

PSC NO: 1 GAS LEAF: 74.1
 COMPANY: KEYSpan GAS EAST CORP. DBA BROOKLYN UNION OF L.I. REVISION: 7
 INITIAL EFFECTIVE DATE: 11/03/06 SUPERSEDING REVISION: 5

GENERAL INFORMATION**III. Adjustments of Rates and Charges (continued):****J. Transition Surcharge (continued):**

The portion of capacity costs (\$cap) associated with customers that have switched from sales to transportation service after April 1, 1999 or who have had capacity assigned but are no longer taking such assignment, is calculated as follows:

$$\text{\$cap} = [(\text{tcap} - \text{ucapD} - \text{fgrow}) / (\text{ucap} - \text{ucapD})] \times (\text{ucap\$} - \text{ucapD\$})$$

where

tcap = amount of capacity associated with customers using their own capacity to bring gas to the citygate (dt)

ucapD = utility upstream pipeline capacity that has been decontracted (dt)

fgrow = firm customer throughput growth (dt)

ucap = total utility upstream pipeline capacity (dt)

ucap\$ = utility upstream capacity costs (\$)

ucapD\$ = utility upstream capacity costs that have been decontracted (\$)

This surcharge will become effective on the first day of the month in which strandable costs are incurred. Surcharge collections will be subject to periodic reconciliation.

K. Research and Development Surcharge

The Research and Development Surcharge will be applicable to Service Classification Nos. 1, 2, 3, 5, 15, and 16. This surcharge is a funding mechanism to support medium and long term research and development projects previously funded by a Federal Energy Regulatory Commission (FERC) surcharge which is being phased out over the next several years. The amount collected under this mechanism will mirror the decrement in the FERC surcharge each year until 2004 and will be capped at .0174/dekatherm, thereafter. This surcharge will appear on the Statement of Gas and Pipeline Costs and Adjustments.

Issued by: Joseph F. Bodanza, Senior Vice President, Hicksville, NY