

**KEYSPAN CORPORATION
AUDIT COMMITTEE
OF THE
BOARD OF DIRECTORS**

CHARTER

Purpose and Authority

The purpose of the Audit Committee is to:

- A. Provide assistance to the Board of Directors in fulfilling its oversight responsibilities to the Corporation's shareholders and to the investing public. The Committee's primary duties are to monitor, review and initiate changes, as the Committee deems appropriate, with respect to:
 - (i) The quality and integrity of the Corporation's financial statements;
 - (ii) The Corporation's compliance with legal and regulatory requirements;
 - (iii) The independent auditor's qualifications and independence;
 - (iv) The performance of the Corporation's internal audit function and independent auditors;
 - (v) The business practices of the Corporation; and
 - (vi) Risk assessment and risk management.

- B. Prepare the audit committee report that the rules of the Securities and Exchange Commission ("SEC") require be included in the Corporation's annual proxy statement.

The Committee is designated by the Board of Directors and receives its authority from the Board of Directors to whom it reports. The Board has vested in the Committee the power and authority to carry out the responsibilities as noted in this Charter, and any other duties which the Committee deems necessary to fulfill its obligations to the Board of Directors and the shareholders of the Corporation. To such end, the Committee is authorized to select, retain and/or replace, as needed, advisors, consultants and legal counsel to provide independent advice to the Committee. In that connection, in the event the Committee retains any such advisor, consultant or legal counsel, the Committee shall have the sole authority to approve such consultant's fees and other retention terms.

Membership

The Committee shall be comprised of three or more members of the Board of Directors. In the event of the absence of any member or members from a meeting, alternate members may be designated by the Chairman and Chief Executive Officer. All members, including alternate members are required to meet the following criteria:

- **Independence**
All members of the Committee are required to be “independent” under the rules of the New York Stock Exchange and the Sarbanes-Oxley Act of 2002. No member of the Committee may serve on the audit committee of more than three public companies, including the Corporation, unless the Board of Directors (i) determines that such simultaneous service would not impair the ability of such member to effectively serve on the Committee and (ii) discloses such determination in the annual proxy statement.

- **Financial Literacy and Expertise**
All members of the Committee shall have a working familiarity with basic finance and accounting practices (or acquire such familiarity within a reasonable period after his or her appointment). At least one member of the Committee shall have accounting or related financial management experience, as required by the New York Stock Exchange and determined by the Board in its business judgment. The Board and the Corporation shall use diligent efforts to have at least one Committee member who meets the criteria of an “audit committee financial expert” as prescribed by SEC rules.

Chairman

Unless a Chairman is elected by the full Board of Directors, the members of the Committee shall designate a Chairman by majority vote of the full Committee membership. The Chairman shall be entitled to cast a vote to resolve any ties. The Chairman will chair all regular sessions of the Committee and set the agendas for Committee meetings.

Independent Auditor

General

The Committee shall retain and terminate the independent auditor, oversee their work and approve all audit engagement fees and terms. The independent auditor shall be informed that it reports directly to the Audit Committee.

With respect to the work of the independent auditor, the Committee is responsible for (i) reviewing the scope of the audit, (ii) approving the nature and cost of all audit and non-audit services (non-audit services must be approved prior to commencement of the services), (iii) monitoring the auditor’s performance, (iv) assuring that the auditor is independent, and (v) resolving any disagreement between management and the auditor regarding financial reporting, for the purpose of preparing or issuing an audit report or related work.

The Committee shall inquire regularly of the independent auditor to ascertain that it is receiving the full cooperation of management, that all information desired is provided freely,

that there are no material weaknesses in the internal control structure, that no material fraud was uncovered in the course of its work and that management is diligent in conducting its business in accordance with the Corporation's ethical standards.

The Committee shall periodically meet separately with the independent auditors and in the absence of management to discuss any matters that the Committee or the independent auditors believe would be appropriate to discuss privately. In addition, the Committee shall meet with the independent auditors and management quarterly to review the Corporation's financial statements, and annual and quarterly reports required to be filed with the SEC.

Fees and Compensation

The Committee shall have the exclusive authority within the Corporation to approve in advance any audit or non-audit engagement or relationship between the Corporation and the independent auditors, other than "prohibited non-auditing services" (as defined below) which shall not be approved by the Committee. The Committee hereby delegates to the Chairman of the Committee the authority to approve in advance all audit or non-audit services to be provided by the independent auditor so long as it is presented to the full Committee at a later time.

The following shall be "prohibited non-auditing services:" (i) bookkeeping or other services related to the accounting records or financial statements of the Corporation; (ii) financial information systems design and implementation; (iii) appraisal or valuation services, providing fairness opinions or preparing contribution-in-kind reports; (iv) actuarial services; (v) internal audit outsourcing services; (vi) management functions or human resource functions ; (vii) broker or dealer, investment adviser or investment banking services; (viii) legal services and expert services unrelated to the audit; and (ix) any other service that the Public Company Accounting Oversight Board prohibits through regulation.

Although it is the intent of the Committee to pre-approve all non-audit services to be provided by the independent auditor, any inadvertent failure to do so will not be deemed a breach of any provision of this Charter if: (i) the aggregate amount of all such non-audit services provided to the Corporation constitutes not more than five percent of the total amount of revenues paid by the Corporation to its auditor during the fiscal year in which the non-audit services are provided; (ii) such services were not recognized by the Corporation at the time of the engagement to be non-audit services; and (iii) such services are promptly brought to the attention of the Committee and approved by the Committee (or its Chairman pursuant to delegated authority) prior to the completion of the annual audit of the Corporation.

Review of Independent Auditor

The Committee shall review, at least annually, the qualifications, performance and independence of the independent auditor. In conducting its review and evaluation, the Committee shall:

- (a) Obtain and review a report by the Corporation's independent auditor

describing: (i) the auditing firm's internal quality-control procedures; (ii) any material issues raised by the most recent internal quality-control review, peer review, or a review by the Public Company Accounting Oversight Board, of the auditing firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the auditing firm, and any steps taken to deal with any such issues; and (iii) to assess the auditor's independence, all relationships between the independent auditor and the Corporation;

(b) Ensure the rotation of the lead audit partner at least every five years, and consider whether there should be regular rotation of the audit firm itself;

(c) Confirm with any independent auditor retained to provide audit services for any fiscal year that the lead (or coordinating) audit partner (having primary responsibility for the audit), or the audit partner responsible for reviewing the audit, has not performed audit services for the Corporation in each of the five previous fiscal years of that corporation; and

(d) Take into account the opinions of management and the Corporation's internal auditors (or other personnel responsible for the internal audit function).

Internal Auditing Division

The Vice President & General Auditor is in charge of the Corporation's Internal Auditing Division and reports directly to the Board of Directors, functionally to the Audit Committee and administratively to the President and Chief Operating Officer.

Each year, the General Auditor will submit an Audit Plan to the Committee for approval. Thereafter, the General Auditor will keep the Committee informed on the progress of the Plan's implementation, and twice a year will submit written reports on such progress and on the results of his/her reviews and management's response to any problems or weaknesses in controls noted.

The Committee shall review the charter of the Internal Auditing Division and approve any changes thereto. It shall also ascertain that the resources allocated to the Internal Auditing function are sufficient to ensure that adequate internal audit review is being performed in the Corporation. The Committee will periodically review and discuss with the independent auditor the responsibilities, budget, and staffing of the Internal Auditing Division.

The Committee may meet privately with the General Auditor at each of its meetings and at any other time at the General Auditor's request without prior communication with management.

The General Auditor shall not be appointed or removed by management without the concurrence of the Committee. The General Auditor's performance will be reviewed periodically by the Committee.

The Committee may provide special assignments to the General Auditor to perform reviews in selected areas of its interest or concern.

Financial Statements and Internal Accounting Control

The Committee shall review with management and the independent auditor prior to public dissemination the Corporation's annual audited financial statements and quarterly financial statements, including the Corporation's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations." The review should include discussions with management and the independent public accountants of significant issues regarding accounting principles, practices and judgements, including those matters set forth in SAS No. 61.

As part of its quarterly review, the independent auditor will discuss with management any judgment areas, adjustments, disclosures and all material changes in accounting principles.

Management will report to the Committee any material items or discussions resulting from such review. Management will also provide the Committee copies of the reports filed with the SEC. In addition, the Committee, or at the minimum its Chairman, should communicate with management and the independent auditor on a quarterly basis (prior to the filing of the Corporation's Form 10-Q Reports), to review the Corporation's financial statements and significant findings based upon the independent auditor's review procedures. Any significant changes to the Corporation's accounting principles and any items required to be communicated by the independent public accountants, in accordance with SAS No. 61, should also be discussed.

The Committee shall also review and discuss with management and the independent auditor as appropriate the Corporation's earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies. The Committee's discussion in this regard may be general in nature (i.e., discussion of the types of information to be disclosed, the types of presentations to be made, dates of presentations, and the parties to whom presentations are made) and need not take place in advance of each earnings release, each instance in which the Corporation may provide earnings guidance or each instance when a presentation takes place. The members of the Committee shall be provided with a copy of all such earnings press releases and presentations.

The Committee shall discuss with management and the independent auditor: (i) the adequacy of the Corporation's internal controls over financial reporting and the financial reporting process, (ii) the status of internal control recommendations made by the independent auditor and the General Auditor, (iii) the adequacy of the process employed for the certification by the Corporation's Chief Executive Officer and Chief Financial Officer of reports or financial statements filed with the SEC.

The Committee shall also perform any functions required to be performed by it or otherwise appropriate under applicable law, rules or regulations, the Corporation's by-laws and the

resolutions or directives of the Board, including review of any certification required to be reviewed in accordance with applicable law or regulations of the SEC.

Financial Reporting Process

In consultation with the independent auditor, management and the General Auditor, the Committee shall review the integrity of the Corporation's financial reporting processes, both internal and external. In this connection, the Committee should obtain and discuss with management and the independent auditor reports from management and the independent auditor regarding: (i) all critical accounting policies and practices to be used by the Corporation; (ii) analyses prepared by management and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including all alternative treatments of financial information within generally accepted accounting principles that have been discussed with the Corporation's management, the ramifications of the use of alternative disclosures and treatments, and the treatment preferred by the independent auditor; (iii) major issues regarding accounting principles and financial statement presentations, including any significant changes in the Corporation's selection or application of accounting principles; (iv) major issues as to the adequacy of the Corporation's internal controls and any specific audit steps adopted in light of material control deficiencies; and (v) any other material written communications between the independent auditor and the Corporation's management.

The Committee shall review periodically the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Corporation.

The Committee shall also review with the independent auditor (i) any audit problems or other difficulties encountered by the auditor in the course of the audit process, including any restrictions on the scope of the independent auditor's activities or on access to requested information, and any significant disagreements with management and (ii) management's response to such matters. Without excluding other possibilities, the Committee shall review with the independent auditor (i) any accounting adjustments that were noted or proposed by the auditor but were "passed" (as immaterial or otherwise), (ii) any communications between the audit team and the audit firm's national office respecting auditing or accounting issues presented by the engagement and (iii) any "management" or "internal control" letter issued, or proposed to be issued, by the independent auditor to the Corporation.

Other Duties

The Committee shall review with management and the independent auditor the Corporation's guidelines and policies with respect to risk assessment and risk management. The Committee should review the Corporation's major financial and operational risk exposures and the steps management has taken to monitor and control such exposures, and evaluate the Corporation's compliance with its Corporate Risk Policy and with the risk control practices established by its Risk Management Committee. The Committee may also approve changes to the Corporation's Corporate Risk Policy as part of its continual reevaluation of the overall framework for evaluation, management and control

of risk.

The Committee shall establish hiring policies for employees or former employees of the independent auditor in accordance with SEC rules and regulations. At a minimum, these policies shall provide that any registered public accounting firm may not provide audit services to the Corporation if the Chief Executive Officer, Controller, Chief Financial Officer, Chief Accounting Officer or any person serving in an equivalent capacity for the Corporation was employed by the registered public accounting firm and participated in the audit of the Corporation within one year of the initiation of the current audit.

The Committee shall establish procedures for (i) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and (ii) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.

The Committee shall maintain continuing vigilance for any procedures or practices which might impair the Corporation's financial and business integrity. Annually, the Committee will receive from the General Auditor a written report on compliance with ethical business conduct and shall make inquiries, as necessary, to assure itself that the Corporation conducts its business in a lawful and ethical manner.

Periodically, the Committee shall meet separately with management.

At least once a year, the Committee shall review with management policies with respect to expenses and perquisites.

At least once a year, the Committee shall review and assess the adequacy of the Audit Committee Charter. In addition, the Committee shall submit the Charter for publishing in the Corporation's proxy statement at least once every three years if unamended and annually if amended.

At least once a year, the Office of the General Counsel will update the Committee on all litigation involving the Corporation that could have a significant impact on the Corporation's financial statements.

The Committee shall make appropriate amendments to the Code of Ethics for the Chief Executive Officer and Senior Financial Officers ("the Code") and shall be empowered to grant waivers thereto under circumstances it deems appropriate.

Administrative Procedures

The Committee shall meet as frequently as deemed necessary by the Chairman to fulfill its responsibilities, but no less than four times during the year. A quorum shall consist of a majority of the members. Minutes of the meetings shall be kept. The regular attendance of non-members is permitted at the invitation of the Chairman. The Committee Chairman shall report the Committee's activities to the Board of Directors, including any issues that

arise with respect to the quality and integrity of the Corporation's financial statements, the Corporation's compliance with legal or regulatory requirements, the performance and independence of the Corporation's independent auditor or the performance of the internal audit function.

Limitations of Responsibilities

In fulfilling their responsibilities hereunder, it is recognized that members of the Committee are not full-time employees of the Corporation and are not, and do not represent themselves to be, accountants or auditors by profession, or experts in the field of accounting or auditing. As such, it is not the duty or responsibility of the Committee or its members to conduct "field work" or other types of auditing or accounting reviews or procedures, and each member of the Committee shall be entitled to rely on (a) the integrity of those persons and organizations within and outside the Corporation that it receives information from and (b) the accuracy of the financial and other information provided to the Committee by such persons or organizations absent actual knowledge to the contrary (which shall be promptly reported to the Board of Directors).

Annual Performance Evaluation

The Committee shall perform an annual review and evaluation of the performance of the Committee.

Compensation

No member of the Committee shall receive compensation other than director's fees for service as a director of the Corporation, including reasonable compensation for serving on this Committee or other committees of the Board and regular benefits that other directors receive.

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This Charter was reviewed by the Audit Committee on January 25, 2005 and recommended to and approved by the Board of Directors on January 26, 2005.

____Senior Vice President,
General Counsel and Secretary