Default

"Event of Default" in the Agreement means any one of the events set forth below and "default" means any Event of Default without regard to any lapse of time or notice.

(a) Failure to pay any installment of principal, premium, if any, or interest on any Bonds when due.

(b) Failure to pay any purchase price on any Bonds when due.

(c) Failure to make any other required payment to the Trustee or the Issuer, when such failure is not remedied within seven (7) days after written notice thereof is given by the Issuer or the Trustee to the Borrower; or if the Borrower shall fail to observe or perform any of its other agreements, covenants or obligations under the Agreement and such failure is not remedied within thirty (30) days after written notice thereof is given by the Issuer or the Trustee to the Borrower.

(d) Under the Agreement, there will be a material breach of warranty made by the Borrower as of the date it was intended to be effective if the breach is not cured within sixty (60) days after written notice thereof is given by the Trustee to the Borrower.

If the Trustee determines that a default has been cured before the entry of any final judgment or decree with respect to it, the Trustee may waive the default and its consequences, including any acceleration, by written notice to the Borrower and shall do so upon written instruction of the owners of at least twenty-five percent (25%) in principal amount of the Outstanding Bonds. (Section 601)

Remedies for Events of Default

If an Event of Default occurs and is continuing:

Acceleration. The Trustee may, and shall, upon written instruction of the Bondowners of at least twenty-five percent (25%) in principal amount of the Outstanding Bonds, by written notice to the Borrower declare immediately due and payable the principal amount of the Outstanding Bonds and the payments to be made by the Borrower therefor, and accrued interest on the foregoing, whereupon the same shall become immediately due and payable without any further action or notice.

Rights as a Secured Party. The Trustee may exercise all of the rights and remedies of a secured party, under the UCC or otherwise, with respect to moneys in the Debt Service Fund and Redemption Fund, including the right to sell or redeem securities and the right to retain such securities in satisfaction of the obligations of the Borrower hereunder. Notice sent by registered or certified mail, postage prepaid, or delivered during business hours, to the Borrower at least ten (10) days before an event under UCC Section 9-611 or any successor provision of law shall constitute reasonable notification of such event. (Section 602)

Court Proceedings

The Trustee may enforce the obligations of the Borrower under the Agreement and of the Guarantor under the Guaranty by legal proceedings for the specific performance of any covenant, obligation or agreement contained herein, whether or not any breach has become an Event of Default, or for the enforcement of any other appropriate legal or equitable remedy, and may recover damages caused by any breach by the Borrower of the provisions of the Agreement or by the Guarantor of the provisions of the Guaranty, including (to the extent the Agreement or the Guaranty may lawfully provide) court costs, reasonable attorneys' fees and other costs and expenses incurred in enforcing the obligations of the Borrower thereunder. The Issuer may likewise enforce obligations to it thereunder which it has not assigned to the Trustee. (Section 603)

Revenues after Default

The proceeds from sale, redemption or retention of securities under the Agreement shall be remitted to the Trustee upon receipt and in the form received. After payment or reimbursement of the reasonable fees, expenses and indemnities of the Trustee and the Issuer in connection therewith, the same shall be applied, first to the remaining obligations of the Borrower under the Agreement (other than obligations to make payments to the Issuer for its own use) in such order as may be determined by the Trustee, and second, to any unpaid sums due the Issuer for its own use. Any surplus thereof shall be paid to the Borrower. Notwithstanding the foregoing, amounts received pursuant to the Guaranty shall be applied exclusively to the payment of principal of, premium if any, and interest on the Bonds. (Section 604)

Amendment

The Agreement may be amended by the parties without Bondowner consent for any of the following purposes: to provide for the establishment of a book entry system of registration for the Bonds through a securities depository (which may or may not be DTC), to add to the covenants and agreements of the Borrower or to surrender or limit any right or power of the Borrower, to cure any ambiguity or defect, or to add provisions which are not inconsistent with the Agreement and which do not impair the security for the Bonds or to make any necessary changes to the Agreement to facilitate the conversion of Bonds to another Mode or in connection with the provision of any Credit Facility. In addition, the Agreement may be amended by the parties without Bondowner consent on any Mandatory Purchase Date in any respect. The Borrower acting alone may amend the Maximum Rate to a higher interest rate without Bondowner consent.

In addition, with the consent of each Broker-Dealer, the provisions of the Agreement concerning the Auction Procedures, including without limitation the mandatory tender provisions and amending the Auction Period, Auction Date and Interest Payment Dates as provided in the Agreement, and the definitions applicable thereto, including without limitation, the definitions of Maximum Auction Rate, All Hold Rate and Auction Rate, may be amended by obtaining the written consent of the Trustee if the Trustee determines that such amendment does not materially adversely affect the rights of any Bondowner (it being agreed that in making such determination the Trustee may conclusively rely upon a certificate to such effect of each Broker-Dealer), or by obtaining the consent of the beneficial owners of the Bonds, or on any Auction Date on which Sufficient Clearing Bids have been made or all of the Auction Rate Bonds are subject to Submitted Hold Orders; provided, however, that if on the first Auction Date occurring at least twenty (20) days after the date on which the Trustee mailed notice to the registered owners of the Auction Rate Bonds as required by the Agreement, Sufficient Clearing Bids have been received or all of the Auction Rate Bonds are subject to Submitted Hold Orders, the proposed amendment shall be deemed to have been consented to by the owners of all Auction Rate Bonds.

Except as provided in the foregoing paragraphs, the Agreement may be amended only with the written consent of the owners of at least a majority in principal amount of the Outstanding Bonds; provided, however, that no amendment of the Agreement may be made without the unanimous written consent of the affected Bondowners for any of the following purposes: to extend the maturity of any Bond, to reduce the principal amount or interest rate of any Bond, to make any Bond redeemable other than in accordance with its terms, to create a preference or priority of any Bond or Bonds over any other Bond or Bonds, to reduce the percentage of the Bonds required to be represented by the Bondowners giving their consent to any amendment, or to alter the provisions for optional or mandatory tender for purchase or payment of Purchase Price (except as provided above with respect to any Mandatory Purchase Date).

When the Trustee determines that the requisite number of consents have been obtained for an amendment which requires Bondowner consents, it shall, within ninety (90) days, file a certificate to that effect in its records and mail notice to the Bondowners. No action or proceeding to invalidate the amendment shall be instituted or maintained unless it is commenced within sixty (60) days after such mailing. The Trustee will promptly certify to the Issuer that it has mailed such notice to all Bondowners and such certificate will be conclusive evidence that such notice was given in the manner required. A consent to an amendment may be revoked by a notice given by the Bondowner and received by the Trustee prior to the Trustee's certification that the requisite consents have been obtained. The Trustee shall be entitled to receive, and may conclusively rely upon, an opinion of Bond Counsel that any amendment is authorized or permitted by the Agreement. (Section 1101)

Limits of Responsibility; Replacement of the Trustee

The Agreement sets forth certain limitations of the responsibilities of the Issuer and the Trustee.

The Trustee may resign on not less than 30 days' notice given in writing to the Issuer, the Bondowners, and the Borrower, but such resignation shall not take effect until a successor has been appointed. The Trustee may be removed by written notice from the owners of a majority in principal amount of the Outstanding Bonds to the Trustee, the Issuer and the Borrower, for cause by the Borrower with the approval of the Issuer if the Borrower is not in default, or for cause by the Issuer. (Section 704)

Defeasance

When there are in the Debt Service Fund and Redemption Fund sufficient funds, or non-callable and non-prepayable Government or Equivalent Obligations described in the definition thereof, in such principal amount, bearing interest at such rates and with such maturities as will provide, without reinvestment, sufficient amounts to pay principal of, premium, if any, and interest on the Bonds as and when such amounts become due and, prior to the change to the Fixed Rate Mode, to pay the Purchase Price thereof, whenever the same may be payable, as determined through a verification report or computation, which may be prepared by the Borrower and shall be satisfactory to the Trustee, and when all the rights hereunder of the Issuer and the Trustee have been provided for (1) the Bondowners will cease to be entitled to any right, benefit or security under the Agreement except the right to receive payment of the funds deposited and held for payment and other rights set forth below or which by their nature cannot be satisfied prior to or simultaneously with termination of the lien hereof, (2) the security interests created by the Agreement (except in such funds and investments) shall terminate, and (3) the Issuer and the Trustee shall execute and deliver such instruments as may be necessary to discharge the lien and security interests created hereunder; provided, however, that, if within ninety (90) days of such deposit, the Bonds are not to be redeemed in full prior to maturity or paid in full at maturity, the Trustee shall have received on the date of the deposit an opinion of Bond Counsel to the effect that such deposit and the investment thereof will not affect the exclusion of interest on the Bonds from gross income of the owners thereof for federal income tax purposes; and provided further that if any Bonds are to be redeemed prior to the maturity thereof, such Bonds shall have been duly called for redemption or irrevocable instructions for such a call shall have been given to the Trustee. Upon such defeasance, the funds and investments required to pay or redeem the Bonds in full shall be irrevocably set aside for such purpose. The Trustee shall cause to be mailed to all Bondowners within fifteen (15) days of the conditions of this section being met in the manner herein specified for redemption of Bonds a notice stating that such conditions have been met and that the lien of the Agreement has been discharged, and, if the Bonds are to be redeemed prior to maturity, specifying the date of redemption and the redemption price. Any funds or property held by the Trustee for payment of the Bonds as described in this paragraph and not required for such payment shall (unless there is an Event of Default, in which case they shall be applied as provided in the Agreement), after satisfaction of all the rights of the Issuer and the Trustee, and payment of the rebate, if any, due to the United States of America under Internal Revenue Code §148(f), and upon such indemnification, if any, as the Issuer or the Trustee may reasonably require, be distributed to the Borrower. If Bonds are not presented for final payment when due and moneys are available in the hands of the Trustee therefor, the Trustee shall, without liability for interest thereon and without any other liability to other Bondowners except to make payments otherwise due to them under the Agreement, continue to hold the moneys held for that purpose subject to the Agreement, and interest shall cease to accrue on the principal amount represented thereby.

When there are in the Debt Service Fund and Redemption Fund funds or securities as described in the preceding paragraph as are sufficient to pay principal or Purchase Price of, premium, if any, and interest on, some but not all of the Bonds in full as and when such amounts become due and all of the other conditions in the preceding paragraph have been met with respect to such Bonds, the particular Bonds (or portions thereof) for which such provision for payment shall have been considered made shall be selected by the Borrower or if the Borrower does not make such selection, by the Trustee (or, if the Bonds are then registered to CEDE & CO. and the Book-Entry Only System is then in effect, by The Depository Trust Company) and thereupon the Trustee and the Issuer shall take similar action to release the security interests created by the Agreement in respect of such Bonds (except in such funds or securities and investments thereon), subject however to compliance with the applicable conditions set forth in the provisos above.

Notwithstanding the foregoing, those provisions relating to the maturity of Bonds, interest payments and dates thereof and the Trustee's remedies with respect thereto, and provisions relating to exchange, transfer and registration of Bonds, replacement and cancellation of Bonds, the holding of moneys in trust and the duties of the Trustee in connection with all of the foregoing and the fees, expenses and indemnities of the Trustee and the Issuer, shall remain in full force and effect and shall be binding upon the Trustee, the Issuer, the Borrower and the Bondowners notwithstanding the release and discharge of the Agreement until the Bonds have been actually paid in full. (Section 204)

APPENDIX C

EDWARDS ANGELL PALMER & DODGE LLP

111 Huntington Avenue Boston, MA 02199 617.239.0100 *fax* 617.227.4420 eapdlaw.com

PROPOSED FORM OF OPINION OF BOND COUNSEL

December __, 2005

Massachusetts Development Finance Agency
160 Federal Street
Boston, Massachusetts 02110

Re: $28,000,000 Massachusetts Development Finance Agency Electric Utility Revenue Bonds (Nantucket Electric Company Issue), Series 2005

We have acted as bond counsel to the Nantucket Electric Company (the "Borrower") in connection with the issuance by the Massachusetts Development Finance Agency (the "Issuer") of the Issuer's $28,000,000 Electric Utility Revenue Bonds (Nantucket Electric Company Issue), Series 2005 (the "Bonds"). In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion, including the Loan and Trust Agreement dated as of December 1, 2005 (the "Agreement"), among the Issuer, the Borrower and U.S. Bank National Association, as trustee (the "Trustee").

As to questions of fact material to our opinion we have relied upon representations and covenants of the Issuer and the Borrower contained in the Agreement and in the certified proceedings and other certifications of public officials furnished to us, and certifications of officials of the Borrower and others, without undertaking to verify the same by independent investigation.

The Bonds are issued pursuant to the Agreement. The Bonds are payable solely from funds to be provided therefor by the Borrower pursuant to the Agreement. Under the Agreement, the Borrower has agreed to make payments sufficient to pay when due the principal (including sinking fund installments, if any) and purchase or redemption price of and interest on the Bonds. Such payments and other moneys payable to the Issuer or the Trustee under the Agreement, including proceeds derived from any security provided thereunder (collectively the "Revenues"), and the rights of the Issuer under the Agreement to receive the same (excluding, however, certain administrative fees, indemnification, and reimbursements), are pledged and assigned by the Issuer as security for the Bonds. The Bonds are payable solely from the Revenues.

We express no opinion with respect to compliance by the Borrower with applicable legal requirements with respect to the Agreement or in connection with the Project (as defined in the Agreement).

Reference is made to an opinion of even date of Gregory A. Hale, Esquire, with respect to, among other matters, the corporate existence of the Borrower, the power of the Borrower to enter into and perform its obligations under the Agreement, and the authorization, execution and delivery of the Agreement by the Borrower. We have relied on such opinion with regard to such matters and to the other matters addressed therein.

Based on the foregoing, we are of the opinion, under existing law, as follows:

1. The Issuer is a duly created and validly existing body corporate and politic and a public instrumentality of The Commonwealth of Massachusetts with the power to enter into and perform the Agreement and to issue the Bonds.

2. The Agreement has been duly authorized, executed and delivered by the Issuer and the Borrower and is a valid and binding obligation of the Issuer and the Borrower enforceable against each of the Issuer and the Borrower. As provided in the Act (as defined in the Agreement), the Agreement creates a valid lien on the Revenues and on the rights of the Issuer or the Trustee on behalf of the Issuer to receive Revenues under the Agreement (except certain rights to indemnification, reimbursements and fees).

3. The Bonds have been duly authorized, executed and delivered by the Issuer and are valid and binding special obligations of the Issuer, payable solely from the Revenues and other funds provided therefor in the Agreement.

4. Interest on the Bonds is excluded from the gross income of the owners of such Bonds for federal income tax purposes, except that no opinion is expressed as to the status of interest on any Bond for any period that such Bond is held by a "substantial user" of the facilities financed or refinanced by the Bonds or by a "related person" within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Bond counsel observes, however, that interest on the Bonds is a specific preference item for purposes of the federal individual and corporate alternative minimum taxes. We call your attention to the fact that failure by the Issuer or the Borrower to comply subsequent to the issuance of the Bonds with certain requirements of the Code may cause interest on the Bonds to become includable in the gross income of the owners of the Bonds for federal income tax purposes retroactive to the date of issuance of the Bonds. The Borrower and, to the extent necessary, the Issuer have covenanted in the Agreement to take all lawful action necessary under the Code to ensure that interest on the Bonds will remain excluded from the gross income of the owners of the Bonds for federal income tax purposes and to refrain from taking any action which would cause interest on the Bonds to become included in such gross income. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

5. Interest on the Bonds is exempt from Massachusetts personal income taxes and the Bonds are exempt from Massachusetts personal property taxes. We express no opinion regarding any other Massachusetts tax consequences arising with respect to the Bonds or

regarding the taxability of the Bonds or the income therefrom under the laws of any state other than Massachusetts.

This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

The rights of the holders of the Bonds and the enforceability of the Bonds and the Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Edwards Angell Palmer & Dodge LLP

Supplement Dated December 9, 2005

To

Official Statement Dated December 8, 2005

Relating to

$28,000,000

MASSACHUSETTS DEVELOPMENT FINANCE AGENCY

ELECTRIC UTILITY REVENUE BONDS,

(NANTUCKET ELECTRIC COMPANY ISSUE), SERIES 2005

The table set forth on page A-26 of the above referenced Official Statement under the heading "Pension Benefits:" is hereby revised as follows:

The numbers corresponding to the two line items "Amortization of net loss" and "Amortization of prior service cost" were inadvertently transposed. The correct line items are:

(In thousands)	**2005**	2004
Amortization of prior service cost	**543**	573
Amortization of net loss	**9,344**	8,841

The other line items and numbers in the table, including the total "Benefit (income)/cost," are correct. This revision does not affect total operating expenses or operating income for the periods referenced.

Supplement Dated December 13, 2005

To

Official Statement Dated December 8, 2005

Relating to

$28,000,000
MASSACHUSETTS DEVELOPMENT FINANCE AGENCY
ELECTRIC UTILITY REVENUE BONDS,
(NANTUCKET ELECTRIC COMPANY ISSUE), SERIES 2005

The Balance Sheets on page A-13 and the Statements of Cash Flows on page A-14 of the above referenced Official Statement have been changed to remove the word "restated" from the March 31, 2005 and the 2004 columns, respectively. The Company has revised the classification of certain balance sheet accounts at March 31, 2005, as described below, to reflect the presentation of additional minimum pension liability on a net basis in "Accrued pension and other post-retirement benefits". This resulted in a decrease in total assets and total liabilities of $116,200,000 and had no effect on the operating income, net income or total capitalization of the Company.

	Debit (Credit) in thousands		
	Audited (Page A-17)	**Reclass**	**Adjusted (Page A-13)**
Prepaid pension	$ 116,200	$ (116,200)	$ -
Accrued pension and other post-retirement benefits	(45,044)	(10,370)	(55,414)
Additional minimum pension liability	(126,570)	126,570	-
	$ (55,414)	$ -	$ (55,414)

The audited Balance Sheets on page A-17 reported the additional minimum pension liability on a gross basis. Prepaid pension and additional minimum pension liability were originally shown separately from the accrued pension and other post-retirement benefits.

The Statements of Cash Flows on page A-14 have been updated to reflect the balance sheet presentation noted above. The changes had no impact on net cash provided by operating activities.

EXECUTION COPY

KEYSPAN GAS EAST CORPORATION,
doing business as KEYSPAN ENERGY DELIVERY LONG ISLAND

$100,000,000

5.60% Senior Unsecured Notes due November 29, 2016

NOTE PURCHASE AGREEMENT

Dated as of November 29, 2006

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THE BROOKLYN UNION GAS COMPANY,
doing business as KEYSPAN ENERGY DELIVERY NEW YORK

$400,000,000

5.60% Senior Unsecured Notes due November 29, 2016

NOTE PURCHASE AGREEMENT

Dated as of November 29, 2006

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THE BROOKLYN UNION GAS COMPANY,
doing business as KEYSPAN ENERGY DELIVERY NEW YORK
One Metrotech Center
Brooklyn, New York 11201-3851

5.60% Senior Unsecured Notes due November 29, 2016

November 29, 2006

TO EACH OF THE PURCHASERS LISTED IN
SCHEDULE A:

Ladies and Gentlemen:

THE BROOKLYN UNION GAS COMPANY, doing business as KEYSPAN ENERGY DELIVERY NEW YORK, a New York corporation (the "**Company**"), agrees with each of the purchasers whose names appear at the end hereof (each, a "**Purchaser**" and, collectively, the "**Purchasers**") as follows:

Section 1. AUTHORIZATION OF NOTES.

The Company will authorize the issue and sale of $400,000,000 aggregate principal amount of its 5.60% Senior Unsecured Notes due November 29, 2016 (the "**Notes**", such term to include any such notes issued in substitution therefor pursuant to Section 13). The Notes shall be substantially in the form set forth in *Exhibit 1*. Certain capitalized and other terms used in this Agreement are defined in *Schedule B*. References to a "Schedule" or an "Exhibit" are, unless otherwise specified, to a Schedule or an Exhibit attached to this Agreement.

Section 2. SALE AND PURCHASE OF NOTES

Subject to the terms and conditions of this Agreement, the Company will issue and sell to each Purchaser and each Purchaser will purchase from the Company, at the Closing provided for in Section 3, Notes in the principal amount specified opposite such Purchaser's name in *Schedule A* at the purchase price of 100% of the principal amount thereof. The Purchasers' obligations hereunder are several and not joint obligations and no Purchaser shall have any liability to any Person for the performance or non-performance of any obligation by any other Purchaser hereunder.

Section 3. CLOSING.

The sale and purchase of the Notes to be purchased by each Purchaser shall occur at the offices of Dewey Ballantine LLP, 1301 Avenue of the Americas, New York, New York, at 10:00 a.m., New York, New York time, at a closing (the "**Closing**") on November 29, 2006 or on such other Business Day thereafter on or prior to December 31, 2006, as may be agreed upon by the Company and the Purchasers. At the Closing, the Company will deliver to each Purchaser the Notes to be purchased by such Purchaser in the form of a single Note (or such greater number of Notes in denominations of at least $100,000 as such Purchaser may request), dated the date of the Closing and registered in such Purchaser's name (or in the name of its nominee), against delivery by such Purchaser to the Company or its order of immediately available funds in the amount of the purchase price therefor by wire transfer of immediately available funds for the account of the Company to account number 00036871 at Citibank, N.A., New York, New York, ABA # 021000089, Reference: KEDNY/KEDLI Issuance. If at the Closing the Company shall fail to tender such Notes to any Purchaser as provided above in this Section 3, or any of the conditions specified in Section 4 shall not have been fulfilled to such Purchaser's satisfaction, such Purchaser shall, at its election, be relieved of all further obligations under this Agreement, without thereby waiving any rights such Purchaser may have by reason of such failure or such nonfulfillment.

Section 4. CONDITIONS TO CLOSING.

Each Purchaser's obligation to purchase and pay for the Notes to be sold to such Purchaser at the Closing is subject to the fulfillment to such Purchaser's satisfaction or waiver, prior to or at the Closing, of the following conditions:

Section 4.1. Representations and Warranties. The representations and warranties of the Company in this Agreement shall be correct when made and at the time of the Closing.

Section 4.2. Performance; No Default. The Company shall have performed and complied with all agreements and conditions contained in this Agreement required to be performed or complied with by it prior to or at the Closing and after giving effect to the issue and sale of the Notes (and the application of the proceeds thereof as contemplated by Section 5.14) no Default or Event of Default shall have occurred and be continuing.

Section 4.3. Compliance Certificates.

(a) Officer's Certificate. The Company shall have delivered to such Purchaser an Officer's Certificate, dated the date of the Closing, certifying that the conditions specified in Sections 4.1, 4.2 and 4.9 have been fulfilled.

(b) Secretary's Certificate. The Company shall have delivered to such Purchaser a certificate of its Secretary or Assistant Secretary, dated the date of Closing, certifying as to the resolutions attached thereto and other corporate proceedings relating to the authorization, execution and delivery of the Notes and this Agreement.

Section 4.4. Opinions of Counsel. Such Purchaser shall have received opinions in form and substance reasonably satisfactory to such Purchaser, dated the date of the Closing (a) from John J. Bishar, Jr., Esq., General Counsel to KeySpan Corporation and Counsel to the Company, covering the matters set forth in *Exhibit 4.4(a)* and covering such other matters incident to the transactions contemplated hereby as such Purchaser or its counsel may reasonably request (and the Company hereby instructs its counsel to deliver such opinion to the Purchasers), (b) from Simpson Thacher & Bartlett LLP, special counsel for the Company, covering the matters set forth in *Exhibit 4.4(b)* and covering such other matters incident to the transactions contemplated hereby as such Purchaser or its counsel may reasonably request (and the Company hereby instructs its special counsel to deliver such opinion to the Purchasers) and (c) from Dewey Ballantine LLP, the Purchasers' special counsel, in connection with the transactions contemplated hereby and covering such other matters incident to such transactions as such Purchaser may reasonably request.

Section 4.5. Purchase Permitted By Applicable Law, Etc. On the date of the Closing such Purchaser's purchase of Notes shall (a) be permitted by the laws and regulations of each jurisdiction to which such Purchaser is subject, without recourse to provisions (such as section 1405(a)(8) of the New York Insurance Law) permitting limited investments by insurance companies without restriction as to the character of the particular investment, (b) not violate any applicable law or regulation (including, without limitation, Regulation T, U or X of the Board of Governors of the Federal Reserve System) and (c) not subject such Purchaser to any tax, penalty or liability under or pursuant to any applicable law or regulation, which law or regulation was not in effect on the date hereof. If requested by such Purchaser, such Purchaser shall have received an Officer's Certificate certifying as to such matters of fact as such Purchaser may reasonably specify to enable such Purchaser to determine whether such purchase is so permitted.

Section 4.6. Sale of Other Notes. Contemporaneously with the Closing, the Company shall sell to each other Purchaser and each other Purchaser shall purchase the Notes to be purchased by it at the Closing as specified in *Schedule A*.

Section 4.7. Payment of Special Counsel Fees. Without limiting the provisions of Section 15.1, the Company shall have paid on or before the Closing the reasonable fees, charges and disbursements of the Purchasers' special counsel referred to in Section 4.4(c) to the extent reflected in a statement of such counsel rendered to the Company at least one (1) Business Day prior to the Closing.

Section 4.8. Private Placement Number. A Private Placement Number issued by Standard & Poor's CUSIP Service Bureau (in cooperation with the SVO) shall have been obtained for the Notes.

Section 4.9. Changes in Corporate Structure. The Company shall not have changed its jurisdiction of incorporation or organization, as applicable, or been a party to any merger or consolidation or succeeded to all or any substantial part of the liabilities of any other entity, at any time following the date of the most recent financial statements referred to in *Schedule 5.5*.

Section 4.10. Funding Instructions. At least three (3) Business Days prior to the date of the Closing, each Purchaser shall have received written instructions signed by a Responsible Officer on letterhead of the Company confirming the information specified in Section 3 including (i) the name and address of the transferee bank, (ii) such transferee bank's ABA number and (iii) the account name and number into which the purchase price for the Notes is to be deposited.

Section 4.11. Proceedings and Documents. All corporate and other proceedings in connection with the transactions contemplated by this Agreement and all documents and instruments incident to such transactions shall be reasonably satisfactory to such Purchaser and its special counsel, and such Purchaser and its special counsel shall have received all such counterpart originals or certified or other copies of such documents as such Purchaser or such special counsel may reasonably request.

Section 5. REPRESENTATIONS AND WARRANTIES OF THE COMPANY.

The Company represents and warrants to each Purchaser that:

Section 5.1. Organization; Power and Authority. The Company is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation, and is duly qualified as a foreign corporation and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. The Company has the corporate power and authority to own or hold under lease the properties it purports to own or hold under lease, to transact the business it transacts and proposes to transact, to execute and deliver this Agreement and the Notes and to perform the provisions hereof and thereof.

Section 5.2. Authorization, Etc. This Agreement and the Notes have been duly authorized by all necessary corporate action on the part of the Company, and this Agreement constitutes, and upon execution and delivery thereof each Note will constitute, a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except as such enforceability may be limited by (i) applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and (ii) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Section 5.3. Disclosure. The Company, through its agents, J.P. Morgan Securities Inc. and RBS Greenwich Capital, has delivered to each Purchaser a copy of a confidential Private Placement Memorandum, dated October, 2006 (the "**Memorandum**"), relating to the transactions contemplated hereby. This Agreement, the Memorandum and the documents, certificates or other writings delivered to the Purchasers by or on behalf of the Company in connection with the transactions contemplated hereby and identified in *Schedule 5.3*, and the financial statements listed in *Schedule 5.5* (this Agreement, the Memorandum and such documents, certificates or other writings and such financial statements delivered to each Purchaser prior to November 18, 2006 being referred to, collectively, as the "**Disclosure**

Documents"), taken as a whole, do not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading in light of the circumstances under which they were made. Except as disclosed in the Disclosure Documents, since December 31, 2005, there has been no change in the financial condition, operations, business or properties of the Company or any of its Subsidiaries except changes that individually or in the aggregate would not reasonably be expected to have a Material Adverse Effect.

Section 5.4. Organization and Ownership of Shares of Subsidiaries.

(a) *Schedule 5.4* is a complete and correct list of the Company's Subsidiaries, showing, as to each Subsidiary, the correct name thereof, the jurisdiction of its organization and the percentage of shares of each class of its capital stock or similar equity interests outstanding owned by the Company and each other Subsidiary.

(b) All of the outstanding shares of capital stock or similar equity interests of each Subsidiary shown in *Schedule 5.4* as being owned by the Company and its Subsidiaries have been validly issued, are fully paid and nonassessable and are owned by the Company or another Subsidiary free and clear of any Lien.

(c) Each Subsidiary identified in *Schedule 5.4* is a corporation, limited liability company or other legal entity duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, and is duly qualified as a foreign corporation or other legal entity and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Each such Subsidiary has the corporate, limited liability company or other power and authority to own or hold under lease the properties it purports to own or hold under lease and to transact the business it transacts and proposes to transact.

Section 5.5. Financial Statements; Material Liabilities. The Company has delivered to each Purchaser copies of the consolidated financial statements of the Company and its Subsidiaries listed on *Schedule 5.5*. All of said financial statements (including in each case the related schedules and notes) fairly present in all material respects the consolidated financial position of the Company and its Subsidiaries as of the respective dates specified in such Schedule and the consolidated results of their operations and cash flows for the respective periods so specified and have been prepared in accordance with GAAP consistently applied throughout the periods involved except as set forth in the notes thereto (subject, in the case of any interim financial statements, to normal year-end adjustments). The Company and its Subsidiaries do not have any Material liabilities that are not disclosed on such financial statements or otherwise disclosed in the Disclosure Documents.

Section 5.6. Compliance with Laws, Other Instruments, Etc. The execution, delivery and performance by the Company of this Agreement and the Notes will not (i) contravene, result in any breach of, or constitute a default under, or result in the creation of any Lien in respect of any property of the Company or any Subsidiary under, any indenture, mortgage, deed of trust, loan, purchase or credit agreement, lease, corporate charter or by-laws, or any other Material

agreement or instrument to which the Company or any Subsidiary is bound or by which the Company or any Subsidiary or any of their respective properties may be bound or affected, (ii) conflict with or result in a breach of any of the terms, conditions or provisions of any order, judgment, decree, or ruling of any court, arbitrator or Governmental Authority applicable to the Company or any Subsidiary or (iii) violate any provision of any statute or other rule or regulation of any Governmental Authority applicable to the Company or any Subsidiary.

Section 5.7. Governmental Authorizations, Etc. No consent, approval or authorization of, or registration, filing or declaration with, any Governmental Authority is required in connection with the execution, delivery or performance by the Company of this Agreement or the Notes, other than those that have already been obtained and which are in full force and effect; *provided*, that no representation is made with respect to compliance with foreign securities laws or the securities or "blue sky" laws of the various States of the United States.

Section 5.8. Litigation; Observance of Statutes and Orders.

(a) There are no actions, suits, investigations or proceedings pending or, to the knowledge of the Company, threatened against or affecting the Company or any Subsidiary or any property of the Company or any Subsidiary in any court or before any arbitrator of any kind or before or by any Governmental Authority, other than those described under the heading "Executive Summary - Recent Developments," and under the heading "Company Overview - Environmental Matters," in the Memorandum and in Schedule 5.3, that, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect.

(b) Neither the Company nor any Subsidiary is in default under any order, judgment, decree or ruling of any court, arbitrator or Governmental Authority or is in violation of any applicable law, ordinance, rule or regulation (including, without limitation, Environmental Laws or the USA Patriot Act) of any Governmental Authority, which default or violation, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect.

Section 5.9. Taxes. The Company and its Subsidiaries have filed all income tax returns that are required to have been filed in any jurisdiction, and have paid all taxes shown to be due and payable on such returns and all other taxes and assessments payable by them, to the extent such taxes and assessments have become due and payable and before they have become delinquent, except for any taxes and assessments (i) the amount of which is not individually or in the aggregate Material or (ii) the amount, applicability or validity of which is currently being contested in good faith by appropriate proceedings and with respect to which the Company or a Subsidiary, as the case may be, has established adequate reserves in accordance with GAAP. The Federal income tax liabilities of the Company and its Subsidiaries have been finally determined (whether by reason of completed audits or the statute of limitations having run) for all fiscal years up to and including the fiscal year ended September 30, 1996.

Section 5.10. Title to Property; Leases. The Company and its Subsidiaries have good and sufficient title to their respective Material properties, including all such properties reflected in the most recent audited balance sheet referred to in Section 5.5 or purported to have been

acquired by the Company or any Subsidiary after said date (except as sold or otherwise disposed of in the ordinary course of business), in each case free and clear of Liens prohibited by this Agreement, except for those defects in title and Liens that, individually or in the aggregate, would not have a Material Adverse Effect. All Material leases are valid and subsisting and are in full force and effect in all material respects.

Section 5.11. Licenses, Permits, Etc. The Company and its Subsidiaries own or possess all licenses, permits, franchises, authorizations, patents, copyrights, proprietary software, service marks, trademarks and trade names, or rights thereto, that are Material, without known conflict with the rights of others, except for those conflicts that, individually or in the aggregate, would not have a Material Adverse Effect.

Section 5.12. Compliance with ERISA.

(a) Except as could not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect: (i) each employee benefit plan (as defined in section 3(3) of ERISA), that is, or within the preceding five (5) years, has been established or maintained, or to which contributions are, or within the preceding five years, have been made or required to be made by the Company, has been operated and administered in compliance with all applicable laws; (ii) neither the Company nor any ERISA Affiliate has incurred any liabilities pursuant to ERISA or the penalty or excise tax provisions of the Code for failure to comply with continuation coverage obligations mandated by section 4980B of the Code with respect to any employee welfare benefit plan (as defined in section 3(1) of ERISA); and (iii) neither the Company nor any ERISA Affiliate has incurred any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to any employee pension benefit plan (as defined in section 3(2) of ERISA), and no event, transaction or condition has occurred or exists that would reasonably be expected to result in the incurrence of any such liability by the Company, or in the imposition of any Lien on any of the rights, properties or assets of the Company, in either case pursuant to Title I or IV of ERISA or to such penalty or excise tax provisions or to section 401(a)(29) or 412 of the Code or section 4068 of ERISA.

(b) The present value of the aggregate benefit liabilities (determined on an "accrued benefit obligations" basis) under each of the Plans, determined as of the end of such Plan's most recently ended plan year on the basis of the actuarial assumptions specified for funding purposes in such Plan's most recent actuarial valuation report, did not exceed the aggregate current value of the assets of such Plan allocable to such benefit liabilities by more than $173,000,000 in the case of any single Plan and by more than $173,000,000 in the aggregate for all Plans. The term "benefit liabilities" has the meaning specified in section 4001 of ERISA and the terms "current value" and "present value" have the meaning specified in section 3 of ERISA.

(c) Neither the Company nor, to the knowledge of the Company, any of its ERISA Affiliates has incurred withdrawal liabilities (and are not subject to contingent withdrawal liabilities) under section 4201 or 4204 of ERISA in respect of Multiemployer Plans that individually or in the aggregate are Material.

(d) The expected postretirement benefit obligation (determined as of the last day of the Company's most recently ended fiscal year in accordance with Financial Accounting Standards Board Statement No. 106, without regard to liabilities attributable to continuation coverage mandated by section 4980B of the Code) of the Company and its Subsidiaries, does not exceed the aggregate current value of assets set aside to fund such obligations by more than $272,000,000.

(e) The execution and delivery of this Agreement and the issuance and sale of the Notes hereunder will not involve any transaction that is subject to the prohibitions of section 406 of ERISA or in connection with which a tax could be imposed pursuant to section 4975(c)(1)(A)-(D) of the Code. The representation by the Company to each Purchaser in the first sentence of this Section 5.12(e) is made in reliance upon and subject to the accuracy of such Purchaser's representation in Section 6.2 as to the sources of the funds used to pay the purchase price of the Notes to be purchased by such Purchaser.

Section 5.13. Private Offering by the Company. Neither the Company nor anyone acting on its behalf has offered the Notes or any similar securities for sale to, or solicited any offer to buy any of the same from, or otherwise approached or negotiated in respect thereof with, any person other than the Purchasers and not more than seventy-five (75) other Institutional Investors, each of which has been offered the Notes at a private sale for investment. Neither the Company nor anyone acting on its behalf has taken, or will take, any action that would subject the issuance or sale of the Notes to the registration requirements of Section 5 of the Securities Act or to the registration requirements of any securities or blue sky laws of any applicable jurisdiction.

Section 5.14. Use of Proceeds; Margin Regulations. The Company will apply the proceeds of the sale of the Notes (a) to refinance existing intercompany Indebtedness of the Company and/or (b) for general corporate purposes. No part of the proceeds from the sale of the Notes hereunder will be used, directly or indirectly, for the purpose of buying or carrying any margin stock within the meaning of Regulation U of the Board of Governors of the Federal Reserve System (12 CFR 221), or for the purpose of buying or carrying or trading in any securities under such circumstances as to involve the Company in a violation of Regulation X of said Board (12 CFR 224) or to involve any broker or dealer in a violation of Regulation T of said Board (12 CFR 220). The Company or its Subsidiaries do not own any margin stock and the Company does not have any present intention that it or any of its Subsidiaries will own any margin stock. As used in this Section 5.14, the terms "margin stock" and "purpose of buying or carrying" shall have the meanings assigned to them in said Regulation U.

Section 5.15. Existing Indebtedness.

(a) *Schedule 5.15* sets forth a complete and correct description of all outstanding Indebtedness of the Company and its Subsidiaries as of October 31, 2006 (including a description of the principal amount outstanding and collateral therefor, if any, and Guaranty thereof, if any), since which date there has been no Material change in the amounts, interest rates, sinking funds, installment payments or maturities of the Indebtedness of the Company or its Subsidiaries. Neither the Company nor any Subsidiary is in default and no waiver of default is currently in effect, in the payment of

any principal or interest on any Indebtedness of the Company or such Subsidiary and no event or condition exists with respect to any Indebtedness of the Company or any Subsidiary, the outstanding principal amount of which exceeds $5,000,000, that would permit (or that with notice or the lapse of time, or both, would permit) one or more Persons to cause such Indebtedness to become due and payable before its stated maturity or before its regularly scheduled dates of payment.

(b) Neither the Company nor any Subsidiary is a party to, or otherwise subject to any provision contained in, any instrument evidencing Indebtedness of the Company or such Subsidiary, any agreement relating thereto or any other agreement (including, but not limited to, its charter or other organizational document) which limits the amount of, or otherwise imposes restrictions on the incurring of, Indebtedness of the Company, except as specifically indicated in *Schedule 5.15*.

Section 5.16. Foreign Assets Control Regulations, Etc.

(a) Neither the sale of the Notes by the Company hereunder nor its use of the proceeds thereof will violate the Trading with the Enemy Act, as amended, or any of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) or any enabling legislation or executive order relating thereto.

(b) Neither the Company nor any Subsidiary (i) is a Person described or designated in the Specially Designated Nationals and Blocked Persons List of the Office of Foreign Assets Control or in Section 1 of the Anti-Terrorism Order or (ii) engages in any dealings or transactions with any such Person. The Company and its Subsidiaries are in compliance, in all material respects, with the USA Patriot Act.

(c) No part of the proceeds from the sale of the Notes hereunder will be used, directly or indirectly, for any payments to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity, in order to obtain, retain or direct business or obtain any improper advantage, in violation of the United States Foreign Corrupt Practices Act of 1977, as amended, assuming in all cases that such Act applies to the Company.

Section 5.17. Status under Certain Statutes. Neither the Company nor any Subsidiary is subject to regulation under the Investment Company Act of 1940, as amended, the Public Utility Holding Company Act of 2005, as amended, the ICC Termination Act of 1995, as amended, or the Federal Power Act, as amended.

Section 6. REPRESENTATIONS OF THE PURCHASERS.

Section 6.1. Purchase for Investment. Each Purchaser severally represents that it is an "accredited investor" within the meaning of clause (1), (2), (3), (7) or (8) of Rule 501(a) under the Securities Act and severally represents that it is purchasing the Notes for its own account or for one or more separate accounts maintained by such Purchaser or for the account of one or

more pension or trust funds, as for each of which such Purchaser exercises sole investment discretion for investment purposes only, and not with a view to the distribution thereof; *provided*, that the disposition of such Purchaser's or their property shall at all times be within such Purchaser's or their control. Each Purchaser understands that the Notes have not been, and will not be, registered under the Securities Act, that the Company is not required to register the Notes and that the Notes may be resold only if registered pursuant to the provisions of the Securities Act or if an exemption from registration is available, except under circumstances where neither such registration nor such an exemption is required by law.

Section 6.2. Source of Funds. Each Purchaser severally represents that at least one of the following statements is an accurate representation as to each source of funds (a "*Source*") to be used by such Purchaser to pay the purchase price of the Notes to be purchased by such Purchaser hereunder:

(a) the Source is an "insurance company general account" (as the term is defined in the United States Department of Labor's Prohibited Transaction Exemption ("*PTE*") 95-60) in respect of which the reserves and liabilities (as defined by the annual statement for life insurance companies approved by the NAIC (the "**NAIC Annual Statement**")) for the general account contract(s) held by or on behalf of any employee benefit plan together with the amount of the reserves and liabilities for the general account contract(s) held by or on behalf of any other employee benefit plans maintained by the same employer (or affiliate thereof as defined in PTE 95-60) or by the same employee organization in the general account do not exceed 10% of the total reserves and liabilities of the general account (exclusive of separate account liabilities) plus surplus as set forth in the NAIC Annual Statement filed with such Purchaser's state of domicile; or

(b) the Source is a separate account that is maintained solely in connection with such Purchaser's fixed contractual obligations under which the amounts payable, or credited, to any employee benefit plan (or its related trust) that has any interest in such separate account (or to any participant or beneficiary of such plan (including any annuitant)) are not affected in any manner by the investment performance of the separate account; or

(c) the Source is either (i) an insurance company pooled separate account, within the meaning of PTE 90-1 or (ii) a bank collective investment fund, within the meaning of the PTE 91-38 and, except as disclosed by such Purchaser to the Company in writing pursuant to this clause (c), no employee benefit plan or group of plans maintained by the same employer or employee organization beneficially owns more than 10% of all assets allocated to such pooled separate account or collective investment fund; or

(d) the Source constitutes assets of an "investment fund" (within the meaning of Part V of PTE 84-14 (the "**QPAM Exemption**")) managed by a "qualified professional asset manager" or "QPAM" (within the meaning of Part V of the QPAM Exemption), no employee benefit plan's assets that are included in such investment fund, when combined with the assets of all other employee benefit plans established or maintained by the same employer or by an affiliate (within the meaning of Section V(c)(1) of the QPAM Exemption) of such employer or by the same employee

organization and managed by such QPAM, exceed 20% of the total client assets managed by such QPAM, the conditions of Part I(c) and (g) of the QPAM Exemption are satisfied, neither the QPAM nor a person controlling or controlled by the QPAM (applying the definition of "control" in Section V(e) of the QPAM Exemption) owns a 5% or more interest in the Company and (i) the identity of such QPAM and (ii) the names of all employee benefit plans whose assets are included in such investment fund have been disclosed to the Company in writing pursuant to this clause (d); or

(e) the Source constitutes assets of a "plan(s)" (within the meaning of Section IV of PTE 96-23 (the "**INHAM Exemption**")) managed by an "in-house asset manager" or "INHAM" (within the meaning of Part IV of the INHAM Exemption), the conditions of Part I(a), (g) and (h) of the INHAM Exemption are satisfied, neither the INHAM nor a person controlling or controlled by the INHAM (applying the definition of "control" in Section IV(d) of the INHAM Exemption) owns a 5% or more interest in the Company and (i) the identity of such INHAM and (ii) the name(s) of the employee benefit plan(s) whose assets constitute the Source have been disclosed to the Company in writing pursuant to this clause (e); or

(f) the Source is a governmental plan; or

(g) the Source is one or more employee benefit plans, or a separate account or trust fund comprised of one or more employee benefit plans, each of which has been identified to the Company in writing pursuant to this clause (g); or

(h) the Source does not include assets of any employee benefit plan, other than a plan exempt from the coverage of ERISA.

As used in this Section 6.2, the terms "employee benefit plan," "governmental plan," and "separate account" shall have the respective meanings assigned to such terms in section 3 of ERISA.

Section 7. INFORMATION AS TO COMPANY.

Section 7.1. Financial and Business Information. The Company shall deliver to each holder of a Note or Notes that is an Institutional Investor:

(a) *Quarterly Statements* — within sixty (60) days after the end of each quarterly fiscal period in each fiscal year of the Company (other than the last quarterly fiscal period of each such fiscal year), duplicate copies of:

(i) a consolidated balance sheet of the Company and its Subsidiaries, as at the end of such quarter; and

(ii) consolidated statements of income, changes in shareholders' equity and cash flows of the Company and its Subsidiaries for such quarter and (in the

case of the second and third quarters) for the portion of the fiscal year ending with such quarter; and

setting forth in each case in comparative form the figures for the corresponding periods in the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP applicable to quarterly financial statements generally, and certified by a Senior Financial Officer as fairly presenting, in all material respects, the financial position of the companies being reported on and their results of operations and cash flows, subject to changes resulting from year-end adjustments;

(b) *Annual Statements* — within 105 days after the end of each fiscal year of the Company, duplicate copies of,

(i) a consolidated balance sheet of the Company and its Subsidiaries, as at the end of such year, and

(ii) consolidated statements of income, changes in shareholders' equity and cash flows of the Company and its Subsidiaries, for such year,

setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP, and accompanied by an opinion thereon of independent public accountants of recognized national standing, which opinion shall state that such financial statements present fairly, in all material respects, the financial position of the companies being reported upon and their results of operations and cash flows and have been prepared in conformity with GAAP, and that the examination of such accountants in connection with such financial statements has been made in accordance with generally accepted auditing standards, and that such audit provides a reasonable basis for such opinion in the circumstances;

(c) *SEC and Other Reports* — promptly upon their becoming available, one copy of (i) each financial statement, report, notice or proxy statement sent by the Company or any Subsidiary to its principal lending banks as a whole (excluding information sent to such banks in the ordinary course of administration of a bank facility, such as information relating to pricing and borrowing availability) or to its public securities holders generally, (ii) each regular or periodic report, each registration statement that shall have become effective (without exhibits except as expressly requested by such holder), and each final prospectus and all amendments thereto filed by the Company or any Subsidiary with the SEC, and (iii) each regular periodic report to any entity that regulates the affairs of the Company and/or its Subsidiaries (including, without limitation, the Federal Energy Regulatory Commission and the New York Public Service Commission);

(d) *Notice of Default or Event of Default* — promptly, and in any event within five (5) Business Days after a Responsible Officer becoming aware of the existence of any Default or Event of Default, a written notice specifying the nature and period of existence thereof and what action the Company is taking or proposes to take with respect thereto;

(e) *ERISA Matters* — promptly, and in any event within ten (10) Business Days after a Responsible Officer becoming aware of any of the following, a written notice setting forth the nature thereof and the action, if any, that the Company or an ERISA Affiliate proposes to take with respect thereto:

(i) with respect to any Plan, any reportable event, as defined in section 4043(c) of ERISA and the regulations thereunder, for which notice thereof has not been waived pursuant to such regulations as in effect on the date hereof; or

(ii) the taking by the PBGC of steps to institute, or the threatening by the PBGC of the institution of, proceedings under section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan, or the receipt by the Company or any ERISA Affiliate of a notice from a Multi-employer Plan that such action has been taken by the PBGC with respect to such Multiemployer Plan; or

(iii) any event, transaction or condition that could result in the incurrence of any liability by the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or such penalty or excise tax provisions, if such liability or Lien, taken together with any other such liabilities or Liens then existing, would reasonably be expected to have a Material Adverse Effect; and

(f) *Requested Information* — with reasonable promptness, such other data and information relating to the business, operations, affairs, financial condition, assets or properties of the Company or any of its Subsidiaries or relating to the ability of the Company to perform its obligations under this Agreement and under the Notes as from time to time may be reasonably requested by such holder of a Note or Notes.

Section 7.2. Officer's Certificate. Each set of financial statements delivered to a holder of a Note or Notes pursuant to Section 7.1(a) or Section 7.1(b) shall be accompanied by a certificate of a Senior Financial Officer setting forth:

(a) *Financial Covenant Compliance* — to the extent a Financial Covenant (as defined below) is at any time hereafter incorporated by reference into this Agreement pursuant to Section 10.5(a) and is not deemed deleted thereafter pursuant to Section 10.5(b), the information (including detailed calculations) required in order to establish whether the Company was in compliance with such Financial Covenant, during the quarterly or annual period covered by the statements then being furnished (including with respect to each such Financial Covenant, where applicable, the calculations of the maximum or minimum amount, ratio or percentage, as the case may be, permissible under the terms of such Financial Covenant, and the calculation of the amount, ratio or percentage then in existence); *provided*, that the delivery of any such information and/or detailed calculations that satisfy the requirements of the Other Debt (as defined below)

containing such Financial Covenant shall be deemed to satisfy the requirements of this Section 7.2(a); and

(b) *Event of Default* — a statement that such Senior Financial Officer has reviewed the relevant terms hereof and has made, or caused to be made, under his or her supervision, a review of the transactions and conditions of the Company and its Subsidiaries from the beginning of the quarterly or annual period covered by the statements then being furnished to the date of the certificate and that such review shall not have disclosed the existence during such period of any condition or event that constitutes a Default or an Event of Default or, if any such condition or event existed or exists, specifying the nature and period of existence thereof and what action the Company shall have taken or proposes to take with respect thereto.

Section 7.3. Visitation. The Company shall permit the representatives of each holder of a Note or Notes that is an Institutional Investor:

(a) *No Default* — if no Default or Event of Default then exists, at the expense of such holder and upon reasonable prior notice to the Company, to visit the principal executive office of the Company, to discuss the affairs, finances and accounts of the Company and its Subsidiaries with the Company's officers, and, with the consent of the Company (which consent will not be unreasonably withheld) to visit the other offices and properties of the Company and each Subsidiary, all at such reasonable times and as often as may be reasonably requested in writing. Any such visit will not unreasonably disturb or interfere with the normal operation or maintenance of any facilities or surrounding areas or the conduct by the Company and each Subsidiary of their business and will be in accordance with the Company's or such Subsidiary's, and any operator of the Company or such Subsidiary's, safety, security, insurance and confidentiality programs; and

(b) *Default* — if a Default or Event of Default then exists, at the expense of the Company to visit and inspect any of the offices or properties of the Company or any Subsidiary, to examine all their respective books of account, records, reports and other papers, to make copies and extracts therefrom, and to discuss their respective affairs, finances and accounts with their respective officers and independent public accountants (and by this provision the Company authorizes said accountants to discuss the affairs, finances and accounts of the Company and its Subsidiaries), all at such times and as often as may be requested.

Section 8. PAYMENT AND PREPAYMENT OF THE NOTES.

Section 8.1. Maturity. As provided therein, the entire unpaid principal balance of the Notes shall be due and payable on the stated maturity date thereof.

Section 8.2. Optional Prepayments with Make-Whole Amount. The Company may, at its option, upon notice as provided below, prepay at any time all, or from time to time any part of, the Notes in an amount not less than five percent (5.00%) of the aggregate principal amount of the Notes then outstanding in the case of a partial prepayment, at 100% of the principal

amount so prepaid, plus the Make-Whole Amount determined for the prepayment date with respect to such principal amount. The Company will give each holder of a Note or Notes written notice of each optional prepayment under this Section 8.2 not less than thirty (30) days and not more than sixty (60) days prior to the date fixed for such prepayment. Each such notice shall specify such date (which shall be a Business Day), the aggregate principal amount of the Notes to be prepaid on such date, the principal amount of each Note held by such holder to be prepaid (determined in accordance with Section 8.3), and the interest to be paid on the prepayment date with respect to such principal amount being prepaid, and shall be accompanied by a certificate of a Senior Financial Officer as to the estimated Make-Whole Amount due in connection with such prepayment (calculated as if the date of such notice were the date of the prepayment), setting forth the details of such computation. Two (2) Business Days prior to such prepayment, the Company shall deliver to each holder of a Note or Notes a certificate of a Senior Financial Officer specifying the calculation of such Make-Whole Amount as of the specified prepayment date.

Section 8.3. Allocation of Partial Prepayments. In the case of each partial prepayment of the Notes, the principal amount of the Notes to be prepaid shall be allocated among all of the Notes at the time outstanding in proportion, as nearly as practicable, to the respective unpaid principal amounts thereof not theretofore called for prepayment.

Section 8.4. Maturity; Surrender, Etc. In the case of each prepayment of Notes pursuant to this Section 8, the principal amount of each Note to be prepaid shall mature and become due and payable on the date fixed for such prepayment (which shall be a Business Day), together with interest on such principal amount accrued to such date and the applicable Make-Whole Amount, if any. From and after such date, unless the Company shall fail to pay such principal amount when so due and payable, together with the interest and Make-Whole Amount, if any, as aforesaid, interest on such principal amount shall cease to accrue. Any Note paid or prepaid in full shall be surrendered to the Company and cancelled and shall not be reissued, and no Note shall be issued in lieu of any prepaid principal amount of any Note.

Section 8.5. Purchase of Notes. The Company will not and will not permit any Affiliate to purchase, redeem, prepay or otherwise acquire, directly or indirectly, any of the outstanding Notes except (a) upon the payment or prepayment of the Notes in accordance with the terms of this Agreement and the Notes or (b) pursuant to an offer to purchase made by the Company or an Affiliate *pro rata* to the holders of all Notes at the time outstanding upon the same terms and conditions. Any such offer shall provide each holder with sufficient information to enable it to make an informed decision with respect to such offer, and shall remain open for at least twenty (20) Business Days. If the holders of more than sixty six and two thirds percent (66⅔%) of the principal amount of the Notes then outstanding accept such offer, the Company shall promptly notify the remaining holders of such fact and the expiration date for the acceptance by holders of Notes of such offer shall be extended by the number of days necessary to give each such remaining holder at least ten (10) Business Days from its receipt of such notice to accept such offer. The Company will promptly cancel all Notes acquired by it or any Affiliate pursuant to any payment, prepayment or purchase of Notes pursuant to any provision of this Agreement and no Notes may be issued in substitution or exchange for any such Notes.

Section 8.6. Make-Whole Amount. "Make-Whole Amount" means, with respect to any Note, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal of such Note over the amount of such Called Principal; *provided,* that the Make-Whole Amount may in no event be less than zero. For the purposes of determining the Make-Whole Amount, the following terms have the following meanings:

"**Called Principal**" means, with respect to any Note, the principal of such Note that is to be prepaid pursuant to Section 8.2 or has become or is declared to be immediately due and payable pursuant to Section 12.1, as the context requires.

"**Discounted Value**" means, with respect to the Called Principal of any Note, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the Notes is payable) equal to the Reinvestment Yield with respect to such Called Principal.

"**Reinvestment Yield**" means, with respect to the Called Principal of any Note, 0.50% over the yield to maturity implied by (i) the yields reported as of 10:00 a.m. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Principal, on the display designated as "Page PX1" (or such other display as may replace Page PX1) on Bloomberg Financial Markets (or, if Page PX1 is unavailable, the Telerate Access Service Screen which corresponds most closely with Page PX1) for the most recently issued actively traded on the run U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or (ii) if such yields are not reported as of such time or the yields reported as of such time are not ascertainable (including by way of interpolation), the Treasury Constant Maturity Series Yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (or any comparable successor publication) for U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date.

In the case of each determination under clause (i) or clause (ii), as the case may be, of the preceding paragraph, such implied yield will be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between (1) the applicable actively traded on the run U.S. Treasury security with the maturity closest to and greater than such Remaining Average Life and (2) the applicable actively traded on the run U.S. Treasury security with the maturity closest to and less than such Remaining Average Life. The Reinvestment Yield shall be rounded to the number of decimal places as appears in the interest rate of the applicable Note.

"**Remaining Average Life**" means, with respect to any Called Principal, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such

Called Principal into (ii) the sum of the products obtained by multiplying (a) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (b) the number of years (calculated to the nearest one-twelfth year) that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

"**Remaining Scheduled Payments**" means, with respect to the Called Principal of any Note, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date; provided that if such Settlement Date is not a date on which interest payments are due to be made under the terms of the Notes, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date pursuant to Section 8.2 or Section 12.1.

"**Settlement Date**" means, with respect to the Called Principal of any Note, the date on which such Called Principal is to be prepaid pursuant to Section 8.2 or has become or is declared to be immediately due and payable pursuant to Section 12.1, as the context requires.

Section 9. AFFIRMATIVE COVENANTS.

The Company covenants that so long as any of the Notes are outstanding:

Section 9.1. Payments on the Notes. The Company will duly and punctually pay the principal of, Make-Whole Amount or other premium, if any, and interest on the Notes in accordance with the terms of this Agreement and the Notes, as well as any other amounts due hereunder or thereunder.

Section 9.2. Compliance with Law. Without limiting Section 10.6, the Company will and will cause each of its Subsidiaries to comply with all laws, ordinances or governmental rules or regulations to which each of them is subject, including, without limitation, ERISA, the USA Patriot Act and Environmental Laws, and will obtain and maintain in effect all licenses, certificates, permits, franchises and other governmental authorizations necessary to the ownership of their respective properties or to the conduct of their respective businesses, in each case to the extent necessary to ensure that non-compliance with such laws, ordinances or governmental rules or regulations or failures to obtain or maintain in effect such licenses, certificates, permits, franchises and other governmental authorizations would not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect.

Section 9.3. Insurance. The Company will and will cause each of its Subsidiaries to maintain, with financially sound and reputable insurers, insurance with respect to their respective properties and businesses against such casualties and contingencies, of such types, on such terms and in such amounts (including deductibles, co-insurance and self-insurance, if adequate reserves are maintained with respect thereto) as is customary in the case of entities of established

reputations engaged in the same or a similar business, similarly situated and owning similar properties as the Company and its Subsidiaries.

Section 9.4. Maintenance of Properties. The Company will and will cause each of its Subsidiaries to maintain and keep, or cause to be maintained and kept, their respective properties in good repair, working order and condition (other than ordinary wear and tear), so that the business carried on in connection therewith may be properly conducted at all times; *provided*, that this Section 9.4 shall not prevent the Company or any Subsidiary from discontinuing the operation and the maintenance of any of its properties if such discontinuance is desirable in the conduct of its business and the Company has concluded that such discontinuance would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

Section 9.5. Payment of Taxes. The Company will and will cause each of its Subsidiaries to file all income tax or similar tax returns required to be filed in any jurisdiction and to pay and discharge all taxes shown to be due and payable on such returns and all other taxes, assessments, governmental charges, or levies payable by any of them, to the extent the same have become due and payable and before they have become delinquent; *provided*, that neither the Company nor any Subsidiary need pay any such tax, assessment, charge or levy if (i) the amount, applicability or validity thereof is contested by the Company or such Subsidiary on a timely basis in good faith and in appropriate proceedings, and the Company or a Subsidiary has established adequate reserves therefor in accordance with GAAP on the books of the Company or such Subsidiary or (ii) the nonpayment of all such taxes, assessments, charges and levies in the aggregate would not reasonably be expected to have a Material Adverse Effect.

Section 9.6. Corporate Existence, Etc. Subject to Section 10.2, the Company will at all times preserve and keep in full force and effect its corporate existence. Subject to Section 10.2, the Company will at all times preserve and keep in full force and effect the corporate existence of each of its Subsidiaries (unless merged into the Company or a Wholly-Owned Subsidiary) and all rights and franchises of the Company and its Subsidiaries unless, in the good faith judgment of the Company, the termination of or failure to preserve and keep in full force and effect such corporate existence, right or franchise would not, individually or in the aggregate, have a Material Adverse Effect.

Section 9.7. Books and Records. The Company will, and will cause each of its Subsidiaries to, maintain proper books of record and account in conformity with GAAP and all applicable requirements of any Governmental Authority having legal or regulatory jurisdiction over the Company or such Subsidiary, as the case may be.

Section 9.8. Regulated Business. The Company will continue its status as a regulated gas public utility company subject to regulation by the relevant Governmental Authorities.

Section 10. NEGATIVE COVENANTS.

The Company covenants that so long as any of the Notes are outstanding:

Section 10.1. Transactions with Affiliates. The Company will not and will not permit any Subsidiary to enter into directly or indirectly any Material transaction or Material group of related transactions (including, without limitation, the purchase, lease, sale or exchange of properties of any kind or the rendering of any service) with any Affiliate (other than the Company or another Subsidiary), except (i) as approved by any Governmental Authority or in compliance with any law, order, rule or regulation of any Governmental Authority or (ii) pursuant to the reasonable requirements of the Company's or such Subsidiary's business and upon fair and reasonable terms no less favorable to the Company or such Subsidiary than would be obtainable in a comparable arm's-length transaction with a Person not an Affiliate.

Section 10.2. Merger, Consolidation, Etc. The Company will not consolidate with or merge with any other Person or convey, transfer or lease all or substantially all of its assets in a single transaction or series of transactions to any Person unless:

(a) the successor formed by such consolidation or the survivor of such merger or the Person that acquires by conveyance, transfer or lease all or substantially all of the assets of the Company as an entirety, as the case may be, shall be a solvent corporation or limited liability company organized and existing under the laws of the United States or any State thereof (including the District of Columbia), and, if the Company is not such corporation or limited liability company, such corporation or limited liability company shall have executed and delivered to each holder of any Note or Notes its assumption of the due and punctual performance and observance of each covenant and condition of this Agreement and the Notes; and

(b) immediately before and immediately after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing.

No such conveyance, transfer or lease of substantially all of the assets of the Company shall have the effect of releasing the Company or any successor corporation or limited liability company that shall theretofore have become such in the manner prescribed in this Section 10.2 from its liability under this Agreement or the Notes.

Section 10.3. Line of Business. The Company will not and will not permit any Subsidiary to engage in any business if, as a result, the general nature of the business in which the Company and its Subsidiaries, taken as a whole, would then be engaged would be substantially changed from the general nature of the business in which the Company and its Subsidiaries, taken as a whole, are engaged on the date of this Agreement as described in the Memorandum.

Section 10.4. Liens. If at any time the Company mortgages, pledges or otherwise subjects to any Lien, other than Permitted Liens, the whole or any part of any property or assets now owned or hereafter acquired by it except as hereinafter provided in this Section 10.4, the Company will secure the then outstanding Notes, and any other senior Indebtedness of the Company which may then be outstanding and entitled to the benefit of a covenant similar in effect to this covenant, equally and ratably with any Indebtedness secured by such mortgage, pledge or Lien, for as long as any such Indebtedness is so secured. Nothing contained in this

Agreement prevents any entity other than the Company from mortgaging, pledging or subjecting to any Lien any property or assets, whether or not acquired by such person from the Company.

Section 10.5. Most Favored Noteholder.

(a) If, at any time after the Closing, the Company includes in any new, or adds to any existing, Indebtedness (all new and existing Indebtedness, "**Other Debt**") any restriction or other provision that provides for limitations on Indebtedness, interest expense or net worth or any other covenant that would be characterized as a "financial covenant" (a "**Financial Covenant**") and such Financial Covenant is not contained in this Agreement, then, contemporaneously upon the effectiveness of such Financial Covenant with respect to the Other Debt, or amendment thereto, that includes or adds such Financial Covenant, such Financial Covenant will be deemed automatically incorporated by reference hereinto and will form an integral part of this Agreement without any further action on the part of any Person. Upon the inclusion or addition of a Financial Covenant into Other Debt and its incorporation into this Agreement, the Company will promptly deliver to each holder of a Note or Notes then outstanding a notice setting forth such Financial Covenant (a "**MFN Notice**").

(b) Any Financial Covenant incorporated hereinto pursuant to Section 10.5(a) will (i) automatically be waived, amended or otherwise modified to the extent of any waiver, amendment or other modification of such Financial Covenant in the relevant Other Debt, and (ii) automatically be deemed deleted herefrom at such time as the applicable Other Debt is terminated and no amounts remain outstanding thereunder or such Financial Covenant is otherwise deleted from such Other Debt (but the provisions of Section 10.5(a) shall be complied with by the Company with respect to any and all subsequent Other Debt incurred that contains a Financial Covenant), in each case without any further action on the part of any Person; *provided*, that, upon the occurrence of an event set forth in the immediately preceding clause (i) or (ii), the Company will promptly deliver written notice thereof to each holder of a Note or Notes then outstanding.

Section 10.6. Terrorism Sanctions Regulations. The Company will not, and will not permit any Subsidiary to, (a) become a Person described or designated in the Specially Designated Nationals and Blocked Persons List of the Office of Foreign Assets Control or in Section 1 of the Anti-Terrorism Order or (b) engage in any dealings or transactions with any such Person.

Section 11. EVENTS OF DEFAULT.

An "*Event of Default*" shall exist if any of the following conditions or events shall occur and be continuing:

(a) the Company defaults in the payment of any principal or Make-Whole Amount, if any, on any Note when the same becomes due and payable, whether at maturity or at a date fixed for prepayment or by declaration or otherwise; or

(b) the Company defaults in the payment of any interest on any Note for more than thirty (30) days after the same becomes due and payable; or

(c) the Company defaults in the performance of or compliance with any term contained herein (other than those referred to in Sections 11(a) and (b)) and such default is not remedied within sixty (60) days after the earlier of (i) a Responsible Officer obtaining actual knowledge of such default and (ii) the Company receiving written notice of such default from any holder of a Note or Notes (any such written notice to be identified as a "notice of default" and to refer specifically to this Section 11(c)); or

(d) any representation or warranty made in writing by or on behalf of the Company or by any officer of the Company in this Agreement or in any writing furnished in connection with the transactions contemplated hereby proves to have been false or incorrect in any material respect on the date as of which made; or

(e) (i) the Company or any Significant Subsidiary is in default (as principal or as guarantor or other surety) in the payment of any principal of or premium or make-whole amount or interest on any Indebtedness that is outstanding in an aggregate principal amount of at least $10,000,000 beyond any period of grace provided with respect thereto, or (ii) the Company or any Significant Subsidiary is in default in the performance of or compliance with any term of any evidence of any Indebtedness in an aggregate outstanding principal amount of at least $10,000,000 or of any mortgage, indenture or other agreement relating thereto or any other condition exists, and as a consequence of such default or condition such Indebtedness has become, or has been declared due and payable before its stated maturity or before its regularly scheduled dates of payment; or

(f) the Company or any Significant Subsidiary (i) is generally not paying, or admits in writing its inability to pay, its debts as they become due, (ii) files, or consents by answer or otherwise to the filing against it of, a petition for relief or reorganization or arrangement or any other petition in bankruptcy, for liquidation or to take advantage of any bankruptcy, insolvency, reorganization, moratorium or other similar law of any jurisdiction, (iii) makes an assignment for the benefit of its creditors, (iv) consents to the appointment of a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, (v) is adjudicated as insolvent or to be liquidated, or (vi) takes corporate action for the purpose of any of the foregoing; or

(g) a court or Governmental Authority of competent jurisdiction enters an order appointing, without consent by the Company or any of its Significant Subsidiaries, a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, or constituting an order for relief or approving a petition for relief or reorganization or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of the Company or any of its Significant Subsidiaries, or any such petition shall be filed against the Company or any of

its Significant Subsidiaries and such petition shall not be dismissed within sixty (60) consecutive days; or

(h) a final judgment or judgments for the payment of money aggregating in excess of $50,000,000 are rendered against one or more of the Company and its Significant Subsidiaries and which judgments are not, within sixty (60) days after entry thereof, bonded, discharged or stayed pending appeal, or are not discharged within sixty (60) days after the expiration of such stay; or

(i) if (i) any Plan shall fail to satisfy the minimum funding standards of ERISA or the Code for any plan year or part thereof or a waiver of such standards or extension of any amortization period is sought or granted under section 412 of the Code, (ii) a notice of intent to terminate any Plan shall have been or is reasonably expected to be filed with the PBGC or the PBGC shall have instituted proceedings under ERISA section 4042 to terminate or appoint a trustee to administer any Plan or the PBGC shall have notified the Company or any ERISA Affiliate that a Plan may become a subject of any such proceedings, (iii) the Company or any ERISA Affiliate shall have incurred or is reasonably expected to incur any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, (iv) the Company or any ERISA Affiliate withdraws from any Multiemployer Plan, or (v) the Company or any Subsidiary establishes or amends any employee welfare benefit plan that provides post-employment welfare benefits in a manner that would increase the liability of the Company or any Subsidiary thereunder; and any such event or events described in clauses (i) through (v) above, either individually or together with any other such event or events, would reasonably be expected to have a Material Adverse Effect.

As used in Section 11(i), the terms "employee benefit plan" and "employee welfare benefit plan" shall have the respective meanings assigned to such terms in section 3 of ERISA.

Section 12. REMEDIES ON DEFAULT, ETC.

Section 12.1. Acceleration.

(a) If an Event of Default with respect to the Company described in Section 11(f) (other than an Event of Default described in clause (i) of Section 11(f) or described in clause (vi) of Section 11(f) by virtue of the fact that such clause encompasses clause (i) of Section 11(f)) or Section 11(g)) has occurred, all the Notes then outstanding shall automatically become immediately due and payable.

(b) If any other Event of Default has occurred and is continuing, the Required Holders may at any time at its or their option, by notice or notices to the Company, declare all the Notes then outstanding to be immediately due and payable.

(c) If any Event of Default described in Section 11(a) or (b) has occurred and is continuing, any holder or holders of a Note or Notes at the time outstanding affected by

such Event of Default may at any time, at its or their option, by notice or notices to the Company, declare all the Notes held by it or them to be immediately due and payable.

Upon any Notes becoming due and payable under this Section 12.1, whether automatically or by declaration, such Notes will forthwith mature and the entire unpaid principal amount of such Notes, plus (x) all accrued and unpaid interest thereon (including, but not limited to, interest accrued thereon at the Default Rate) and (y) the Make-Whole Amount determined in respect of such principal amount (to the full extent permitted by applicable law), shall all be immediately due and payable, in each and every case without presentment, demand, protest or further notice, all of which are hereby waived. The Company acknowledges, and the parties hereto agree, that each holder of a Note or Notes has the right to maintain its investment in the Notes free from repayment by the Company (except as herein specifically provided for) and that the provision for payment of a Make-Whole Amount by the Company in the event that the Notes are prepaid or are accelerated as a result of an Event of Default, is intended to provide compensation for the deprivation of such right under such circumstances.

Section 12.2. Other Remedies. If any Default or Event of Default has occurred and is continuing, and irrespective of whether any Notes have become or have been declared immediately due and payable under Section 12.1, the holder of any Note or Notes at the time outstanding may proceed to protect and enforce the rights of such holder by an action at law, suit in equity or other appropriate proceeding, whether for the specific performance of any agreement contained herein or in any Note, or for an injunction against a violation of any of the terms hereof or thereof, or in aid of the exercise of any power granted hereby or thereby or by law or otherwise.

Section 12.3. Rescission. At any time after any Notes have been declared due and payable pursuant to Section 12.1(b) or (c), the Required Holders, by written notice to the Company, may rescind and annul any such declaration and its consequences if (a) the Company has paid all overdue interest on the Notes, all principal of and Make-Whole Amount, if any, on any Notes that are due and payable and are unpaid other than by reason of such declaration, and all interest on such overdue principal and Make-Whole Amount, if any, and (to the extent permitted by applicable law) any overdue interest in respect of the Notes, at the Default Rate, (b) neither the Company nor any other Person shall have paid any amounts which have become due solely by reason of such declaration, (c) all Events of Default and Defaults, other than non-payment of amounts that have become due solely by reason of such declaration, have been cured or have been waived pursuant to Section 17, and (d) no judgment or decree has been entered for the payment of any monies due pursuant hereto or to the Notes. No rescission and annulment under this Section 12.3 will extend to or affect any subsequent Event of Default or Default or impair any right consequent thereon.

Section 12.4. No Waivers or Election of Remedies, Expenses, Etc. No course of dealing and no delay on the part of any holder of any Note or Notes in exercising any right, power or remedy shall operate as a waiver thereof or otherwise prejudice such holder's rights, powers or remedies. No right, power or remedy conferred by this Agreement or by any Note upon any holder thereof shall be exclusive of any other right, power or remedy referred to herein or therein or now or hereafter available at law, in equity, by statute or otherwise. Without limiting the obligations of the Company under Section 15, the Company will pay to the holder of each Note

on demand such further amount as shall be sufficient to cover all costs and expenses of such holder incurred in any enforcement or collection under this Section 12, including, without limitation, reasonable attorneys' fees, expenses and disbursements of one (1) special counsel for all holders of the Notes.

Section 13. REGISTRATION; EXCHANGE; SUBSTITUTION OF NOTES.

Section 13.1. Registration of Notes. The Company shall keep at its principal executive office a register for the registration and registration of transfers of Notes. The name and address of each holder of one or more Notes, each transfer thereof and the name and address of each transferee of one or more Notes shall be registered in such register. Prior to due presentment for registration of transfer, the Person in whose name any Note shall be registered shall be deemed and treated as the owner and holder thereof for all purposes hereof, and the Company shall not be affected by any notice or knowledge to the contrary. The Company shall give to any holder of a Note or Notes that is an Institutional Investor promptly upon request therefor, a complete and correct copy of the names and addresses of all registered holders of a Note or Notes.

Section 13.2. Transfer and Exchange of Notes. Upon surrender of any Note to the Company at the address and to the attention of the designated officer (all as specified in Section 18(iii)), for registration of transfer or exchange (and in the case of a surrender for registration of transfer accompanied by a written instrument of transfer duly executed by the registered holder of such Note or such holder's attorney duly authorized in writing and whose signature has been medallion guaranteed and accompanied by the relevant name, address and other information for notices of each transferee of such Note or part thereof), within ten (10) Business Days thereafter, the Company shall execute and deliver, at the Company's expense (except as provided below), one or more new Notes (as requested by the holder thereof) in exchange therefor, in an aggregate principal amount equal to the unpaid principal amount of the surrendered Note. Each such new Note shall be payable to such Person as such holder may request and shall be substantially in the form of *Exhibit 1*. Each such new Note shall be dated and bear interest from the date to which interest shall have been paid on the surrendered Note or dated the date of the surrendered Note if no interest shall have been paid thereon. The Company may require payment of a sum sufficient to cover any stamp tax or governmental charge imposed in respect of any such transfer of Notes. Notes shall not be transferred in denominations of less than $100,000; *provided*, that if necessary to enable the registration of transfer by a holder of its entire holding of Notes, one Note may be in a denomination of less than $100,000. Any transferee, by its acceptance of a Note registered in its name (or the name of its nominee), shall be deemed to have made the representation set forth in Section 6.2.

Section 13.3. Replacement of Notes. Upon receipt by the Company at the address and to the attention of the designated officer (all as specified in Section 18(iii)) of evidence reasonably satisfactory to it of the ownership of and the loss, theft, destruction or mutilation of any Note (which evidence shall be, in the case of an Institutional Investor, notice from such Institutional Investor of such ownership and such loss, theft, destruction or mutilation), and

(a) in the case of loss, theft or destruction, of indemnity reasonably satisfactory to it (*provided*, that if the holder of such Note is, or is a nominee for, an original Purchaser or another holder of a Note or Notes with a minimum net worth of at least $50,000,000 or a Qualified Institutional Buyer, such Person's own unsecured agreement of indemnity shall be deemed to be satisfactory), or

(b) in the case of mutilation, upon surrender and cancellation thereof,

within ten (10) Business Days thereafter, the Company at its own expense shall execute and deliver, in lieu thereof, a new Note, dated and bearing interest from the date to which interest shall have been paid on such lost, stolen, destroyed or mutilated Note or dated the date of such lost, stolen, destroyed or mutilated Note if no interest shall have been paid thereon.

Section 13.4. Agent Services. Without in any manner limiting the obligations of the Company under this Section 13, the Company may at its own expense retain the services of one or more agents to perform any or all of its obligations under this Section 13 and 14 and to perform certain other administrative functions on behalf of the Company including, without limitation, distribution of financial statements and other certificates and notices. As of the date of this Agreement, such agent is Wells Fargo Bank, N.A. acting out of its office at Corporate Trust Services, 45 Broadway, 14th Floor, New York, NY 10006-3007 and the Company shall give prompt notice to the Purchasers or other holders of Notes of any change in the identity of such agent.

Purchasers agree that they shall cooperate with such agent and deliver any Notes, notices or other communications and any related documents as may be required under Sections 13 and 14, as applicable, of this Agreement to such agent, and shall comply with any requests reasonably made by the agent on the Company's behalf pursuant to the provisions of such sections.

Section 14. PAYMENTS ON NOTES.

Section 14.1. Place of Payment. Subject to Section 14.2, payments of principal, Make-Whole Amount, if any, and interest becoming due and payable on the Notes shall be made in New York, New York at the principal office of Wells Fargo Bank, N.A. in such jurisdiction. The Company may at any time, by notice to each holder of a Note or Notes, change the place of payment of the Notes so long as such place of payment shall be either the principal office of the Company in such jurisdiction or the principal office of a bank or trust company in such jurisdiction.

Section 14.2. Home Office Payment. So long as any Purchaser or its nominee shall be the holder of any Note or Notes, and notwithstanding anything contained in Section 14.1 or in such Note to the contrary, the Company will pay all sums becoming due on such Note for principal, Make-Whole Amount, if any, and interest by the method and at the address specified for such purpose below such Purchaser's name in *Schedule A*, or by such other method or at such other address as such Purchaser shall have from time to time specified to the Company in writing for such purpose, without the presentation or surrender of such Note or the making of any

notation thereon, except that upon written request of the Company made concurrently with or reasonably promptly after payment or prepayment in full of any Note, such Purchaser shall surrender such Note for cancellation, reasonably promptly after any such request, to the Company at its principal executive office or at the place of payment most recently designated by the Company pursuant to Section 14.1. Prior to any sale or other disposition of any Note held by a Purchaser or its nominee, such Purchaser will, at its election, either endorse thereon the amount of principal paid thereon and the last date to which interest has been paid thereon or surrender such Note to the Company in exchange for a new Note or Notes pursuant to Section 13.2. The Company will afford the benefits of this Section 14.2 to any Institutional Investor that is the direct or indirect transferee of any Note purchased by a Purchaser under this Agreement and that has made the same agreement relating to such Note as the Purchasers have made in this Section 14.2.

Section 15. EXPENSES, ETC.

Section 15.1. Transaction Expenses. Whether or not the transactions contemplated hereby are consummated, the Company will pay all costs and expenses (including reasonable attorneys' fees of not more than one (1) special counsel and, if reasonably required by the Required Holders, local or other counsel) incurred by the Purchasers and each other holder of a Note or Notes in connection with such transactions (including, without limitation, reasonable fees, charges and disbursements of the Purchasers' single counsel incurred on and after the Closing with respect to preparation and delivery of closing document sets and binders for the transactions contemplated hereby to the holders of Notes and other Persons) and in connection with any amendments, waivers or consents under or in respect of this Agreement or the Notes (whether or not such amendment, waiver or consent becomes effective), including, without limitation: (a) the costs and expenses incurred in enforcing or defending (or determining whether or how to enforce or defend) any rights under this Agreement or the Notes or in responding to any subpoena or other legal process or informal investigative demand issued in connection with this Agreement or the Notes, or by reason of being a holder of any Note or Notes, (b) the costs and expenses, including financial advisors' fees, incurred in connection with the insolvency or bankruptcy of the Company or any Subsidiary or in connection with any work-out or restructuring of the transactions contemplated hereby and by the Notes and (c) the costs and expenses incurred in connection with the initial filing of this Agreement and all related documents and financial information with the SVO; *provided, however*, that such costs and expenses under this clause (c) shall not exceed $5,000. The Company will pay, and will save each Purchaser and each other holder of a Note or Notes harmless from, all claims in respect of any fees, costs or expenses if any, of brokers and finders (other than those, if any, retained by a Purchaser or other holder in connection with its purchase of the Notes).

Section 15.2. Survival. The obligations of the Company under this Section 15 will survive the payment or transfer of any Note, the enforcement, amendment or waiver of any provision of this Agreement or the Notes, and the termination of this Agreement.

Section 16. SURVIVAL OF REPRESENTATIONS AND WARRANTIES; ENTIRE AGREEMENT.

All representations and warranties contained herein shall survive the execution and delivery of this Agreement and the Notes, the purchase or transfer by any Purchaser of any Note or portion thereof or interest therein and the payment of any Note, and may be relied upon by any subsequent holder of a Note or Notes, regardless of any investigation made at any time by or on behalf of such Purchaser or any other holder of a Note or Notes. All statements contained in any certificate or other instrument delivered by or on behalf of the Company pursuant to this Agreement shall be deemed representations and warranties of the Company under this Agreement. Subject to the preceding sentence, this Agreement and the Notes embody the entire agreement and understanding between each Purchaser and the Company and supersede all prior agreements and understandings relating to the subject matter hereof.

Section 17. AMENDMENT AND WAIVER.

Section 17.1. Requirements. This Agreement and the Notes may be amended, and the observance of any term hereof or of the Notes may be waived (either retroactively or prospectively), with (and only with) the written consent of the Company and the Required Holders, except that (a) no amendment or waiver of any of the provisions of Section 1, 2, 3, 4, 5, 6 or 21 hereof, or any defined term (as it is used therein), will be effective as to any Purchaser unless consented to by such Purchaser in writing, and (b) no such amendment or waiver may, without the written consent of the holder of each Note at the time outstanding affected thereby, (i) subject to the provisions of Section 12 relating to acceleration or rescission, change the amount or time of any prepayment or payment of principal of, or reduce the rate or change the time of payment or method of computation of interest or of the Make-Whole Amount on, the Notes, (ii) change the percentage of the principal amount of the Notes the holders of which are required to consent to any such amendment or waiver, or (iii) amend any of Sections 8, 11(a), 11(b), 12, 17, 20.

Section 17.2. Solicitation of Holders of Notes.

(a) *Solicitation.* The Company will provide each holder of a Note or Notes (irrespective of the amount of Notes then owned by it) with sufficient information, sufficiently far in advance of the date a decision is required, to enable such holder to make an informed and considered decision with respect to any proposed amendment, waiver or consent in respect of any of the provisions hereof or of the Notes. The Company will deliver executed or true and correct copies of each amendment, waiver or consent effected pursuant to the provisions of this Section 17 to each holder of an outstanding Note or Notes promptly following the date on which it is executed and delivered by, or receives the consent or approval of, the requisite holders of Notes.

(b) *Payment.* The Company will not directly or indirectly pay or cause to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise, or grant any security or provide other credit support, to any holder of a Note or Notes as consideration for or as an inducement to the entering into by any holder of a Note or Notes or any waiver or amendment of any of the terms and provisions hereof unless such remuneration is concurrently

paid, or security is concurrently granted or other credit support concurrently provided, on the same terms, ratably to each holder of a Note or Notes then outstanding even if such holder did not consent to such waiver or amendment.

(c) *Consent in Contemplation of Transfer.* Any consent made pursuant to this Section 17.2 by the holder of any Note or Notes that has transferred or has agreed to transfer such Note to the Company, any Subsidiary or any Affiliate of the Company and has provided or has agreed to provide such written consent as a condition to such transfer shall be void and of no force or effect except solely as to such holder, and any amendments effected or waivers granted or to be effected or granted that would not have been or would not be so effected or granted but for such consent (and the consents of all other holders of a Note or Notes that were acquired under the same or similar conditions) shall be void and of no force or effect except solely as to such transferring holder.

Section 17.3. Binding Effect, Etc. Any amendment or waiver consented to as provided in this Section 17 applies equally to all holders of a Note or Notes and is binding upon them and upon each future holder of any Note or Notes and upon the Company without regard to whether such Note has been marked to indicate such amendment or waiver. No such amendment or waiver will extend to or affect any obligation, covenant, agreement, Default or Event of Default not expressly amended or waived or impair any right consequent thereon. No course of dealing between the Company and the holder of any Note or Notes nor any delay in exercising any rights hereunder or under any Note shall operate as a waiver of any rights of any holder of such Note or Notes. As used herein, the term "*this Agreement*" and references thereto shall mean this Agreement as it may from time to time be amended or supplemented.

Section 17.4. Notes Held by Company, Etc. Solely for the purpose of determining whether the holders of the requisite percentage of the aggregate principal amount of Notes then outstanding approved or consented to any amendment, waiver or consent to be given under this Agreement or the Notes, or have directed the taking of any action provided herein or in the Notes to be taken upon the direction of the holders of a specified percentage of the aggregate principal amount of Notes then outstanding, Notes directly or indirectly owned by the Company or any of its Affiliates shall be deemed not to be outstanding.

Section 18. NOTICES.

All notices and communications provided for hereunder shall be in writing and sent (a) by telecopy if the sender on the same day sends a confirming copy of such notice by a recognized overnight delivery service (charges prepaid), or (b) by registered or certified mail with return receipt requested (postage prepaid), or (c) by a recognized overnight delivery service (with charges prepaid); provided that any financial statements and certificates sent pursuant to Section 7.1 and 7.2 shall be sent by first class mail. Any such notice must be sent:

(i) if to any Purchaser or its nominee, to such Purchaser or nominee at the address specified for such communications in *Schedule A*, or at such other address as such Purchaser or nominee shall have specified to the Company in writing,

(ii) if to any other holder of any Note or Notes, to such holder at such address as such other holder shall have specified to the Company in writing, or

(iii) if to the Company, to the Company at its address set forth at the beginning hereof to the attention of Secretary, or at such other address as the Company shall have specified to the holder of each Note in writing.

Notices under this Section 18 will be deemed given only when actually received.

Section 19. REPRODUCTION OF DOCUMENTS.

This Agreement and all documents relating thereto, including, without limitation, (a) consents, waivers and modifications that may hereafter be executed, (b) documents received by any Purchaser at the Closing (except the Notes themselves) and (c) financial statements, certificates and other information previously or hereafter furnished to any Purchaser, may be reproduced by such Purchaser by any photographic, photostatic, electronic, digital, or other similar process and such Purchaser may destroy any original document so reproduced. The Company agrees and stipulates that, to the extent permitted by applicable law, any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made by such Purchaser in the regular course of business) and any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence. This Section 19 shall not prohibit the Company or any other holder of a Note or Notes from contesting any such reproduction to the same extent that it could contest the original, or from introducing evidence to demonstrate the inaccuracy of any such reproduction.

Section 20. CONFIDENTIAL INFORMATION.

For the purposes of this Section 20, "*Confidential Information*" means information delivered to any Purchaser by or on behalf of the Company or any Subsidiary in connection with the transactions contemplated by or otherwise pursuant to this Agreement; *provided*, that such term does not include information that (a) was publicly known or otherwise known to such Purchaser prior to the time of such disclosure, (b) subsequently becomes publicly known through no act or omission by such Purchaser or any person acting on such Purchaser's behalf, (c) otherwise becomes known to such Purchaser other than through disclosure by the Company or any Subsidiary or (d) constitutes financial statements delivered to such Purchaser under Section 7.1 that are otherwise publicly available. Each Purchaser will maintain the confidentiality of such Confidential Information in accordance with procedures adopted by such Purchaser in good faith to protect confidential information of third parties delivered to such Purchaser; *provided*, that such Purchaser may deliver or disclose Confidential Information to (i) its directors, trustees, officers, employees, agents, attorneys and affiliates (to the extent such disclosure reasonably relates to the administration of the investment represented by its Notes), (ii) its financial advisors and other professional advisors who agree to hold confidential the Confidential Information substantially in accordance with the terms of this Section 20, (iii) any

other holder of any Note or Notes, (iv) any Institutional Investor to which it sells or offers to sell such Note or any part thereof or any participation therein (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 20), (v) any Person from which it offers to purchase any security of the Company (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 20), (vi) any federal or state regulatory authority having jurisdiction over such Purchaser, (vii) the NAIC or the SVO or, in each case, any similar organization, or any nationally recognized rating agency that requires access to information about such Purchaser's investment portfolio, or (viii) any other Person to which such delivery or disclosure may be necessary or appropriate (w) to effect compliance with any law, rule, regulation or order applicable to such Purchaser, (x) in response to any subpoena or other legal process, (y) in connection with any litigation to which such Purchaser is a party or (z) if an Event of Default has occurred and is continuing, to the extent such Purchaser may reasonably determine such delivery and disclosure to be necessary or appropriate in the enforcement or for the protection of the rights and remedies under such Purchaser's Notes and this Agreement. Each holder of a Note or Notes, by its acceptance of a Note, will be deemed to have agreed to be bound by and to be entitled to the benefits of this Section 20 as though it were a party to this Agreement. On reasonable request by the Company in connection with the delivery to any holder of a Note or Notes of information required to be delivered to such holder under this Agreement or requested by such holder (other than a holder that is a party to this Agreement or its nominee), such holder will enter into an agreement with the Company embodying the provisions of this Section 20.

Section 21. SUBSTITUTION OF PURCHASER.

Each Purchaser shall have the right to substitute any one of its Affiliates as the purchaser of the Notes that it has agreed to purchase hereunder, by written notice to the Company, which notice shall be signed by both such Purchaser and such Affiliate, shall contain such Affiliate's agreement to be bound by this Agreement and shall contain a confirmation by such Affiliate of the accuracy with respect to it of the representations set forth in Section 6. Upon receipt of such notice, any reference to such Purchaser in this Agreement (other than in this Section 21), shall be deemed to refer to such Affiliate in lieu of such original Purchaser. In the event that such Affiliate is so substituted as a Purchaser hereunder and such Affiliate thereafter transfers to such original Purchaser all of the Notes then held by such Affiliate, upon receipt by the Company of notice of such transfer, any reference to such Affiliate as a "Purchaser" in this Agreement (other than in this Section 21), shall no longer be deemed to refer to such Affiliate, but shall refer to such original Purchaser, and such original Purchaser shall again have all the rights of an original holder of a Note or Notes under this Agreement.

Section 22. MISCELLANEOUS.

Section 22.1. Successors and Assigns. All covenants and other agreements contained in this Agreement by or on behalf of any of the parties hereto bind and inure to the benefit of their

respective successors and assigns (including, without limitation, any subsequent holder of a Note or Notes) whether so expressed or not.

Section 22.2. Payments Due on Non-Business Days. Anything in this Agreement or the Notes to the contrary notwithstanding (but without limiting the requirement in Section 8.4 that the notice of any optional prepayment specify a Business Day as the date fixed for such prepayment), any payment of principal of or Make-Whole Amount or interest on any Note that is due on a date other than a Business Day shall be made on the next succeeding Business Day without including the additional days elapsed in the computation of the interest payable on such next succeeding Business Day; *provided*, that if the maturity date of any Note is a date other than a Business Day, the payment otherwise due on such maturity date shall be made on the next succeeding Business Day and shall include the additional days elapsed in the computation of interest payable on such next succeeding Business Day.

Section 22.3. Accounting Terms. All accounting terms used herein which are not expressly defined in this Agreement have the meanings respectively given to them in accordance with GAAP. Except as otherwise specifically provided herein, (i) all computations made pursuant to this Agreement shall be made in accordance with GAAP, and (ii) all financial statements shall be prepared in accordance with GAAP.

Section 22.4. Severability. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall (to the full extent permitted by law) not invalidate or render unenforceable such provision in any other jurisdiction.

Section 22.5. Construction, Etc. Each covenant contained herein shall be construed (absent express provision to the contrary) as being independent of each other covenant contained herein, so that compliance with any one covenant shall not (absent such an express contrary provision) be deemed to excuse compliance with any other covenant. Where any provision herein refers to action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such Person.

For the avoidance of doubt, all Schedules and Exhibits attached to this Agreement shall be deemed to be a part hereof.

Section 22.6. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies hereof, each signed by less than all, but together signed by all, of the parties hereto.

Section 22.7. Governing Law. This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of New York.

Section 22.8. Jurisdiction and Process; Waiver of Jury Trial. (a) The Company irrevocably submits to the non-exclusive jurisdiction of any New York State or federal court

sitting in the Borough of Manhattan, The City of New York, over any suit, action or proceeding arising out of or relating to this Agreement or the Notes. To the fullest extent permitted by applicable law, the Company irrevocably waives and agrees not to assert, by way of motion, as a defense or otherwise, any claim that it is not subject to the jurisdiction of any such court, any objection that it may now or hereafter have to the laying of the venue of any such suit, action or proceeding brought in any such court and any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum.

(b) The Company consents to process being served by or on behalf of any holder of a Note or Notes in any suit, action or proceeding of the nature referred to in Section 22.8(a) by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, return receipt requested, to it at its address specified in Section 18 or at such other address of which such holder shall then have been notified pursuant to said Section. The Company agrees that such service upon receipt (i) shall be deemed in every respect effective service of process upon it in any such suit, action or proceeding and (ii) shall, to the fullest extent permitted by applicable law, be taken and held to be valid personal service upon and personal delivery to it. Notices hereunder shall be conclusively presumed received as evidenced by a delivery receipt furnished by the United States Postal Service or any reputable commercial delivery service.

(c) Nothing in this Section 22.8 shall affect the right of any holder of a Note or Notes to serve process in any manner permitted by law, or limit any right that the holders of any of the Notes may have to bring proceedings against the Company in the courts of any appropriate jurisdiction or to enforce in any lawful manner a judgment obtained in one jurisdiction in any other jurisdiction.

(d) THE PARTIES HERETO HEREBY WAIVE TRIAL BY JURY IN ANY ACTION BROUGHT ON OR WITH RESPECT TO THIS AGREEMENT, THE NOTES OR ANY OTHER DOCUMENT EXECUTED IN CONNECTION HEREWITH OR THEREWITH.

[*The remainder of this page is intentionally left blank.*]

If you are in agreement with the foregoing, please sign the form of agreement on a counterpart of this Agreement and return it to the Company, whereupon this Agreement shall become a binding agreement between you and the Company.

Very truly yours,

THE BROOKLYN UNION GAS COMPANY,
doing business as KEYSPAN ENERGY
DELIVERY NEW YORK

By:_____
Name:
Title:

This Agreement is hereby accepted and agreed to as of the date hereof.

[PURCHASER SIGNATURE BLOCKS TO BE INSERTED]

INFORMATION RELATING TO PURCHASERS

NAME AND ADDRESS OF PURCHASER:	PRINCIPAL AMOUNT OF NOTES OF NOTES TO BE PURCHASED: $
All payments by wire transfer of immediately available funds to: with sufficient information to identify the source and application of such funds.	
All notices of payments and written confirmations of such wire transfers:	
All other communications:	
Tax identification number:	

DEFINED TERMS

As used herein, the following terms have the respective meanings set forth below or set forth in the Section hereof following such term:

"**Affiliate**" means, at any time, and with respect to any Person, any other Person that at such time directly or indirectly through one or more intermediaries Controls, or is Controlled by, or is under common Control with, such first Person. As used in this definition, "*Control*" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. Unless the context otherwise clearly requires, any reference to an "*Affiliate*" is a reference to an Affiliate of the Company.

"**Anti-Terrorism Order**" means Executive Order No. 13,224 of September 24, 2001, Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit or Support Terrorism, 66 U.S. Fed. Reg. 49, 079 (2001), as amended.

"**Business Day**" means any day other than a Saturday, a Sunday or a day on which commercial banks in New York City are required or authorized to be closed.

"**Capital Lease**" means, at any time, a lease with respect to which the lessee is required concurrently to recognize the acquisition of an asset and the incurrence of a liability in accordance with GAAP.

"**Closing**" is defined in Section 3.

"**Code**" means the Internal Revenue Code of 1986, as amended from time to time, and the rules and regulations promulgated thereunder from time to time.

"**Company**" means The Brooklyn Union Gas Company, doing business as KeySpan Energy Delivery New York, a New York corporation, or any successor that becomes such in the manner prescribed in Section 10.2.

"**Confidential Information**" is defined in Section 20.

"**Default**" means an event or condition the occurrence or existence of which would, with the lapse of time or the giving of notice or both, become an Event of Default.

"**Default Rate**" means that rate of interest that is the greater of (i) two percent (2.00)% per annum above the rate of interest stated in clause (a) of the first paragraph of the Notes and (ii) two percent (2.00%) per annum over the rate of interest publicly announced by JPMorgan Chase Bank, N.A. from time to time in New York, New York as its "base" or "prime" rate.

"**Disclosure Documents**" is defined in Section 5.3.

"**Environmental Laws**" means any and all Federal, state, local, and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or governmental restrictions relating to pollution and the protection of the environment or the release of any materials into the environment, including, but not limited to, those related to Hazardous Materials.

"**ERISA**" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

"**ERISA Affiliate**" means any trade or business (whether or not incorporated) that is treated as a single employer together with the Company under section 414 of the Code.

"**Event of Default**" is defined in Section 11.

"**Financial Covenant**" is defined in Section 10.5.

"**GAAP**" means generally accepted accounting principles as in effect from time to time in the United States of America.

"**Governmental Authority**" means

(a) the government of

(i) the United States of America or any State or other political subdivision thereof, or

(ii) any other jurisdiction in which the Company or any Subsidiary conducts all or any part of its business, or which asserts jurisdiction over any properties of the Company or any Subsidiary, or

(b) any entity exercising executive, legislative, judicial, regulatory or administrative functions of, or pertaining to, any such government.

"**Guaranty**" means, with respect to any Person, any obligation (except the endorsement in the ordinary course of business of negotiable instruments for deposit or collection) of such Person guaranteeing or in effect guaranteeing any indebtedness, dividend or other obligation of any other Person in any manner, whether directly or indirectly, including (without limitation) obligations incurred through an agreement, contingent or otherwise, by such Person:

(a) to purchase such indebtedness or obligation or any property constituting security therefor;

(b) to advance or supply funds (i) for the purchase or payment of such indebtedness or obligation, or (ii) to maintain any working capital or other balance sheet condition or any income statement condition of any other Person or otherwise to advance or make available funds for the purchase or payment of such indebtedness or obligation;

(c) to lease properties or to purchase properties or services primarily for the purpose of assuring the owner of such indebtedness or obligation of the ability of any other Person to make payment of the indebtedness or obligation; or

(d) otherwise to assure the owner of such indebtedness or obligation against loss in respect thereof.

In any computation of the indebtedness or other liabilities of the obligor under any Guaranty, the indebtedness or other obligations that are the subject of such Guaranty shall be assumed to be direct obligations of such obligor.

"**Hazardous Material**" means any and all pollutants, toxic or hazardous wastes or other substances that might pose a hazard to health and safety, the removal of which may be required or the generation, manufacture, refining, production, processing, treatment, storage, handling, transportation, transfer, use, disposal, release, discharge, spillage, seepage or filtration of which is or shall be restricted, prohibited or penalized by any applicable law, including, but not limited to, asbestos, urea formaldehyde foam insulation, polychlorinated biphenyls, petroleum, petroleum products, lead based paint, radon gas or similar restricted, prohibited or penalized substances.

"**holder**" means, with respect to any Note, the Person in whose name such Note is registered in the register maintained by the Company pursuant to Section 13.1.

"**Indebtedness**" with respect to any Person means, at any time, without duplication,

(a) its liabilities for borrowed money and its redemption obligations in respect of mandatorily redeemable Preferred Stock;

(b) its liabilities for the deferred purchase price of property acquired by such Person (excluding accounts payable arising in the ordinary course of business but including all liabilities created or arising under any conditional sale or other title retention agreement with respect to any such property);

(c) (i) all liabilities appearing on its balance sheet in accordance with GAAP in respect of Capital Leases and (ii) all liabilities which would appear on its balance sheet in accordance with GAAP in respect of Synthetic Leases assuming such Synthetic Leases were accounted for as Capital Leases;

(d) all liabilities for borrowed money secured by any Lien with respect to any property owned by such Person (whether or not it has assumed or otherwise become liable for such liabilities);

(e) all its liabilities in respect of letters of credit or instruments serving a similar function issued or accepted for its account by banks and other financial institutions (whether or not representing obligations for borrowed money);

(f) the aggregate net liability represented by the Swap Termination Value of all Swap Contracts of such Person, other than Swap Contracts entered into in the ordinary course of business and not for speculative purposes; and

(g) any Guaranty of such Person with respect to liabilities of a type described in any of clauses (a) through (f) hereof.

"**Institutional Investor**" means (a) any Purchaser, (b) any holder of a Note or Notes holding (together with one or more of its affiliates) $1,000,000 or more of the aggregate

principal amount of the Notes then outstanding, (c) any bank, trust company, savings and loan association or other financial institution, any pension plan, any investment company, any insurance company, any broker or dealer, or any other similar financial institution or entity, regardless of legal form, and (d) any Related Fund of any holder of any Note or Notes.

"**Lien**" means, with respect to any Person, any mortgage, lien, pledge, charge, security interest or other encumbrance, or any interest or title of any vendor, lessor, lender or other secured party to or of such Person under any conditional sale or other title retention agreement or Capital Lease, upon or with respect to any property or asset of such Person (including in the case of stock, stockholder agreements, voting trust agreements and all similar arrangements).

"**Make-Whole Amount**" is defined in Section 8.6.

"**Material**" means material in relation to the business, operations, affairs, financial condition, assets or properties of the Company and its Subsidiaries taken as a whole.

"**Material Adverse Effect**" means a material adverse effect on (a) the business, operations, affairs, financial condition, assets or properties of the Company and its Subsidiaries taken as a whole, (b) the ability of the Company to perform its obligations under this Agreement and the Notes or (c) the validity or enforceability of this Agreement or the Notes.

"**Memorandum**" is defined in Section 5.3.

"**MFN Notice**" is defined in Section 10.5.

"**Multiemployer Plan**" means any Plan that is a "multiemployer plan" (as such term is defined in section 4001(a)(3) of ERISA) to which the Company or any ERISA Affiliate is making or accruing an obligation to make contributions, or has, within any of the preceding five (5) plan years, made or accrued an obligation to make contributions or with respect to which the Company or any ERISA Affiliate may have any liability.

"**NAIC**" means the National Association of Insurance Commissioners or any successor thereto.

"**Notes**" is defined in Section 1.

"**Officer's Certificate**" means a certificate of a Senior Financial Officer or of any other officer of the Company whose responsibilities extend to the subject matter of such certificate.

"**Other Debt**" is defined in Section 10.5.

"**PBGC**" means the Pension Benefit Guaranty Corporation referred to and defined in ERISA or any successor thereto.

"**Permitted Liens**" means, without duplication,

(a) any purchase-money mortgage or Lien or other Lien to which any property or asset acquired by the Company is subject as of the date of its acquisition by the Company;

(b) any deposit or pledge to secure public or statutory obligations or with any governmental agency at any time required by law in order to qualify the Company to conduct its business or any part thereof or in order to entitle it to maintain self-insurance or to obtain the benefits of any law relating to workmen's compensation, unemployment insurance, old age pensions or other social security;

(c) any Lien with any court, board, commission or governmental agency as security by the Company incident to the proper conduct of any proceeding before it;

(d) any Lien for taxes, assessments or governmental charges or levies of the Company not yet delinquent or being contested in good faith by appropriate proceedings diligently conducted, if such reserve or other appropriate provision, if any, as shall be required by generally accepted accounting principles shall have been made therefor;

(e) any Liens of landlords or mechanics and materialmen incurred by the Company in the ordinary course of business for sums not yet due or being contested in good faith by appropriate proceedings diligently conducted, if such reserve or other appropriate provision, if any, as shall be required by generally accepted accounting principles, shall have been made therefor;

(f) any lease or sublease granted to others by the Company in the ordinary course of business; easements, rights-of-way, restrictions and other similar encumbrances incurred in the ordinary course of business and not interfering with the ordinary conduct of the business of the Company;

(g) any Lien incurred in connection with the issuance by a state or political subdivision thereof of any securities with respect to the Company the interest on which is exempt from federal income taxes by virtue of Section 103 of the Code or any other laws or regulations in effect at the time of such issuance; and

(h) any Lien for the sole purpose of extending, renewing or replacing in whole or in part the Indebtedness secured by any Lien referred to in the foregoing clauses or in this clause; *provided, however*, that the principal amount of Indebtedness secured thereby shall not exceed the principal amount of Indebtedness secured at the time of such extension, renewal or replacement and that such extension, renewal or replacement shall be limited to all or a part of the property which secured the Lien so extended, renewed or replaced (plus improvements on such property).

"**Person**" means an individual, partnership, corporation, limited liability company, association, trust, unincorporated organization, business entity or Governmental Authority.

"**Plan**" means an "employee pension benefit plan" (as defined in section 3(2) of ERISA) subject to Title IV of ERISA (other than a Multiemployer Plan) that is or, within the preceding five years, has been established or maintained, or to which contributions are or, within the

preceding five years, have been made or required to be made, by the Company or any ERISA Affiliate or with respect to which the Company or any ERISA Affiliate may have any liability.

"**Preferred Stock**" means any class of capital stock of a Person that is preferred over any other class of capital stock (or similar equity interests) of such Person as to the payment of dividends or the payment of any amount upon liquidation or dissolution of such Person.

"**property**" or "**properties**" means, unless otherwise specifically limited, real or personal property of any kind, tangible or intangible, choate or inchoate.

"**PTE**" is defined in Section 6.2(a).

"**Purchaser**" is defined in the first paragraph of this Agreement.

"**Qualified Institutional Buyer**" means any Person who is a "qualified institutional buyer" within the meaning of such term as set forth in Rule 144A(a)(1) under the Securities Act.

"**Related Fund**" means, with respect to any holder of any Note or Notes, any fund or entity that (i) invests in Securities or bank loans, and (ii) is advised or managed by such holder, the same investment advisor as such holder or by an affiliate of such holder or such investment advisor.

"**Required Holders**" means, at any time, the holders of at least fifty-one percent (51.0%) in principal amount of the Notes at the time outstanding (exclusive of Notes then owned by the Company or any of its Affiliates).

"**Responsible Officer**" means any Senior Financial Officer and any other officer of the Company with responsibility for the administration of the relevant portion of this Agreement.

"**SEC**" shall mean the Securities and Exchange Commission of the United States, or any successor thereto.

"**Securities**" or "**Security**" shall have the meaning specified in Section 2(1) of the Securities Act.

"**Securities Act**" means the Securities Act of 1933, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

"**Senior Financial Officer**" means the chief financial officer, principal accounting officer, treasurer or comptroller of the Company.

"**Significant Subsidiary**" means at any time any Subsidiary that would at such time constitute a "significant subsidiary" (as such term is defined in Regulation S-X of the SEC as in effect on the date of the Closing) of the Company.

"**Subsidiary**" means, as to any Person, any other Person in which such first Person or one or more of its Subsidiaries or such first Person and one or more of its Subsidiaries owns sufficient equity or voting interests to enable it or them (as a group) ordinarily, in the absence of

contingencies, to elect a majority of the directors (or Persons performing similar functions) of such second Person, and any partnership or joint venture if more than a 50% interest in the profits or capital thereof is owned by such first Person or one or more of its Subsidiaries or such first Person and one or more of its Subsidiaries (unless such partnership or joint venture can and does ordinarily take major business actions without the prior approval of such first Person or one or more of its Subsidiaries). Unless the context otherwise clearly requires, any reference to a "Subsidiary" is a reference to a Subsidiary of the Company.

"**SVO**" means the Securities Valuation Office of the NAIC or any successor to such Office.

"**Swap Contract**" means (a) any and all interest rate swap transactions, basis swap transactions, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward foreign exchange transactions, cap transactions, floor transactions, currency options, spot contracts or any other similar transactions or any of the foregoing (including, but without limitation, any options to enter into any of the foregoing), and (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swaps and Derivatives Association, Inc. or any International Foreign Exchange Master Agreement.

"**Swap Termination Value**" means, in respect of any one or more Swap Contracts, after taking into account the effect of any legally enforceable netting agreement relating to such Swap Contracts, (a) for any date on or after the date such Swap Contracts have been closed out and termination value(s) determined in accordance therewith, such termination value(s), and (b) for any date prior to the date referenced in clause (a), the amounts(s) determined as the mark-to-market values(s) for such Swap Contracts, as determined based upon one or more mid-market or other readily available quotations provided by any recognized dealer in such Swap Contracts.

"**Synthetic Lease**" means, at any time, any lease (including leases that may be terminated by the lessee at any time) of any property (a) that is accounted for as an operating lease under GAAP and (b) in respect of which the lessee retains or obtains ownership of the property so leased for United States federal income tax purposes, other than any such lease under which such Person is the lessor.

"**USA Patriot Act**" means United States Public Law 107-56, Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT ACT) Act of 2001, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

"**Wholly-Owned Subsidiary**" means, at any time, any Subsidiary all of the equity interests (except directors' qualifying shares) and voting interests of which are owned by any one or more of the Company and the Company's other Wholly-Owned Subsidiaries at such time.

DISCLOSURE DOCUMENTS

Management's Presentation, dated October 20, 2006, used in connection with the offering of the Notes pursuant to the Note Purchase Agreement of which this is Schedule 5.3.

Keyspan Corporation, the Company's parent, disclosed in its Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 that on October 31, 2006, a lawsuit was filed alleging damages resulting from the contamination associated with the historic operations of a former manufactured gas plant in Staten Island, New York. Keyspan Corporation has been conducting site investigation and remediation activities at this location pursuant to an Order on Consent with the New York Department of Environmental Conservation. Keyspan Corporation intends to contest the proceeding vigorously. At this time, the Company is unable to predict what effect, if any, the outcome of this proceeding will have on its financial condition, results of operations and cash flows.

1-page handout for Follow-up Investor Conference Call, November 17, 2006.

SUBSIDIARIES OF THE COMPANY AND OWNERSHIP OF SUBSIDIARY STOCK

Entity	**Jurisdiction of Incorporation; Type of Entity**	**Percentage of Outstanding Shares Held by the Company**
North East Transmission Co., Inc.	State of Delaware; corporation	100

SCHEDULE 5.5

FINANCIAL STATEMENTS

Audited consolidated financial statements for the Company and its Subsidiaries for the years ended December 31, 2005, December 31, 2004, December 31, 2003, December 31, 2002 and December 31, 2001, and unaudited consolidated financial statements for the quarter ended June 30, 2006.

EXISTING INDEBTEDNESS

	As of October 31, 2006 *(In Thousands of Dollars)*
Inter-Group Money Pool Borrowing	$ 397,087
Total Short-Term Debt	397,087
Long-Term Debt	
Gas Facilities Revenue Bonds	
6.368% Series 1993A and 1993B due April 1, 2020	75,000
Variable Rate Series 1997 due December 1, 2020	125,000
5.5% Series 1996 due January 1, 2021	153,500
4.7% Series 2005A due February 1, 2024	82,000
Variable Rate Series 2005B due June 1, 2025	55,000
6.952% Series 1991A and 1991B due July 1, 2026	100,000
Variable Rate Series 1991D due July 1, 2026	50,000
Total Long-Term Debt	640,500
Total Debt	**$ 1,037,587**

FORM OF NOTE

THE BROOKLYN UNION GAS COMPANY,
doing business as KEYSPAN ENERGY DELIVERY NEW YORK

5.60% SENIOR UNSECURED NOTE DUE NOVEMBER 29, 2016

No. [_____]
$[_____]

November 29, 2006
PPN 114259 A* 5

FOR VALUE RECEIVED, the undersigned, The Brooklyn Union Gas Company, doing business as KeySpan Energy Delivery New York (herein called the "**Company**"), a corporation organized and existing under the laws of the State of New York, hereby promises to pay to [_____], or registered assigns, the principal sum of [_____] DOLLARS (or so much thereof as shall not have been prepaid) on November 29, 2016, with interest (computed on the basis of a 360-day year of twelve 30-day months) (a) on the unpaid balance hereof at the rate of 5.60% per annum from the date hereof, payable semi-annually, on the 29th day of May and November in each year, commencing with the 29th day of May or November next succeeding the date hereof, until the principal hereof shall have become due and payable, and (b) to the extent permitted by law, on any overdue payment (including any overdue prepayment) of principal, any overdue payment of interest and any overdue payment of any Make-Whole Amount, payable semi-annually as aforesaid (or, at the option of the registered holder hereof, on demand), at a rate per annum from time to time equal to the greater of (i) 7.60% and (ii) two percent (2.00%) over the rate of interest publicly announced by JPMorgan Chase Bank, N.A. from time to time in New York, New York as its "base" or "prime" rate.

Payments of principal of, interest on and any Make-Whole Amount with respect to this Note are to be made in lawful money of the United States of America at the principal office of Wells Fargo Bank, N.A. in New York, New York or at such other place as the Company shall have designated by written notice to the holder of this Note as provided in the Note Purchase Agreement referred to below.

This Note is one of a series of 5.60% Senior Unsecured Notes due November 29, 2016 (herein called the "**Notes**") issued pursuant to the Note Purchase Agreement, dated as of November 29, 2006 (as from time to time amended, the "**Note Purchase Agreement**"), between the Company and the respective Purchasers named therein and is entitled to the benefits thereof. Each holder of this Note will be deemed, by its acceptance hereof, to have (i) agreed to the confidentiality provisions set forth in Section 20 of the Note Purchase Agreement and (ii) made the representation set forth in Section 6.2 of the Note Purchase Agreement. Unless otherwise indicated, capitalized terms used in this Note shall have the respective meanings ascribed to such terms in the Note Purchase Agreement.

This Note is a registered Note and, as provided in the Note Purchase Agreement, upon surrender of this Note for registration of transfer, accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for a like principal amount will be issued to, and registered in the name

of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company will not be affected by any notice to the contrary.

This Note is subject to optional prepayment, in whole or from time to time in part, at the times and on the terms specified in the Note Purchase Agreement, but not otherwise.

If an Event of Default occurs and is continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, at the price (including any applicable Make-Whole Amount) and with the effect provided in the Note Purchase Agreement.

This Note shall be construed and enforced in accordance with, and the rights of the Company and the holder of this Note shall be governed by, the laws of the State of New York.

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE. THIS NOTE MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR QUALIFICATION OR AN EXEMPTION THEREFROM UNDER THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS.

THE BROOKLYN UNION GAS COMPANY,
doing business as KEYSPAN ENERGY
DELIVERY NEW YORK

By:_____
Name:
Title:

FORM OF OPINION OF IN-HOUSE COUNSEL FOR THE COMPANY

1. Each of the Company and its Subsidiaries being duly incorporated, validly existing and in good standing and the Company having requisite corporate power and authority to issue and sell the Notes and to execute and deliver the documents; to conduct their businesses; and to own and lease their respective properties.

2. Each of the Company and its Significant Subsidiaries being duly qualified and in good standing as a foreign corporation in appropriate jurisdictions.

3. Due authorization, execution and delivery of the documents and such documents being legal, valid, binding and enforceable.

4. No conflicts with charter documents, laws or other agreements.

5. All consents required to issue and sell the Notes and to execute and deliver the documents having been obtained, including without limitation the State of New York Public Service Commission's Order Authorizing Issuance of Securities, issued and effective January 20, 2006.

6. No litigation questioning validity of documents.

The foregoing opinions may be subject to reasonable and customary qualifications and assumptions by the opinion provider. The opinions should be permitted to be furnished to, but not relied upon by, (i) the National Association of Insurance Commissioners and any state, federal or provincial authority or independent banking, insurance board or body having regulatory jurisdiction over the Purchasers and (ii) the Purchasers' independent auditors.

FORM OF OPINION OF SPECIAL COUNSEL FOR THE COMPANY

1. The initial offer and sale of the Notes not requiring registration under the Securities Act of 1933, as amended; no need to qualify an indenture under the Trust Indenture Act of 1939, as amended.

2. No violation of Regulations T, U or X of the Federal Reserve Board.

3. The Company not an "investment company", or a company "controlled" by an "investment company", under the Investment Company Act of 1940, as amended.

The foregoing opinions may be subject to reasonable and customary qualifications and assumptions by the opinion provider. The opinions should be permitted to be furnished to, but not relied upon by, (i) the National Association of Insurance Commissioners and any state, federal or provincial authority or independent banking, insurance board or body having regulatory jurisdiction over the Purchasers and (ii) the Purchasers' independent auditors.