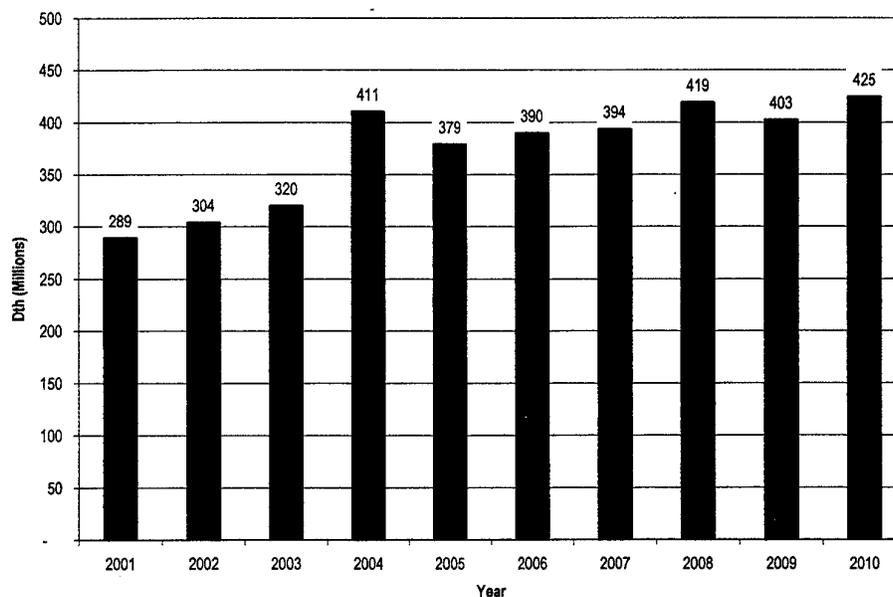


IV.8. Annual Gas Requirements in Power Generation Facilities

The need for new generation facilities in New York City and Long Island will result in a significant increase in natural gas requirements. As illustrated in Exhibit IV-12 annual gas requirements increase slightly from 2001-2003 as existing units are operated at a higher capacity factor and new generation is being developed. However, between 2003 and 2004 gas requirements increase dramatically, from 320 BCF in 2003 to 410 BCF by 2004, due to the increase in new gas-fired generation brought into the market. This forecast can, in fact, be classified as conservative since the generation expansion plan includes two of the proposed transmission cable projects from Connecticut to Long Island (660 Mw). The possible delay or cancellation of these projects would lead to higher gas requirements on Long Island since on-Island generation projects would be required to meet load. After 2004, gas requirements drop slightly and then stabilize due to displacement of older, less efficient generation capacity by new, high efficient units.

Exhibit IV-12 Natural Gas Use for Power Generation - NYC and Long Island



V. Connecticut Electric Power Market Assessment

V.1. Market Overview

The power market in Connecticut does not operate on a stand-alone basis, but rather it is a component of a connected and coordinated New England electricity market. The New England power market includes the six states of Maine, New Hampshire, Vermont, Massachusetts, Connecticut and Rhode Island. The New England wholesale market was traditionally a centrally dispatched power market organized around NEPOOL. NEPOOL coordinated regional power planning and generation dispatch beginning in 1971, and was classified as a tightly coordinated power pool. However, at the state level, individual state public utility commissions, each with different policies and objectives, regulate the utilities within each of the six states.

The New England market can be characterized by its leadership role in transforming its market from a tightly regulated power market to a restructured competitive market. ISO-NE has now assumed responsibility for managing the New England region's electric bulk power generation and transmission systems and administering the region's open access transmission tariff. In addition, ISO-NE administers the restructured wholesale electric market for the region based on a bid-based power exchange. Thus, while the focus of this assessment is on the Connecticut market, it is important to note that operations and planning occurs on a region-wide basis.

V.2. Characteristics of the New England Market

The New England market can be characterized by a number of key factors that serve to highlight the structure and initiatives in the energy market in New England.

1. Wholesale market based on a restructured power pool/ISO structure
2. Market rules still being refined
3. Not a liquid wholesale market
4. Retail access in several states
5. Oil/gas units on the margin
6. High variable cost market
7. Growing gas and power markets
8. Transmission constraints which limit imports
9. High level of generation asset divestiture activity
10. Proliferation of new merchant plant proposals
11. Recent additions to gas pipeline capacity
12. Aging stock of existing generation facilities
13. Major importer of Canadian electricity and gas supplies

In a recent study by the North American Electric Reliability Council entitled "**2001 Summer Assessment – The Reliability of the Bulk Electricity Supply in North America, May 2001**", actual summer peak demand in the New England power market

was reported at 21,919 MW in the year 2000. This was slightly less than the all time peak of 22,544 MW (July 6, 1999). The lower peak was due to the summer of 2000 being cooler than normal. With generating capability and net purchases of over 25,500 MW, ISO New England anticipates that there will be sufficient capacity to meet projected peak demand. Peak demand is projected to grow at a rate of about 1.6% per year.

V.3. New England Demand/Supply Balance

Exhibit V-1 illustrates the latest demand/supply balance within NEPOOL. The data is from the April 1, 2001 ISO-NE report entitled "NEPOOL Forecast of Capacity, Energy, Loads and Transmission – 2001-2010".

Exhibit V-1 NEPOOL Resources and Requirements (MW)

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Unadjusted Peak Demand (Summer)	25,579	27,182	32,097	32,090	32,084	32,052	31,980	31,909	31,770	31,842	31,544
Demand Side Management											
Non-OP4 Int. Contracts	14	14	14	15	15	18	20	22	21	21	20
Peak Load Management	184	185	190	193	195	224	231	224	216	210	204
Conservation on Peak	1,189	1,200	1,257	1,309	1,377	1,397	1,353	1,344	1,286	1,241	1,188
Loss Adjustment	120	124	127	130	138	139	138	135	132	127	122
Total DSM	1,488	1,522	1,588	1,647	1,725	1,778	1,741	1,725	1,654	1,599	1,534
NUGs Netted from Load	10	10	10	10	10	10	10	10	9	8	8
Adjusted Demand	23,153	23,682	24,143	24,498	24,863	25,311	26,721	26,015	26,379	26,725	27,075
Generation Capacity											
Participant	21,243	21,430	25,814	25,814	25,814	25,814	25,814	25,814	25,814	25,814	25,814
Non-participant	3,261	4,583	5,794	5,793	5,793	5,762	5,669	5,618	5,479	5,351	5,253
Net of purchases/Sales	1,022	1,116	436	430	424	424	424	424	424	424	424
Total Supply	26,526	27,129	32,044	32,037	32,031	31,999	31,907	31,856	31,717	31,589	31,491
Installed Reserve (MW)	2,373	3,477	7,901	7,541	7,168	6,688	6,186	5,841	5,338	4,864	4,418
Installed Reserve % of Load	10	15	33	31	29	26	24	22	20	18	16

Source: April 2001 NEPOOL Capacity, Energy, Loads, and Transmission Report.

With the exception of the year 2000, NEPOOL is expected to exceed a 15% reserve requirement, based on the existing installed and committed capacity within NEPOOL. The above projection anticipates a growth in generation capacity of 5,965 MW over the next 10 years, but much of this growth will occur in the first 3 years of the projection.

V.4. NEPOOL Generation Capacity

New England's generation capability represents a varied mix of resources as distinguished by fuel types. The generation mix represents both utility-owned generating assets, as well as independent power projects. The ownership structure of these assets has changed dramatically due to the divestiture of these assets by traditional investor-owned utilities and independent power producers. The upshot of these changes is that the majority of generation capacity in New England will be merchant capacity over the next few years, setting the stage for the transformation to a liquid commodity market. Exhibit V-2 illustrates the mix of installed generation capacity by fuel types in New England.

Exhibit V-2: Installed Capacity by Type, 2001

	Capacity (MW)	Percentage
Oil-Steam	3,466	12.7
Oil/Gas Steam	3,535	13.0
Gas CC/CT	1,558	5.7
Nuclear	4,344	16.0
Coal	2,606	9.6
IPP Thermal	4,347	16.0
Pumped Storage	1,678	6.2
Hydro	1,579	5.8
Oil/Gas Combined Cycle	1,765	6.5
Oil/Gas-CT/IC	981	3.6
Net Purchases	1,116	4.1
Other	153	0.5
Total	27,129	100.0

Source: NEPOOL CELT Report April 1, 2001

The installed generation base in New England is oriented toward intermediate oil and oil/gas steam units. Approximately 30.0% of the NEPOOL capacity is comprised of oil or dual fuel oil/gas units. Many of these units have high heat rates and are relatively old. Only about 9.6% of NEPOOL generation capacity uses coal. Most of these coal-fired plants are smaller in size and may not be able to capture the required economies of scale to make expected environmental upgrades, such as NO_x SCR, economically feasible.

A large share of generation is provided by the base load units, non-utility generators and outside purchases, particularly from Hydro Quebec. Peaking capacity, which is comprised largely of oil/gas combustion turbine and internal combustion projects as well as pumped storage units, comprises 9.8% of total capacity.

Nuclear capacity now accounts for only 16% of NEPOOL capacity due to the retirement of Maine Yankee, Connecticut Yankee, and Millstone Unit 1. The economics and operating performance of several of the remaining nuclear units are uncertain, but recent acquisitions (i.e. Pilgrim Unit by Entergy and the Millstone Station by Dominion) and the expected sale of Vermont Yankee enhance the likelihood that these units will remain on-line at least until their licenses expire. Given the predominance of relatively inefficient fossil steam units in the current New England market, the nuclear units are likely to command a strong base load position. However, lower market prices or higher going-forward costs for these units could hasten their retirements since the new owners will operate these units based on economics.

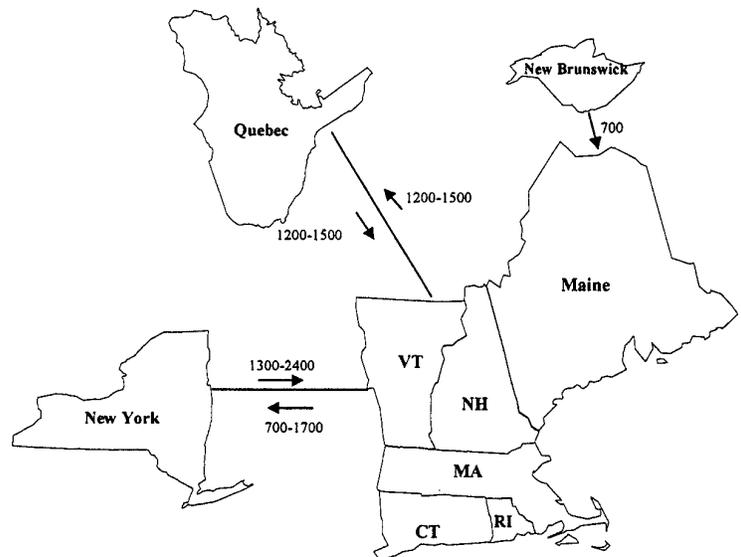
V.5. Transmission System Infrastructure

The New England Power Pool bulk electric transmission system is comprised of 345-kV, 230-kV, 115-kV, and 69-kV facilities that were planned and constructed in an integrated fashion by the New England utilities cooperating through NEPOOL. Historically,

NEPOOL has experienced very limited internal transmission constraints. An analysis of the expected frequency of binding internal transmission constraints, conducted for NEPOOL as part of its FERC filing for approval of market-based rates, indicated that the areas potentially affected by binding constraints were the greater Boston area, southwest Connecticut, and Maine regions. In particular, NEPOOL studies have illustrated that the Connecticut import interface is both thermally and stability limited with a transfer limit of 1,500-2,800 MW. Low generation in Connecticut, exports to New York from northern and eastern New England, and high Connecticut load are primary factors influencing transfer capability. As a result, Connecticut is likely to require in-state generation to meet load requirements.

While the intra-region flow of electricity has been subject to some transmission limitations, the interconnections between New England and neighboring regional power systems are relatively limited, thus placing a premium on resources internal to New England. As shown in Exhibit V-3 below, the total transmission transfer capability into New England is about 4,600 MW, which represents only about 21% of estimated 2000 summer peak requirements. The stated transfer limits represent maximum transfer capabilities, while, in practice, operating constraints on a daily/hourly basis may require transfer to be limited to levels below those presented below. Inter-regional constraints could likely be reduced with a more integrated approach to regional dispatch coordination (e.g., combined NEPOOL and NYPP).

Exhibit V-3: Interregional Transmission Transfer Capabilities (MW)



V.6. Additional Generation/Merchant Plant Activity

New England is in the midst of a period of explosive growth in the gas-fired power generation. The strong demand for power, new gas supplies from offshore Nova Scotia and several pipeline infrastructure expansion proposals has led to many gas-fired merchant power plant proposals in New England.

Many gas-fired power plants have been proposed for the Connecticut region. Exhibit V-4 below lists 16 projects that have been filed at ISO-NE, including three that are currently in-service or are under construction. Exhibit V-5 illustrates the location of the proposed projects within Connecticut. The output from these proposals total 8,134 MW. Obviously, many of these projects are competing with others on the list as well as other projects throughout New England, so not all will be built. One can estimate the gas use for a generic plant, in order to get a sense for the amount of incremental gas that will be required. The average plant size is approximately 500 MW. If the generic plant has a combined cycle configuration and uses today's high-tech turbine technology, it will operate at a low heat rate (i.e. 6,800-7,000 Btu/Kwh)¹. Low heat rate plants of this size consume about 85,000 dth/day of gas when fully operational or approximately 25 Bcf per year at an 80% capacity factor. Therefore, if a small number of the power plant proposals proceed to construction, they will have a significant impact on the amount of gas consumed in Connecticut.

According to the EIA statistics, Connecticut consumed 131,143 MMcf of natural gas in 1999, which translates into an average daily consumption rate of 359,000 dth/day. Adding a new gas-fired power plant that consumes 85,000 dth/day would increase the average daily natural gas requirements in the state by 24%.

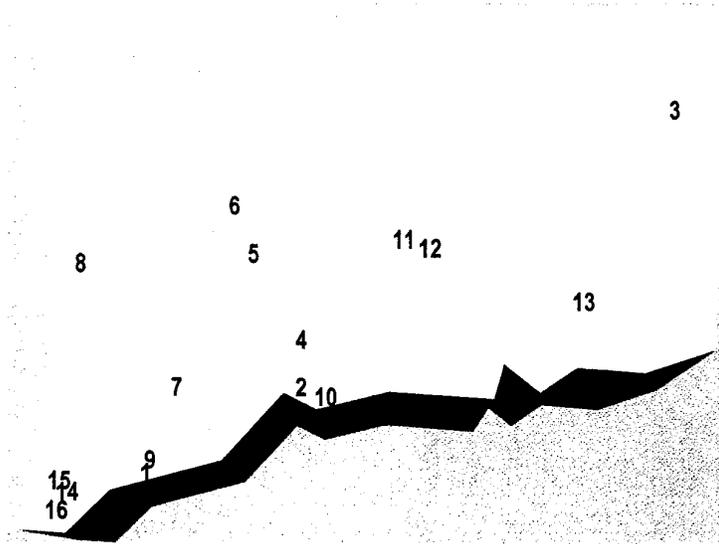
Exhibit V-4 Proposed Gas-Fired Generation in Connecticut

1	Bridgeport Harbor Station	Bridgeport	Bridgeport Energy, LLC.	520	2Q - 1999
2	Milford Power	Milford	Power Development Co. LLC	540	1Q - 2000
3	Lake Road Generating	Killingly	Lake Road Generating Co. LP	810	2Q - 2001
4	Wallingford Power	Wallingford	Wallingford Dept of Utilities	550	1Q - 2001
5	Meriden Power	Meriden	PDC Meriden Power Co.	554	3Q - 2001
6	AES Carpenter	Southington	AES Enterprise Inc.	700	2001
7	Towantic Energy	Oxford	Calpine Corp.	540	2001/2002
8	Rocky River Power	New Milford	Sempra Energy	530	2Q - 2001
9	Bridgeport Harbor Station	Bridgeport	Wisvest Corp.	520	2Q - 2003
10	New Haven Harbor	New Haven	Wisvest Corp.	520	2Q - 2003
11	Middletown A	Middletown	NRG Energy	500	4Q - 2003
12	Middletown B	Middletown	NRG Energy	750	4Q - 2005
13	Montville A	Uncasville	NRG Energy	500	3Q - 2004
14	Norwalk Harbor A	S. Norwalk	NRG Energy	100	4Q - 2003
15	Norwalk Harbor A	S. Norwalk	NRG Energy	400	2Q - 2004
16	S. Norwalk Repowering	S. Norwalk	CT Municipal Electric	100	1Q - 2001
			Total	8,134	

Source: ISO-NE

¹ Heat rate measures the fuel input required to produce a kilowatt hour of electric output. Heat rates in the range of 6,800 – 7,000 Btu/Kwh translate into approximately 50% thermal efficiency

Exhibit V-5 Location of Proposed Gas-Fired Generation in Connecticut



It is important to note that several of these proposed projects are repowering or conversion opportunities at existing generating stations acquired through the divestiture process. For example, NRG is proposing to add 2,250 MW of generating capacity at existing unit sites acquired from Connecticut Light & Power, while Wisvest is proposing to add 1,040 MW to units it acquired from United Illuminating. It is interesting to note that both Sithe and Southern Companies have projects under construction at sites acquired from utilities in New England, including repowering and expansion options. Conversion to natural gas could have a significant environmental benefit for Connecticut by reducing emissions from oil or coal-fired units.

In fact, environmental issues associated with several existing utility units in Connecticut have been a major topic in the state legislature. Both the state Senate and House approved bills to require the state's six oldest, most-polluting power plants to meet modern emission standards by the end of 2004. The targeted plants include New Haven Harbor, Middletown, Montville, Norwalk, Bridgeport Harbor and Milford. Certainly, gas conversions or repowering with gas could serve to reduce emissions and become part of a strategy to meet legislative requirements. Several of these plants are accessible to the Islander East Pipeline.

V.7. Need for New Pipeline Construction

Some 9,049 MW of gas-fired power plant capacity (40% of New England's generating capacity) is in operation or under construction. This profusion of gas-fired merchant power plants has increased the demand for natural gas in the region and has brought into question whether or not there is sufficient pipeline capacity to serve this incremental gas demand. In fact, ISO-NE recently commissioned a study regarding the availability of pipeline capacity to support the generation required to meet New England's power needs. The findings from this study will be discussed in this section.

In an October 2000 report by Energy Ventures Analysis, Inc. entitled "**Consequence of a Natural Gas Dependency for New England's Electrical Supply**", the authors state that more pipeline capacity needs to be constructed to offset the risk of the failure of a pipeline serving New England. *"While the timing of these projects is debatable, unless excess pipeline capacity is built, the region still will be challenged to meet peak day gas requirements that include significant gas demand for power generation. Pg 5-8"*. The study predicts that 15,809 MW of turbine based, gas-fired, power plant capacity will likely be built in New England by 2005. Not surprising, the rapid increase in gas utilization has called for corresponding increases in pipeline capacity.

In a January 2001 report entitled "**Steady-State Analysis of New England's Interstate Pipeline Delivery Capability, 2001-2005**", written for ISO-NE by Levitan and Associates (LAI), the authors used a steady state model to test whether or not New England will have sufficient natural gas pipeline capacity to meet the incremental demand requirements brought on by the construction of new gas-fired power plants. The study concluded *"...that absent any mainline facilities expansions on the interstate pipelines serving New England, significant shortfalls are likely to materialize in 2003."* This evaluation did not include the commercialization of the HubLine project. On page 21 of the report, the authors state *"Should Hubline be commercialized, LAI expects various bottlenecks downstream of Mendon, MA along Algonquin's J lateral to be alleviated."* In other words, the construction of HubLine will alleviate bottlenecks on the Algonquin system in New England. This is good news for gas consumers in Connecticut in terms of reliability and deliverability of gas in the state.

Given that the pipeline capacity serving the state is mostly fully subscribed, other sources of gas will have to be accessed to serve any new gas-fired plants. This gas can be sourced directly through the construction of a new pipeline, or via expansion of an existing pipeline, or through displacement of gas. The combination of HubLine and Islander East will increase the capacity of natural gas delivered to Connecticut. In the report's recommendations, LAI refers to the fact that merchant power generators are vulnerable to pressure swings on the pipeline. New plants have difficulty operating at inlet gas pressures below 400 psig. Gas delivered to southern Connecticut on Islander East will be at a pressure in excess of 400 psig.

VI. Forecasts of Aggregate Gas Requirements in New York and Connecticut

The forecasts of gas requirements in the target markets for the Islander East Project (southeastern New York and Connecticut) are comprised of both traditional LDC and power market requirements. In addition, the forecasts presented include annual requirements and peak day requirements in both markets. For the LDC market, winter season requirements are also analyzed to estimate the amount of pipeline capacity that the LDCs may require. This section draws on the analysis presented in the previous five sections to arrive at a forecast of total gas requirements in the target markets.

As illustrated in Exhibit VI-1, annual gas requirements are projected to increase by approximately 257 Bcf over the forecast period. This equates to an average annual growth rate of 2.67% per year between 2001 and 2010. The growth rate in gas requirements is expected to be much higher between 2001 and 2005 at 3.6% per year. The rate of growth is largely driven by increases in gas requirements in the power generation market in New York, as well as the LDC market in southeastern New York. It is important to note that the gas requirements in the power market of Connecticut are difficult to forecast going forward since the location of plants to be built in the New England market is uncertain. Nevertheless, as previously discussed, there are a number of power generation projects proposed for Connecticut and we would expect that at least one of these projects would enter service during the forecast period. The addition of one of the proposed projects would result in an increase in annual gas consumption of nearly 25 BCF, which is currently not included in the forecast.

Exhibit VI-1 Forecast of Annual Gas Requirements (Bcf)

	2001	2005	2010
Southeastern New York LDC	520.7	571.1	633.6
New York Power Generation	<u>289.3</u>	<u>379.1</u>	<u>424.8</u>
<i>Subtotal New York</i>	<i>810.0</i>	<i>950.2</i>	<i>1,058.4</i>
Connecticut LDC	<u>150.0</u>	<u>155.7</u>	<u>158.5</u>
Total Market	960.0	1,105.9	1,216.9

The peak day forecast is comprised of the same sectors as the annual forecast. The one issue with the forecast is the level of peak day gas requirements for the New York power market given the range of generation expansion projects expected. Thus, we have provided a range of requirements for the electric sector in Section IV of this analysis. In this section, we have utilized Case 4 as the basis for calculating peak day requirements. Case 4 can be considered a relatively conservative case given the projections contained in other cases.

The projections illustrate that the market potential for pipeline capacity exceeds the pipeline capacity proposed by the Islander East Project. Exhibit VI-2 provides the forecast of peak day requirements for gas supply/transportation. Peak day

requirements are projected to increase by 648,000 dth/day between 2001 and 2005 and by an additional 422,000 dth/day between 2005 and 2010.

Exhibit VI-2 Peak Day Forecast Mdth/Day

	2001	2005	2010
Southeastern New York LDC	2,929	3,134	3,395
Power Generation ²	<u>0</u>	<u>392</u>	<u>512</u>
<i>Subtotal New York</i>	2,929	3,526	3,907
Connecticut LDC	<u>798</u>	<u>849</u>	<u>890</u>
Total Market	3,727	4,375	4,797

On a winter season basis, analysis of KeySpan (New York City and Long Island) and Consolidated Edison's demand/supply balance illustrates a shortfall of winter season supplies beginning in 2002/03 for KeySpan and 2001/02 for Consolidated Edison. The shortfall continues through the forecast period, indicating a need for each LDC to contract for seasonal and possibly annual supplies to meet projected load. KeySpan, for example, is projected to require over 110,000 dth/day of seasonal supplies by 2005 and over 300,000 dth/day by 2010 given its forecasted level of growth. This assumes existing supplies are fixed through the contract period.

For Consolidated Edison, winter season requirements going forward are significant but are lower than KeySpan. Consolidated Edison is projected to require 51,000 dth/day of winter season capacity by 2005 and 112,000 dth/day in total by 2010.

Analysis of demand for winter season requirements for the Connecticut LDCs is more complicated since the Companies add gas supplies in their forecast to balance load. However, if we assume that winter season gas supplies are fixed at 2001 levels, Connecticut utilities will require approximately 23,000 dth/day of capacity by 2005 and nearly 41,000 dth/day by 2010.

The analysis shows that the requirements for new incremental gas supplies and transportation on an annual, seasonal, and peak day basis clearly exceed the amount of capacity provided by the Islander East Pipeline, illustrating a definite need for the project in the near term and beyond 2005.

² Based on Case 4. Analysis considers only incremental requirements from 2001.

VII. Economic Impacts/Benefits of Islander East

Demand for natural gas in New York City and Long Island is growing at a quicker rate than other areas of the country and Islander East will deliver incremental gas to these load pockets. The increased supply diversity, infrastructure enhancements, and access to higher-pressure gas will bring increased reliability to the end-use customers and the power generators in Connecticut as well. Gas demand for both end-users and electricity generators in these markets is expected to continue to grow over the next several years. In order to meet these projected increases in demand, more natural gas pipeline capacity must be built into New England, New York City and Long Island.

Currently, natural gas is delivered to New York City and Long Island through the New York Facilities System, which contracts for capacity on Algonquin (ConEd only), Tennessee, Texas Eastern, Transco and Iroquois. The direct connections to Long Island are via Transco in the south and Iroquois to the north. The total contracted capacity into New York City and Long Island is approximately 2,300 Mdth/day. The Islander East pipeline will add another 285,000 dth/day of capacity to Long Island, which can be expanded to 500,000 dth/day. This is a timely increment, in light of the demand growth projected in the electric generation sector. For example, if all of the Islander East capacity were used to fuel gas-fired combined-cycle electric generators, it would be sufficient to supply an incremental 1,500 MW of generation.

Besides the benefit of new pipeline capacity into Connecticut and across to Long Island, the Islander East pipeline further enhances reliability by adding a separate pipeline onto the island. Increasing the deliveries by expanding the existing systems, i.e. Transco and Iroquois, does not remove the risk of a supply interruption due to an operational failure on one of those systems. Adding another separate pipeline does mitigate some of the downside risk associated with operational interruptions on existing pipelines.

Another benefit of the Islander East Pipeline is that it will further diversify the supply portfolio of natural gas delivered to Long Island. During the 2000/2001 gas year, KeySpan Long Island and KeySpan New York obtains 76% of their natural gas from domestic sources and 24% from Canadian imports. Islander East is directly connected to the Algonquin system, which has access to numerous supply basins throughout the North American pipeline grid. Through interconnections, Algonquin has access to gas supplies from the Gulf Coast, Mid-Continent, Chicago and Canada. Traditionally, Long Island has received its Canadian gas from the Western Canadian Sedimentary Basin via Iroquois and the US Gulf Coast via the Transco, Tennessee and Texas Eastern systems. Islander East is ideally situated to access the recently developed offshore gas supplies from Nova Scotia. Islander East is part of the east coast delivery system, i.e. M&NE – HubLine – Algonquin – Islander East, which is designed to deliver Sable Island gas to both the southern New England and New York markets. Accessing a new gas supply basin that is in its infancy with respect to development, adds to the reliability of the delivery network to Long Island.

A further advantage of Islander East is associated with the cost of expanding the gas infrastructure into New England now and in the future. The backfeed on the Algonquin system serves to minimize construction costs for system expansions. The backfeed allows for the construction of laterals to deliver gas to constrained areas, such as southern Connecticut, without requiring costly upgrades on the mainline system of Texas Eastern and Algonquin.

Islander East puts gas directly where it is needed. Increased deliveries from the south would require an upgrading of some parts of the KeySpan Energy Delivery Long Island facilities. Direct deliveries to the east end of the island will help to minimize the upgrades needed to the KeySpan facilities on Long Island. Another pipeline delivery system into Long Island that is capable of accessing gas production from existing and new supply basins adds flexibility to both the New York City and Long Island markets. For example, gas entering the west end of New York City destined for Long Island can be diverted to another load center and replaced with gas coming on Islander East. In addition, other markets can access gas off of Islander East via displacement.

Increasing the number of pipeline serving a market, as well as increasing the number basins that those pipelines have access to, increases the competition and price liquidity in that market. Increased diverse supply sources enhances the price competition of gas in that market.

Demand for natural gas in Connecticut is also increasing with the proliferation of gas-fired, combined-cycle, power plants. Not only will Islander East help to serve this growing gas demand in the power sector, but it will add to the diversity and reliability in the end-use markets as well.

The main supply of gas to Connecticut is from the Algonquin system with the balance coming from the Tennessee and Iroquois systems. The construction of Islander East would also give Connecticut more pipeline reliability. Growth in pipeline capacity into the state with gas sourced from an alternative basin would increase gas supply reliability. The increased pressure would deliver gas to Connecticut power producers at the pressure they need.

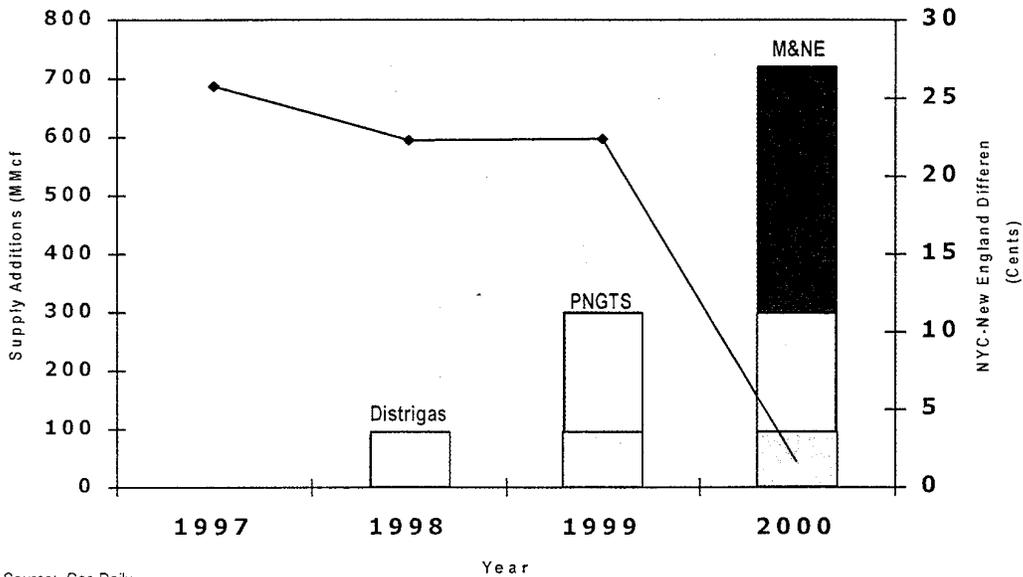
The reduction of more than 1,000 MW in nuclear power capability in Connecticut over the last few years has made the state more dependent on natural gas as the demand for electricity increases. Not only are developers proposing to construct new high technology combined cycle plants in Connecticut, there are also several proposals to convert and repower some existing oil-fired units. Islander East with its high-pressure gas deliveries to southern Connecticut will be one component of the solution to meet this demand for both conversion and grass root projects.

The development of gas infrastructure can spur economic development activity in both Connecticut and New York. The project will generate economic development benefits in Connecticut and New York in the form of direct private investment, construction-related economic activity in Connecticut and New York, employment and income for local

workers, and secondary benefits for companies in these states who will benefit from the primary employment and income benefits.

The differential between gas prices in New York and gas prices in New England were drastically affected by the introduction of Sable gas into the New England market. As is illustrated in Exhibit VII-1, prior to the introduction of Sable gas, New England prices

Exhibit VII-1 Impact of New Gas Supplies on Price



Source: Gas Daily
Algonquin & Algonquin Citygate deliveries

were in the order of 25¢/dth higher than New York prices. Once Sable production hit the market, this price differential shrunk to zero and often went negative at different times of the year. Increasing the amount of Sable supply into the New England market will sustain price competition among alternative source.

Another benefit of the Islander East project in Connecticut is the increase in natural gas pressures in the New Haven region. The new generation of gas-fired, combined-cycle power plants with their advanced turbine technology require gas to be delivered at much higher pressures than the gas required by the LDCs. Pressure to these plants must be at least 400 psig and any pressure fluctuations below that level makes the operation vulnerable to a shut down. Increasing the pressure of gas deliveries in southern Connecticut, improves the reliability and the options available to both grass-roots developers and re-powering projects.

In summary, there will be many similar benefits of the Islander East project to both the Connecticut market, as well as those in New York City and Long Island. Islander East will also bring different and specific benefits to each of these markets and will enhance the capability of the gas system in the Northeast to meet continued load growth.

Appendices

Appendix A

KeySpan New York (dth)

Year	Total Throughput including Off System Sales	Total Sales	Total Transportation	Off System Sales	Peak Day Sendout
94-95	172,511,995	123,931,503	6,490,850	42,089,642	962,307
95-96	187,447,374	142,105,515	10,739,798	34,602,061	980,000
96-97	194,638,699	135,279,401	27,727,382	31,631,916	976,000
97-98	175,998,917	124,795,634	35,469,907	15,733,376	803,000
98-99	160,819,622	116,798,848	39,707,943	4,312,831	1,055,865
99-00	201,245,127	119,326,874	67,914,103	14,004,150	1,079,176

KeySpan Long Island (dth)

Year	Total Throughput including Off System Sales	Total Sales	Total Transportation	Off System Sales	Peak Day Sendout
94-95	73,325,095	65,066,834	140,821	8,117,440	
95-96	83,575,649	75,973,899	1,018,844	6,582,906	649,000
96-97	79,917,900	66,626,867	5,108,123	8,182,910	572,000
97-98	86,091,159	63,286,304	6,181,505	16,623,350	627,000
98-99	92,882,166	66,947,023	5,393,444	20,541,699	529,758
99-00	107,594,301	67,011,242	9,105,652	31,477,407	641,610

KeySpan Combined (dth)

Year	Total Throughput including Off System Sales	Total Sales	Total Transportation	Off System Sales	Peak Day Sendout
94-95	245,837,090	188,998,337	6,631,671	50,207,082	
95-96	271,023,023	218,079,414	11,758,642	41,184,967	1,629,000
96-97	274,556,599	201,906,268	32,835,505	39,814,826	1,548,000
97-98	262,090,076	188,081,938	41,651,412	32,356,726	1,430,000
98-99	253,701,788	183,745,871	45,101,387	24,854,530	1,585,623
99-00	308,839,428	186,338,116	77,019,755	45,481,557	1,720,786

Appendix B

PROPOSED INTERCONNECTIONS / NEW YORK CONTROL AREA

Page 1 of 3

Site #	Project Name	Owner/Developer	Size (MW)	Date of Study Application	S	Interconnection Point	Utility	Status of Article X	Proposed In-Service
1	Modeldam Station	Con Edison	N/A	09/16/99	C	Coop Com-Rock Taw Lines	NYPA	N/A	2001
2	Athens Gen	Athens Gen Co./PG&E	1090	04/27/96	C	Leeds-PL Wat. 91 Line	NMPC	Approved 8/13/00	2002
3	Bethlehem Energy Center	PSEG Power NY	350	04/27/96	C	Albany	NMPC	Appl filed 11/27/98	2002
4	CT-LI DC Tie-Line	LIPA/Trans. Energie UB	330	03/26/96	C	Shoreham, Long Island	LIPA	N/A	2002
5	Tome Valley Station	Siha Energies	989	01/26/99	R	Rampco	CONED	Appl filed 11/16/99	2003
6	Sunset Energy Fleet	Sunset Energy Fleet LLC	520	02/17/99	C	Gowanus	CONED	Appl filed 7/26/00	2002
7	Rampco Energy	American National Power	1100	02/23/99	C	Rampco	CONED	Appl accepted 1/02/01	2003
8	Grassy Point	Genesee Electric Corp.	0	02/23/99	W	West Hamstraw	CONED	Withdrawn	N/A
9	Millennium 1	Millennium Power Gen Co. LLC	160	02/23/99	A	Hill Gate/Burdiner	CONED	(No Filing)	2003
10	Millennium 2	Millennium Power Gen Co. LLC	320	02/23/99	A	Hill Gate/Burdiner	CONED	(No Filing)	2003
11	East Coast Power-Linden	East Coast Power-Linden Venture LP	20	03/26/99	A	Geethals	CONED	N/A	2001
12	East Coast Power-Linden	East Coast Power-Linden Venture LP	70	03/26/99	A	Geethals	CONED	N/A	2002
13	East Coast Power-Linden	East Coast Power-Linden Venture LP	160	03/26/99	A	Geethals	CONED	N/A	2002
14	East Coast Power-Linden	East Coast Power-Linden Venture LP	160	03/26/99	P	Geethals	CONED	N/A	(None)
15	CT-LI AC Tie-Line	AEP Resources Service Corp.	600	04/13/99	I	Shoreham, Long Island	LIPA	N/A	(None)
16	ABB Oak Point Yard	ABB Development Corp.	1076	04/16/99	R	Hill Gate/Burdiner	CONED	Prelim filed 6/30/00	2003
17	KeySpan Ravenswood	KeySpan Energy, Inc.	270	04/21/99	C	Ravenswood	CONED	Appl accepted 1/24/01	2003
18	Ford's Expansion	NYPA	500	04/30/99	R	Astoria	CONED	Appl filed 8/18/00	2004
19	BEPCO	NYC Energy LLC	79.9	05/07/99	R	Kent Ave	CONED	N/A	2002
20	Spagnol Road CC Unit	KeySpan Energy, Inc.	250	05/17/99	A	Spagnol Road	LIPA	(No Filing)	2003
21	Shoreham Gen Station	KeySpan Energy, Inc.	250	05/17/99	A	Shoreham	LIPA	(No Filing)	2003
22	Waywanda Energy Center	Calpine Eastern Corporation	500	08/10/99	A	Coop Com-Rock Taw Lines	NYPA	Prelim filed 7/27/00	2003
23	Calpine Two Energy Center	Calpine Eastern Corporation	1090	08/26/99	I	Coop Com-Rock Taw Lines	NYPA	(No Filing)	2003
24	Astoria Repowering-Phase 1	Orion Power	499	07/13/99	A	Astoria	CONED	Prelim filed 8/5/00	2002
25	East River Repowering	Consolidated Edison of NY	360	08/10/99	C	E. 13th St.	CONED	Appl accepted 7/31/00	2002
26	Twin Tier Power	Twin Tier Power, LLC	520	08/20/99	A	Watercourse-Goldale 31 Line	NYSEG	Pre-app filed 07/19/99	2003
27	Far Rockaway Range	ENRDA	0	09/08/99	W	Far Rockaway	LIPA	N/A	N/A
28	Spagnol Road GT Unit	KeySpan Energy, Inc.	79.9	09/08/99	A	Spagnol Road	LIPA	N/A	2002
29	South Point Unit 3	Southem Energy, Inc.	750	10/13/99	C	W. Havenstraw	CONED	Appl accepted 8/10/00	2002
30	Heritage Station	Siha Energies	800	10/29/99	C	Independence (Oswego)	NMPC	Appl accepted 4/21/00	2003
31	Astoria Energy	SOE Energy, LLC	1900	11/16/99	C	Astoria	CONED	Appl accepted 3/01/01	2003
32	Brookhaven Energy	American National Power	580	11/22/99	A	Hobbrook-Brookhaven Line	LIPA	Prelim filed 3/28/00	2003
33	Glenville Energy Park	Glenville Energy Park, LLC	810	11/30/99	C	Rotterdam	NMPC	Prelim filed 12/29/99	2003
34	North First Street	York Research Corp.	500	01/11/00	P	Con Ed System	CONED	(No Filing)	2004
35	Gotham Power - Bronx I	1st Rockdale Coop Group	79	01/12/00	A	Portchester/Tremont	CONED	N/A	2002
36	Project Neptune DC Tie	Atlantic Electric, LLC	1200	01/21/00	A	Con Ed System, Brooklyn	CONED	N/A	2004
37	Kilchan	Calhoun Energy, LLC	750	01/28/00	P	Rivermd-Brooklyn-Hobk	LIPA	Prelim filed 8/17/00	2002
38	Far Rockaway Gen. Ext.	KeySpan Energy, Inc.	79	02/01/00	F	Far Rockaway	LIPA	N/A	2002
39	E. F. Barnett Gen. Ext.	KeySpan Energy, Inc.	79	02/01/00	P	Barnett	LIPA	N/A	2002
40	Riverhead Gen Station	KeySpan Energy, Inc.	79	02/01/00	A	Riverhead	LIPA	N/A	2002
41	Southampton Gen. Ext.	KeySpan Energy, Inc.	79	02/01/00	A	Southampton	LIPA	N/A	2002
42	Hobbrook Energy	PP&L Global, Inc.	300	02/01/00	P	Hobbrook	LIPA	(No Filing)	2003
43	PPL Kings Park	PP&L Global, Inc.	300	02/01/00	R	Pilgrim	LIPA	Prelim filed 12/20/00	2002
44	Ruland Energy	PP&L Global, Inc.	300	02/01/00	P	Ruland Road	LIPA	(No Filing)	2003
46	Freeport Energy	PP&L Global, Inc.	100	02/01/00	F	Freeport	LIPA	(No Filing)	2003
46	Brookhaven Energy	PP&L Global, Inc.	300	02/03/00	F	Brookhaven	LIPA	(No Filing)	2003
47	GenPower DC Tie-Line	GenPower, LLC	800	02/05/00	P	West 45th Street	CONED	N/A	2003
48	PPL Kings Park Ext.	PP&L Global, Inc.	300	02/10/00	I	Pilgrim	LIPA	(No Filing)	2002
49	Brookhaven Energy Ext.	PP&L Global, Inc.	300	02/10/00	P	Brookhaven	LIPA	(No Filing)	2003
50	AEB Smithtown Gen	AEB Long Island, LLC	510	02/10/00	P	LIPA System	LIPA	(No Filing)	2004
51	Wading River Gen. Ext.	KeySpan Energy, Inc.	150	02/15/00	P	Wading River	LIPA	(No Filing)	2002
52	Fort Drum Gen. Exp.	N/A N/A Energy/Black River Power	50	03/06/00	F	Fort Drum	NMPC	N/A	2001
53	CT-Ruland, LI DC Tie	TransEnergie US, Ltd	300	03/07/00	P	Ruland Road	LIPA	N/A	2003
54	CT-Pilgrim, LI DC Tie	TransEnergie US, Ltd	300	03/07/00	P	Pilgrim	LIPA	N/A	2003
55	Fenner Wind Energy Fac.	Genesee Wind Power, LLC	50	03/14/00	P	Fenner-Whitman	NMPC	N/A	2001
56	Gotham Power - Brooklyn	1st Rockdale Coop Group	79	03/17/00	P	Kent Ave	CONED	N/A	2002
57	Flat Rock Windpower	Flat Rock Windpower, LLC	100	03/21/00	F	Lovett-Sloanville	NMPC	(No Filing)	2001
58	Lovett #3 Repowering	Southem Energy Lovell, LLC	130	03/23/00	P	Lovett	CONED	(No Filing)	2004
59	Hilburn Unit #2	Southem Energy NY Gen, LLC	79.9	03/23/00	F	Hilburn	CONED	N/A	2003
60	Hilburn #2 Conversion	Southem Energy NY Gen, LLC	40	03/23/00	P	Hilburn	CONED	N/A	2005
61	Greenpoint Energy Park	GTM Energy, LLC	500	04/19/00	P	Rainey-Farragut Lines	CONED	(No Filing)	2004
62	Project Orange	Project Orange Associates, LP	420	05/08/00	P	Temple St.	NMPC	(No Filing)	2002
63	LSA Station A	Lewis Staley Associates, Inc.	650	05/11/00	P	Homer City-State Rd Line	NYSEG	(No Filing)	2002
64	LSA Station B	Lewis Staley Associates, Inc.	600	05/12/00	P	Dunkirk-Bardonia Line	NMPC	(No Filing)	2002
65	Lookport II Gen Station	Fordislar Power Marketing, LLC	79.9	05/16/00	A	Harrison Station	NYSEG	N/A	2001
66	Langlois Converter	TransEnergie HQ	100	05/02/00	A	Langlois, Quebec	NMPC	N/A	2001
67	Walkir Energy	Titan Development, LLC	1080	05/21/00	P	Coop Com-Rock Taw Lines	NYPA	(No Filing)	2003

PROPOSED INTERCONNECTIONS / NEW YORK CONTROL AREA

Page 3 of 3

Site #	Project Name	Owner/Developer	Size (MW)	Date of Study Application	S	Interconnection Point	Utility	Status of Article X	Proposed In-Service
68	Ruland Energy Ext.	PP&L Global, Inc.	300	06/23/00	P	Ruland Road	LIPA	(No Filing)	2003
69	Empire State Nnewsprint	Beskorpe/Empire State	476	07/14/00	A	Reynolds Road	NMPC	Prelim filed 11/22/00	2004
70	Astoria Repowering-Phase 2	Orion Power	900	08/18/00	A	Astoria	CONED	Prelim filed 9/5/00	2005
71	Mill Creek Wind Plant	MH Creek Wind Plant, LLC	50	09/08/00	P	Lowville	NMPC	N/A	2004-02
72	Island Generating Station	Fortistar Power Marketing, LLC	79.9	09/08/00	P	Fresh Kills	CONED	N/A	2002
73	Island Generating Station #2	Fortistar Power Marketing, LLC	500	09/08/00	P	Fresh Kills	CONED	(No Filing)	2002
74	Coopersdale Energy Center	FPL Energy, LLC	560	10/10/00	P	Barnett	LIPA	(No Filing)	2004
75	Gotham Power - Bronx II	1st Rochdale Coop Group	79	10/17/00	P	Hell Gate/Buckner	CONED	N/A	2002
76	Waterford	StyGen Energy, LLC	530	10/30/00	A	NMPC 230 or 115 kV	NMPC	(No Filing)	2004
77	Dover Energy	Titan Development, LLC	1000	11/17/00	P	Pk. Valley-Long Mt. Tie-Line	CONED	(No Filing)	2005
78	Ravenswood Repowering Ph I	KeySpan Ravenswood Services, LLC	440	12/04/00	P	Vernon Substation	CONED	(No Filing)	2005
79	Harlem River Yards	NYPA	79.9	12/05/00	A	Hell Gate Substation	CONED	N/A	2001
80	Hell Gate	NYPA	79.9	12/05/00	A	Hell Gate Substation	CONED	N/A	2001
81	Vernon Blvd	NYPA	79.9	12/05/00	A	Vernon Substation	CONED	N/A	2001
82	N First St and Grand Ave	NYPA	44	12/05/00	A	Vernon-Greenwood line	CONED	N/A	2001
83	23rd St and 3rd Ave	NYPA	79.9	12/05/00	A	Gowanus Substation	CONED	N/A	2001
84	Fox Hills	NYPA	44	12/05/00	A	Fox Hills Substation	CONED	N/A	2001
85	Brentwood	NYPA	44	12/05/00	N/A	Brentwood 69 kV	LIPA	N/A	2001
86	NRG Astoria	NRG	79.9	01/16/01	A	Astoria	CONED	N/A	2002
87	Buchanan Energy	Titan Development, LLC	500	02/26/01	P	Buchanan	CONED	(No Filing)	2005
88	Haltmoon Energy	Titan Development, LLC	500	02/26/01	P	Rotterdam-Bear Swamp line	NMPC	(No Filing)	2005
			32,293						

NOTE: The column labeled 'S' refers to the status of the NYISO System Reliability Impact Study. The key to the status code is as follows:
P=Pending, A=Active, I=Inactive, R=Study Report Under NYISO Review, C=NYISO Review Completed

Updated: 03/12/2001

ISLANDER EAST PIPELINE COMPANY, L.L.C.

EXHIBIT I - 2

MARKET DATA - CONNECTICUT POST ARTICLE

News

- Top Stories
- Local/Regional
- Police Log
- PRNewsWire
- Editorial
- Obituaries

Ansonia Fire Slide Show

Sports

- Sports Local/Regional
- High Schools
- The Week That Was



Columnist

- Charles Walsh
- Stephen Winters
- Michael Daly
- Peter Urban
- Ken Dixon

Business

- Your Money
- Stock Forecasts

Features

- Weddings/Engagements
- Births
- CT Teens
- Senior News
- SS Online for Women
- Social Security
- Woman Wise
- Gardening
- CT Connections



Weather

- Postline Weather Online
- Flight Delays
- Forecast-Today
- Forecast-U.S.
- Forecast-World
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Newspapers

- Darien News-Review
- Fairfield Citizen-News
- Norwalk Citizen-New
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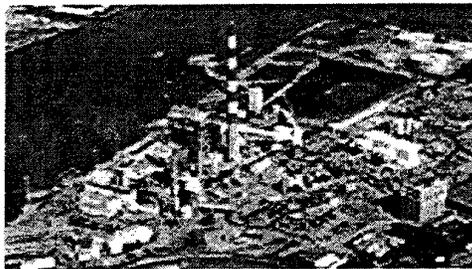
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Senate approves tough standards for state's oldest power plants

By KEN DIXON
Dixon.connpost@snet.net

New standards: Six power plants face new clean-air regulations under a bill passed Wednesday. This aerial photo of the Bridgeport Harbor plant is by Morgan Kaolian/AEROPIX.

HARTFORD -- The state's six oldest, most-polluting power plants will be forced to meet modern emissions standards by the end of 2004, under a

bill approved Wednesday in a lop-sided Senate vote.

Amid charges that the tighter regulations could make the state, particularly Southwestern Connecticut, vulnerable to California-style power shortages and higher consumer prices, the Senate voted 31-5 in favor of the legislation.

The bill, which was approved 86-56 in the House last week, heads to Gov. John G. Rowland for final approval. Dean Pagani, Rowland's spokesman, said Wednesday night that the governor is expected to sign it.

But an executive with NRG Energy, which owns most of the plants and has a deal in the works to buy the Bridgeport and New Haven Harbor plants, said the legislation means dire consequences for consumers who'll pay more for negligible changes in environmental quality.

For Rep. Christopher L. Caruso, D-Bridgeport, passage of the bill culminated a four-year quest in which he offended lawmakers on both sides of the aisle and refused to compromise with watered-down legislation.

Caruso framed the clean-air argument in the often-emotional terms of Bridgeport area children who suffer mightily from asthma.

"Today was a tremendous victory," he told a scrum of reporters outside the Senate.

The targeted power plants are in Norwalk, Bridgeport, Milford, New Haven, Middletown and Montville.

Last year, Caruso withdrew related, but diluted, compromise legislation before a crucial House vote. The tactic led to an executive order from Rowland and new rules within the state Department of Environmental Protection to make the state's air-quality regulations among the toughest in the nation.

The DEP rules essentially freed the six old plants by allowing owners to trade so-called pollution credits with cleaner plants, resulting in a regional averaging of emissions.

The new bill requires installation of air-scrubbing equipment, switching fuels to those containing lower-sulfur levels and tonnage caps, which require facilities to be shut down when they reach a preset emission level. It is designed to reduce sulfur dioxides that have been linked to respiratory ailments and acid rain.

The three-hour Senate debate was balanced between the need for safeguards to continue the flow of power and warnings that the bill might put excessive pressure on the electric industry.

"Fine particulate matter can lodge in the deepest recesses of our lungs," said Sen. Donald E. Williams Jr., D-Killingly, co-chairman of the Environment Committee, and chief proponent of the bill in the Senate. "Clearly the reduction of sulfur dioxide emissions is not only a worthy step but a necessary step. The generators will be able to meet the requirements of this bill by burning low sulfur oil."

Sen. John McKinney, R-Fairfield, said he's worried that even with five new plants under construction, Southwestern Connecticut has a transmission problem that could lead to brownouts or worse. He warned of electric shortages that could temporarily shutdown the Metro-North railroad. "I don't know if it will happen or not," he said, adding that the tonnage caps could close the Bridgeport plant for hours or days.

"There is no free lunch," said Sen. Robert L. Genuario, R-Norwalk. "Today we take action to make power plants clean up their emissions. That cost will be passed on to the consumers and ratepayers of Connecticut."

Williams estimated the cost for new scrubbers at about 48 cents per month per consumer and the substitution of low-sulfur oil at about 19 cents per consumer per month.

But Bryan Riley, vice president of NRG Energy, in a statement after the vote, said the state is now on a "collision course with future power outages."

If Rowland signs the bill, Riley predicted "sharp increases in the cost of electric power and a serious threat to the reliability of that power, with no significant environmental benefit in return." He called the law "unworkable and totally unnecessary."

Pagani said Rowland was content to let the Legislature decide on the extent of changes to the DEP's work. "Now the process is complete," Pagani said. "He thinks the regulations he put in place are the strongest in the nation. He's comfortable with the safeguards in this bill that allow emergency measures to be taken in the event of a power emergency."

Ken Dixon, who covers the Capitol, can be reached at (860) 549-4670.

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Connecticut Post incorporates The Bridgeport Post,
The Telegram and The Valley Sentinel

ISLANDER EAST PIPELINE COMPANY, L.L.C.

EXHIBIT K

COST OF FACILITIES

Islander East Pipeline Facilities

NAME: **ISLANDER EAST PIPELINE COMPANY, L.L.C.**
DOCKET NO.:
PROJECT: **Islander East Pipeline Facilities required for Islander East Project**
PROJECT YEAR: **2003**

DESCRIPTION	TOTAL
Compression	\$0
Pipeline	\$130,861,000
M & R	\$8,833,000
AFUDC	\$9,926,000
PROJECT TOTAL	\$149,620,000

SUMMARY COST OF FACILITIES

NAME: **ISLANDER EAST PIPELINE COMPANY, L.L.C.**
 DOCKET NO.:
 PROJECT: **Islander East Pipeline Facilities required for Islander East Project**
 PROJECT YEAR: **2003**

ITEM	DESCRIPTION	COMPRESSION	PIPELINE	M & R	TOTAL
132	RIGHT OF WAY	\$0	\$10,952,000	\$114,000	\$11,066,000
133	RIGHT OF WAY DAMAGES	\$0	\$6,373,000	\$0	\$6,373,000
134	SURVEYS	\$0	\$2,909,000	\$5,000	\$2,914,000
135	MATERIALS	\$0	\$17,271,000	\$2,848,000	\$20,119,000
136	LABOR	\$0	\$69,544,000	\$4,527,000	\$74,071,000
137	ENGINEERING & INSPECTIO	\$0	\$13,892,000	\$711,000	\$14,603,000
144	OVERHEAD	\$0	\$2,835,000	\$163,000	\$2,998,000
145	AFUDC	\$0	\$9,538,000	\$388,000	\$9,926,000
146	CONTINGENCY	\$0	\$4,109,000	\$343,000	\$4,452,000
147	LEGAL FEES	\$0	\$0	\$0	\$0
148	OTHER SERVICES	\$0	\$2,976,000	\$122,000	\$3,098,000
	PROJECT TOTAL	\$0	\$140,399,000	\$9,221,000	\$149,620,000

SUMMARY COST OF FACILITIES

NAME; **ISLANDER EAST PIPELINE COMPANY, L.L.C.**
DOCKET NO.:
PROJECT: **Islander East Pipeline Facilities required for Islander East Project**
PROJECT YEAR: **2003**

DESCRIPTION	TOTAL
Pipeline Facilities	\$140,399,000
Meter Station Facilities	\$9,221,000
PROJECT TOTAL	\$149,620,000

COST OF FACILITIES

NAME: ISLANDER EAST PIPELINE COMPANY, L.L.C.
DOCKET NO.:
PROJECT: Islander East Pipeline Facilities required for Islander East Project
PROJECT YEAR: 2003
FACILITY: 10.1 Miles 24 Inch Onshore Mainline P/L - Connecticut

ITEM	DESCRIPTION	PIPELINE
132	RIGHT OF WAY	\$3,083,000
133	RIGHT OF WAY DAMAGES	\$3,040,000
134	SURVEYS	\$659,000
135	MATERIALS	\$2,667,000
136	LABOR	\$12,755,000
137	ENGINEERING & INSPECTION	\$5,625,000
144	OVERHEAD	\$1,041,000
145	AFUDC	\$1,434,000
146	CONTINGENCY	\$910,000
147	LEGAL FEES	\$0
148	OTHER SERVICES	\$800,000
	PROJECT TOTAL	\$32,014,000

COST OF FACILITIES

NAME: ISLANDER EAST PIPELINE COMPANY, L.L.C.
DOCKET NO.:
PROJECT: Islander East Pipeline Facilities required for Islander East Project
PROJECT YEAR: 2003
FACILITY: 22.8 Miles 24 Inch - Long Island Sound --- Connecticut & New York

ITEM	DESCRIPTION	PIPELINE
132	RIGHT OF WAY	\$984,000
133	RIGHT OF WAY DAMAGES	\$137,000
134	SURVEYS	\$1,698,000
135	MATERIALS	\$9,182,000
136	LABOR	\$43,105,000
137	ENGINEERING & INSPECTION	\$5,998,000
144	OVERHEAD	\$801,000
145	AFUDC	\$6,565,000
146	CONTINGENCY	\$1,916,000
147	LEGAL FEES	\$0
148	OTHER SERVICES	\$1,211,000
	PROJECT TOTAL	\$71,597,000

COST OF FACILITIES

NAME: ISLANDER EAST PIPELINE COMPANY, L.L.C.
DOCKET NO.:
PROJECT: Islander East Pipeline Facilities required for Islander East Project
PROJECT YEAR: 2003
FACILITY: 11.93 Miles of 24 Inch Onshore Mainline P/L - Long Island, New York

ITEM	DESCRIPTION	PIPELINE
132	RIGHT OF WAY	\$4,852,000
133	RIGHT OF WAY DAMAGES	\$2,125,000
134	SURVEYS	\$253,000
135	MATERIALS	\$3,418,000
136	LABOR	\$8,944,000
137	ENGINEERING & INSPECTION	\$1,629,000
144	OVERHEAD	\$314,000
145	AFUDC	\$1,001,000
146	CONTINGENCY	\$682,000
147	LEGAL FEES	\$0
148	OTHER SERVICES	\$676,000
	PROJECT TOTAL	\$23,894,000

COST OF FACILITIES

NAME: ISLANDER EAST PIPELINE COMPANY, L.L.C.
DOCKET NO.:
PROJECT: ISLANDER EAST PIPELINE COMPANY, L.L.C.
PROJECT YEAR: 2003
FACILITY: 5.6 Miles of 24 Inch Calverton Lateral Pipeline - Long Island, New York

ITEM	DESCRIPTION	PIPELINE
132	RIGHT OF WAY	\$2,033,000
133	RIGHT OF WAY DAMAGES	\$1,071,000
134	SURVEYS	\$299,000
135	MATERIALS	\$2,004,000
136	LABOR	\$4,740,000
137	ENGINEERING & INSPECTION	\$640,000
144	OVERHEAD	\$679,000
145	AFUDC	\$538,000
146	CONTINGENCY	\$601,000
147	LEGAL FEES	\$0
148	OTHER SERVICES	\$289,000
	PROJECT TOTAL	\$12,894,000

COST OF FACILITIES

NAME: **ISLANDER EAST PIPELINE COMPANY, L.L.C.**
DOCKET NO.:
PROJECT: **Islander East Pipeline Facilities required for Islander East Project**
PROJECT YEAR: **2003**
FACILITY: **Calverton Meter Station**

ITEM	DESCRIPTION	METER
132	RIGHT OF WAY	\$0
133	RIGHT OF WAY DAMAGES	\$0
134	SURVEYS	\$0
135	MATERIALS	\$694,000
136	LABOR	\$1,217,000
137	ENGINEERING & INSPECTION	\$152,000
144	OVERHEAD	\$25,000
145	AFUDC	\$98,000
146	CONTINGENCY	\$108,000
147	LEGAL FEES	\$0
148	OTHER SERVICES	\$29,000
	PROJECT TOTAL	\$2,323,000

COST OF FACILITIES

NAME: ISLANDER EAST PIPELINE COMPANY, L.L.C.
DOCKET NO.:
PROJECT: Islander East Pipeline Facilities required for Islander East Project
PROJECT YEAR: 2003
FACILITY: Brookhaven Energy Meter Station

ITEM	DESCRIPTION	METER
132	RIGHT OF WAY	\$0
133	RIGHT OF WAY DAMAGES	\$0
134	SURVEYS	\$0
135	MATERIALS	\$694,000
136	LABOR	\$1,217,000
137	ENGINEERING & INSPECTION	\$228,000
144	OVERHEAD	\$45,000
145	AFUDC	\$101,000
146	CONTINGENCY	\$68,000
147	LEGAL FEES	\$0
148	OTHER SERVICES	\$35,000
	PROJECT TOTAL	\$2,388,000

COST OF FACILITIES

NAME: **ISLANDER EAST PIPELINE COMPANY, L.L.C.**
DOCKET NO.:
PROJECT: **Islander East Pipeline Facilities required for Islander East Project**
PROJECT YEAR: **2003**
FACILITY: **Islander East / North Haven Custody Transfer Meter Station**

ITEM	DESCRIPTION	METER
132	RIGHT OF WAY	\$114,000
133	RIGHT OF WAY DAMAGES	\$0
134	SURVEYS	\$5,000
135	MATERIALS	\$766,000
136	LABOR	\$876,000
137	ENGINEERING & INSPECTION	\$103,000
144	OVERHEAD	\$48,000
145	AFUDC	\$88,000
146	CONTINGENCY	\$99,000
147	LEGAL FEES	\$0
148	OTHER SERVICES	\$23,000
	PROJECT TOTAL	\$2,122,000

COST OF FACILITIES

NAME: ISLANDER EAST PIPELINE COMPANY, L.L.C.
DOCKET NO.:
PROJECT: Islander East Pipeline Facilities required for Islander East Project
PROJECT YEAR: 2003
FACILITY: Keyspan Energy Delivery Meter Station

ITEM	DESCRIPTION	METER
132	RIGHT OF WAY	\$0
133	RIGHT OF WAY DAMAGES	\$0
134	SURVEYS	\$0
135	MATERIALS	\$694,000
136	LABOR	\$1,217,000
137	ENGINEERING & INSPECTION	\$228,000
144	OVERHEAD	\$45,000
145	AFUDC	\$101,000
146	CONTINGENCY	\$68,000
147	LEGAL FEES	\$0
148	OTHER SERVICES	\$35,000
	PROJECT TOTAL	\$2,388,000

ISLANDER EAST PIPELINE COMPANY, L.L.C.

EXHIBIT L
FINANCING

Financing

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Preliminary Statement

Islander East Pipeline Company, L.L.C. ("Islander East") has been formed to construct, own and operate the Islander East Pipeline which is the subject of this Application and currently has no other business activity.

The precise financing has not been determined, but it is anticipated that thirty percent (30%) of the required capital will be furnished by the members of Islander East as equity and that seventy percent (70%) will consist of non-recourse or limited recourse debt, initially raised during the construction period, primarily from commercial banks and/or insurance companies. The terms and conditions applicable to the construction period debt and to the long-term, post- construction debt, such as price, maturity and rate, will depend upon the financial market conditions existing at the time the debt is raised. For the purpose of presentation in this Exhibit L, it is assumed that both the construction and long-term debt will bear interest at the rate of eight percent (8%) and be retired over fifteen (15) years. However, it is the intent of Islander East to seek the most favorable terms available in the marketplace at the time of financing. In consideration of several factors, including its proposed capital structure, current and anticipated capital market conditions, particularly as they affect cost of capital for interstate natural gas pipelines, Islander East proposes that its equity investment earn at the rate of fourteen percent (14%).

Summary of Outstanding and Proposed Securities and Liabilities

Islander East has no previously issued debt outstanding. Islander East anticipates raising \$104.7 million of debt after it has received the required governmental approvals and before it commences construction. The interest rate assumed for the debt is 8 percent (8%).

Disposition of Proposed Securities

It is yet known whether Islander East will dispose of its debt securities by private sale, competitive bidding or otherwise, nor is it known to whom such securities will be sold or issued. These decisions will be made when the construction debt and/or the permanent financing is secured, based upon financial markets at those times.

Estimated Sales Price and Net
Proceeds From Proposed Financing

The estimated net proceeds to Islander East from the debt portion of the proposed financing plan will be \$104.7 million. The gross sales price or amount at gross debt issuance will reflect the condition of the financial markets at that time. The estimated net proceeds to Islander East from the equity portion (including capitalized return) of the proposed financing plan will be \$45 million. The gross sales price will be identical to the net proceeds, since the equity funds will be provided by the members of Islander East.

Estimated Expenses, Fees and Commissions
In Connection with Proposed Financing

The expense for obtaining the construction and long-term debt will be determined by the condition of the financial markets at that time. These expenses include, but are not limited to, fees or commissions, legal fees, printing costs and miscellaneous expenses.

Statement of Restrictions
As to Issuance of Securities

There are currently no restrictions in place, which would prevent Islander East from obtaining the debt or issuing the debt securities contemplated herein. However, the actions contemplated herein will require the consent of the members of Islander East, as will the issuance of any additional debt or equity securities.

Statement of Anticipated Cash Flows

A statement of anticipated cash flows is set forth at Schedule 1 in this Exhibit L.

Debt Repayment Schedule

For purposes of presentation in this Exhibit L, it is assumed that the construction debt will be refinanced by \$104.7 million in long-term debt at the completion of the construction period. The \$104.7 million long-term debt is anticipated to be retired over the fifteen (15) years based on the amortization schedule which is set forth at Schedule 2 in this Exhibit L.

The amortization may be achieved either through a single issue at the time of completion of construction or by way of a series of tranches that would cover the period and produce the amortization set forth on Schedule 2 of Exhibit L.

Statement of Income and Balance Sheet

No recent balance sheet and income statement is available, as Islander East has had no prior business activity. A pro forma statement of income and expenses is set forth at Schedule 3 and pro forma balance sheets are set forth at Schedule 4 in this Exhibit L.

Islander East Pipeline Company, L.L.C.
Pro Forma Funds Flow

Line No.	(1) Description	(2) Construction	(3) 2003	(4) 2004	(5) 2005
1	<u>Funds Provided</u>				
2	Operating Revenue		\$33,748,257	\$33,748,257	\$33,748,257
3	Long Term Debt	\$104,734,000			
4	Partners Equity	\$44,886,000			
5	Total Funds Provided	\$149,620,000	\$33,748,257	\$33,748,257	\$33,748,257
6	<u>Funds Applied</u>				
7	Construction Expenditures	\$139,694,000			
8	Working Capital		\$897,720	\$17,954	\$18,313
9	O&M Expense		\$5,785,149	\$5,424,474	\$5,448,854
10	Taxes Other Than Income		\$3,299,715	\$3,332,828	\$3,366,274
11	Interest Expense	\$5,539,339	\$8,378,720	\$7,820,139	\$7,261,557
12	Retirement of Long-term Debt		\$6,982,267	\$6,982,267	\$6,982,267
13	Total Funds Applied	\$145,233,339	\$25,343,571	\$23,577,662	\$23,077,265
14	Cash Distribution/Dividend	\$4,386,661	\$8,404,686	\$10,170,595	\$10,670,992

Islander East Pipeline Company, L.L.C.
Statement of Securities to be Retired

Line No.	(1)	(2)	(3)		(4)	(5)
	Year	Beginning Year Long Term Debt	-----Retirement of Long Term Debt-----		Interest	Total
			Principal			
1	Construction	\$0	\$0		\$5,539,339	\$5,539,339
2	2003	\$104,734,000	\$6,982,267		\$8,378,720	\$15,360,987
3	2004	\$97,751,733	\$6,982,267		\$7,820,139	\$14,802,405
4	2005	\$90,769,467	\$6,982,267		\$7,261,557	\$14,243,824
5	2006	\$83,787,200	\$6,982,267		\$6,702,976	\$13,685,243
6	2007	\$76,804,933	\$6,982,267		\$6,144,395	\$13,126,661
7	2008	\$69,822,667	\$6,982,267		\$5,585,813	\$12,568,080
8	2009	\$62,840,400	\$6,982,267		\$5,027,232	\$12,009,499
9	2010	\$55,858,133	\$6,982,267		\$4,468,651	\$11,450,917
10	2011	\$48,875,867	\$6,982,267		\$3,910,069	\$10,892,336
11	2012	\$41,893,600	\$6,982,267		\$3,351,488	\$10,333,755
12	2013	\$34,911,333	\$6,982,267		\$2,792,907	\$9,775,173
13	2014	\$27,929,067	\$6,982,267		\$2,234,325	\$9,216,592
14	2015	\$20,946,800	\$6,982,267		\$1,675,744	\$8,658,011
15	2016	\$13,964,533	\$6,982,267		\$1,117,163	\$8,099,429
16	2017	\$6,982,267	\$6,982,267		\$558,581	\$7,540,848
17	2018	(\$0)	\$0		(\$0)	(\$0)
	Totals		\$104,734,000		\$72,569,099	\$177,303,099

Islander East Pipeline Company, L.L.C.
Pro Forma Revenues, Expenses and Income

Line No.	(1) Description	(2) Construction	(3) 2003	(4) 2004	(5) 2005
1	Operating Revenues		\$33,748,257	\$33,748,257	\$33,748,257
2	<u>Operating Expenses</u>				
3	O&M Expense		\$5,785,149	\$5,424,474	\$5,448,854
4	Depreciation Expense		\$5,984,800	\$5,984,800	\$5,984,800
5	Taxes Other Than Income		<u>\$3,299,715</u>	<u>\$3,332,828</u>	<u>\$3,366,274</u>
6	Total Operating Expenses		\$15,069,664	\$14,742,102	\$14,799,928
7	Operating Income		\$18,678,593	\$19,006,155	\$18,948,329
8	<u>Other</u>				
9	Equity AFUDC	\$4,386,661			
10	<u>Interest Charges</u>				
11	Interest Expense	\$5,539,339	\$8,378,720	\$7,820,139	\$7,261,557
12	Less Debt AFUDC	<u>\$5,539,339</u>			
13	Subtotal	\$0	<u>\$8,378,720</u>	<u>\$7,820,139</u>	<u>\$7,261,557</u>
14	<u>Income Taxes</u>				
14	Federal		\$3,424,245	\$3,246,539	\$3,045,488
15	State		<u>\$825,375</u>	<u>\$782,541</u>	<u>\$734,080</u>
16	Total Income Taxes		\$4,249,620	\$4,029,080	\$3,779,568
17	Net Income	\$4,386,661	\$6,050,253	\$7,156,936	\$7,907,204

Islander East Pipeline Company, L.L.C.
Pro Forma Balance Sheet

Line No.	(1) Description	(2) Construction	(3) 2003	(4) 2004	(5) 2005
1	<u>Assets and Other Debits</u>				
2	Gross Plant	\$149,620,000	\$149,620,000	\$149,620,000	\$149,620,000
3	Less: Accumulated Depreciation		<u>\$2,992,400</u>	<u>\$8,977,200</u>	<u>\$14,962,000</u>
4	Net Gas Plant		\$146,627,600	\$140,642,800	\$134,658,000
5	Materials & Supplies		<u>\$897,720</u>	<u>\$915,674</u>	<u>\$933,988</u>
6	Total Assets and Other Debits	\$149,620,000	\$147,525,320	\$141,558,474	\$135,591,988
7	<u>Liabilities and Common Equity</u>				
8	Long-term Debt	\$104,734,000	\$97,751,733	\$90,769,467	\$83,787,200
9	Common Equity	\$44,886,000	\$50,064,489	\$52,970,776	\$56,910,125
10	Deferred Income Taxes		<u>(\$290,902)</u>	<u>(\$2,181,768)</u>	<u>(\$5,105,337)</u>
11	Total Liabilities and Other Credits	\$149,620,000	\$147,525,320	\$141,558,474	\$135,591,988

ISLANDER EAST PIPELINE COMPANY, L.L.C.

EXHIBIT M

CONSTRUCTION, OPERATION AND MANAGEMENT

CONSTRUCTION, OPERATION AND MAINTENANCE AGREEMENT

BY AND BETWEEN

**ISLANDER EAST PIPELINE COMPANY, L.L.C.
(COMPANY)**

AND

**DUKE ENERGY ISLANDER EAST PIPELINE COMPANY, L.L.C.
(OPERATOR)**

DATED 6/13/2001

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CONSTRUCTION, OPERATION AND MAINTENANCE AGREEMENT

This agreement ("CO&M Agreement"), made and entered into as of the 13th day of June, 2001, is by and between DUKE ENERGY ISLANDER EAST PIPELINE COMPANY, L.L.C., a Delaware limited liability company ("Operator"), and ISLANDER EAST PIPELINE COMPANY, L.L.C., a Delaware limited liability company ("Company").

WHEREAS, Duke Energy Islander East Pipeline Company, L.L.C. and KeySpan Islander East Pipeline Company, L.L.C. entered into a Limited Liability Company Agreement dated as of December 7, 2000 ("LLC Agreement") to provide the terms and conditions for the development of a new interstate natural gas pipeline delivery system to provide additional pipeline capacity into Long Island, New York, and New York, New York; and

WHEREAS, the LLC Agreement provides that the Operator (as defined therein) and Company shall enter into a CO&M Agreement providing for the construction, operation, and maintenance of the Project(s) of the Company and the management of the day-to-day affairs of the Company; and

WHEREAS, KeySpan Islander East Pipeline Company, L.L.C. and Duke Energy Islander East Pipeline Company, L.L.C., being all the current Members of Company, have agreed that Duke Energy Islander East Pipeline Company, L.L.C. shall be the Operator of Company, rather than its affiliate, Duke Energy Gas Transmission Corporation as designated in the LLC Agreement; and

WHEREAS, Company and Operator desire to enter into this CO&M Agreement in conformity with the LLC Agreement to provide the terms and conditions pursuant to which Operator will perform the construction, operation, and maintenance of Company's Project(s) and the management of the day-to-day affairs of the Company.

NOW, THEREFORE, in consideration of the premises and mutual covenants and provisions contained in this Agreement and subject to all the terms and conditions set forth below, Company and Operator hereby agree as follows:

1. Definitions.

The definitions used in the Limited Liability Company Agreement of Company, dated as of December 7, 2000 (the "LLC Agreement"), shall have the same meanings in this CO&M Agreement except as otherwise specifically provided below.

1.1 Accounting Procedure. The accounting procedure set forth in Exhibit A.

- 1.2 Day. As defined in Company's FERC Gas Tariff for Company's facilities.
- 1.3 Emergency. An explosion, fire, storm or other emergency situation which might threaten life or property or render Company's facilities incapable of continued operation.
- 1.4 Facilities. The Initial Facilities, Modifications, and/or Extensions undertaken by Company pursuant to the LLC Agreement.
- 1.5 Liabilities. Actions, claims, damages, suits, settlements, judgments, demands, costs, expenses (including, without limitation, court costs and disbursements of counsel), attorneys' fees, fines, losses and liabilities arising out of the Operation of the Facilities. In addition, for purposes of Section 7 of this CO&M Agreement, the term "Liabilities" shall include fees and disbursements of counsel incurred by the indemnified party in any action or proceeding between the indemnifying party and the indemnified party or between the indemnified party and any third party or otherwise.
- 1.6 Month. A period of time beginning on the first Day of a calendar month and ending at the same time on the first Day of the next succeeding calendar month.
- 1.7 Operation of the Facilities. Plan, design, construct and test the Facilities, and operate, maintain, repair and replace the Facilities and all other facilities owned by Company, including, without limitation, the duties identified in Section 3.1 of this Agreement. Where used in noun form, such term shall be "Operation of the Facilities."
- 1.8 Party. Company or the Operator.
- 1.9 Pre-Completion Period. The period between the Effective Date and the date that the Initial Facilities are placed into service, which latter date shall be certified in writing by the Operator.
- 1.10 Prohibited Conduct. Any action by the Operator that constitutes gross negligence or willful misconduct.
- 1.11 Repairs. Reconstruction, reconditioning, equipment overhaul and/or replacement of all or any portion of Company's facilities.
- 1.12 Transportation Services. The receipt, transportation and delivery of natural gas by Company by means of Company's facilities.

1.13 Year. Each twelve (12) Month period beginning on the first Day of a calendar year and ending at the beginning of the first Day of the next calendar year, provided that the first Year hereunder shall begin on the date hereof, and shall end at the beginning of the first Day of the following calendar year, and further provided that the last Year shall end at the expiration of the term of this CO&M Agreement pursuant to Section 9 hereof.

2. Relationship of the Parties.

2.1 Appointment as Operator. Subject to the terms and conditions of this CO&M Agreement and the LLC Agreement, Company hereby appoints the Operator to act hereunder, and the Operator hereby accepts such appointment and agrees to act pursuant to the provisions of this CO&M Agreement and the LLC Agreement. The Operator shall function as an independent contractor under this CO&M Agreement, and shall in no event ever act as, or be considered to be, an employee of Company.

2.2 Operator's Authority to Execute Contracts. Subject to the terms of this CO&M Agreement and the LLC Agreement, contracts in connection with the Operation of the Facilities may be negotiated and executed or amended by the Operator on behalf of Company. Copies of all contracts entered into by the Operator on behalf of Company shall be provided to a Member upon request by that Member. All contracts and permits, if any, relating to Company business and executed by the Operator prior to the Effective Date shall be assigned by the Operator to Company as soon as practicable after the Effective Date.

3. Operation of the Facilities.

3.1 Operator's Responsibilities. The Operator shall be responsible for the Operation of the Facilities in accordance with sound, workmanlike and prudent practices of the natural gas pipeline industry and in compliance with Company's FERC Gas Tariff and with all applicable laws, statutes, ordinances, safety codes, regulations, rules authorizations and requirements of Governmental Authorities having jurisdiction. Accordingly, subject to the provisions of the LLC Agreement and this CO&M Agreement, the Operator shall:

3.1.1 Upon prior approval by Company, file, execute and prosecute applications for the Authorizations required by Company for the acquisition, construction, ownership and Operation of the Facilities and the provision of the transportation services on the Facilities. The Operator also shall make routine and periodic filings required of Company by Governmental Authorities having jurisdiction.