KeySpan Corp.
Financial Statement Analysis
For three years ending December, 31 2005

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Accounting 203
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Company Information

- Formal corporate name

  KEYSPAN CORPORATION
- State of incorporation

  New York – April 1998
- North American Industrial Classification System Code (NAICS)

  221210 - Natural Gas Distribution
- Standard Industrial Classification Code (SIC)

  4924 - Natural gas distribution
- Stock exchanging markets

  NYSE

Corp. senior officers / compensation summary

- **Corporate senior officers**

Robert B. Catell - Chairman and Chief Executive Officer

Robert J. Fani - President and Chief Operating Officer

Wallace P. Parker Jr. - President, Energy Delivery and Customer Relation Group

Steven L. Zelkowitz - Executive Vice President & Chief Administrative Officer

Gerald Luterman - Executive Vice President and Chief Financial Officer

		Annual Compensation			Long-Term Compensation			
Name	Year	Salary ($)	Bonus ($)(1)	Other Annual Compensation ($)	Restricted Stock Awards ($)	Shares Underlying Options	LTIP Payout ($)	All Other Compensation ($)
Robert B. Catell	2005	1,073,500	1,047,343(2)	186,135(3)	0(4)	0	0	127,070(5)(6)
Chairman & Chief	2004	1,032,231	1,056,938(7)	171,574(8)	0	225,100(9)	0	132,893(10)(11)
Executive Officer	2003	938,000	1,089,056(12)	165,489(13)	0	208,800(14)(15)	0	136,105(16)(17)
Robert J. Fani	2005	729,807	545,573(2)	164,949(3)	0(4)	125,800(18)	0	62,553(5)(6)
President & Chief	2004	618,269	452,485(7)	134,336(8)	0	95,600(9)	0	51,878(10)(11)
Operating Officer	2003	450,000	307,958(12)	129,377(13)	0	69,500(14)(15)	0	35,807(16)(17)
Wallace P. Parker Jr.	2005	585,576	361,902(2)	148,660(3)	0(4)	88,600(18)	0	46,750(5)(6)
President, KeySpan	2004	546,152	386,515(7)	147,752(8)	0	74,700(9)	0	47,417(10)(11)
Energy Delivery and KeySpan Services	2003	450,000	348,288(12)	139,314(13)	0	69,500(14)(15)	0	43,448(16)(17)
Steven L. Zelkowitz	2005	542,230	372,768(2)	136,672(3)	0(4)	88,600(18)	0	42,990(5)(6)
President, Energy	2004	469,884	323,180(7)	136,880(8)	0	59,600(9)	0	41,198(10)(11)
Assets and Supply Group	2003	392,000	278,750(12)	40,914(13)	0	43,300(14)	0	36,225(16)(17)
Gerald Luterman	2005	462,153	462,355(2)	13,350(3)	196,250(4)(19)	54,800(18)	0	42,870(5)(6)
Executive Vice	2004	419,231	248,559(7)	13,628(8)	0	41,500(9)	0	30,763(10)(11)
President & CFO	2003	375,000	387,496(12)	9,009(13)	0	43,300(14)	0	28,899(16)(17)

Company's independent auditors

Deloitte & Touche LLP (*)

- "In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of KeySpan Corporation and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein."
- Report dated February 28, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

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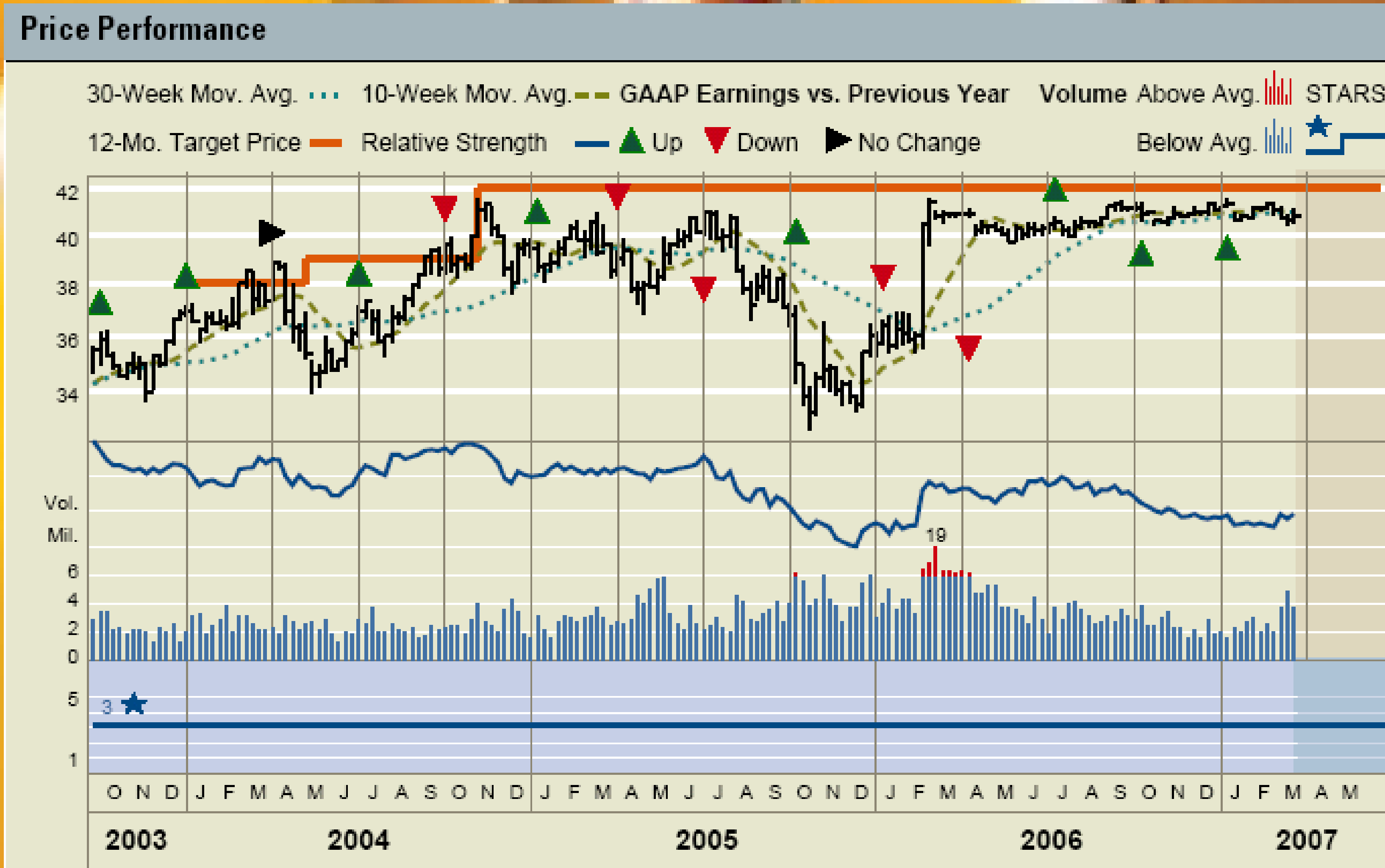
Company’s major competitors

	Revenues	Gross Margin	Net Income	EBITDA	Total Assets	Total Liabilities	PE Ratio	Market Cap	Employees	Daily Price
Oneok Inc. (New)	11,896,104,000	14.455102	306,312,000	-	10,504,721,000	7,488,118,000	19.85	4,878 M	4,558	44.26
Kinder Morgan, Inc. (KS)	11,846,400,000	27.302809	71,900,000	1,765,100,000	26,795,600,000	23,274,000,000	202.88	14,144 M	8,481	105.50
Sempra Energy (United States)	11,737,000,000	39.320099	920,000,000	1,798,000,000	29,213,000,000	23,053,000,000	9.29	15,628 M	13,420	59.61
Energy Transfer Partners L P	7,859,096,000	16.424026	515,852,000	-	5,455,013,000	3,718,151,000	22.46	6,376 M	3,898	57.50
KeySpan Corp.	7,181,600,000	22.578534	434,200,000	-	14,437,500,000	9,903,000,000	16.37	7,129 M	9,594	40.60
UGI Corp. (New)	5,221,000,000	29.938709	176,200,000	594,400,000	5,080,500,000	3,841,400,000	14.64	2,655 M	9,800	25.04
NICOR Inc.	3,357,800,000	26.511406	136,300,000	384,200,000	4,391,200,000	3,579,900,000	-	-	3,700	
New Jersey Resources Corp (United States)	3,299,608,000	7.268985	78,519,000	189,264,000	2,398,928,000	1,777,266,000	18.78	1,352 M	766	48.84
Questar Corp.	2,835,600,000	46.734377	444,100,000	1,089,300,000	5,064,700,000	2,859,200,000	16.10	7,189 M	2,105	83.72
WGL Holdings, Inc.	2,637,883,000	14.846451	87,578,000	300,258,000	2,791,406,000	1,841,426,000	17.06	1,501 M	1,818	30.71
AGL Resources Inc.	2,621,000,000	43.456696	212,000,000	602,000,000	6,147,000,000	4,538,000,000	14.62	3,102 M	2,369	39.90

Source: Mergent Online – USA Competitors

Recent stock price activity



Source: S&P Stock Reports

Geographical market

- The Gas Distribution segment distributes natural gas to customers in New York, Massachusetts, and New Hampshire. As of December 31, 2006, it served approximately 2.6 million customers.
- The Electric Services segment manages electric transmission and distribution system owned by Long Island Power Authority (LIPA); provides generating capacity and energy conversion services for LIPA; and manages fuel supplies for LIPA. This segment also owns, leases, and operates the 2,200 megawatt Ravenswood electric generation facility located in Queens County in New York City, and the 250 megawatt combined cycle generating unit.
- The Energy Investments segment includes gas production and development activities primarily in the New York City and Boston metropolitan areas, domestic pipelines, gas storage facilities, and liquefied natural gas facilities and operations.

Source: Factiva

Company Background

- Keyspan Corp. is a public utility holding company.
- Co.'s On May 28, 1998, acquired all of the assets Long Island Lighting Company.
- Co.'s core businesses are engaged in gas distribution, electric services and generation and other energy related activities.
- Through its subsidiaries, Co. is engaged in the gas exploration and production; underground gas storage; liquefied natural gas ("LNG") storage; retail electric marketing; large energy-system ownership, installation and management; service and maintenance of energy systems; and engineering and consulting services.
- Co. also invests and participates in the development of natural gas pipelines, electric generation and other energy-related projects.

Source: Hoover's Company Records

Financial Highlights

(Dollars/Amounts in Millions, except per share)		
	2005	2004
Total Assets	$13.812,6	$13.364,1
Total Liabilities	$5.427,7	$5.030,9
Net income	$390,2	$463,7
Market price per share	$33,65	$35,46
Diluted earnings per share	$2,27	$2,84
Dividends per common share	$1,82	$1,78
Number of common shares outstanding - end of year	174,4	160,8

Financial Statements

- Balance Sheet
- Income Statement
- Cash Flow Statement

Balance Sheet

(Dollars in millions)			
Assets	**2005**	2004	2003
Current Assets	$3.020,1	$3.078,6	$2.387,3
Noncurrent Assets	$10.792,5	$10.285,5	$12.252,9
Total Assets	$13.812,6	$13.364,1	$14.640,2
Liabilities and Stockholder Equity			
Current Liabilities	$2.155,2	$2.282,3	$1.852,3
Long-term Debt	$3.920,8	$4.418,7	$5.610,9
Other Liabilities	$3.272,5	$2.748,6	$3.422,7
Total Liabilities	$9.348,5	$9.449,6	$10.885,9
Shareholders Equity	$4.464,1	$3.914,5	$3.754,3
Total Liabilities and Stockholders' Equity	$13.812,6	$13.364,1	$14.640,2

Income Statement

(Dollars in millions, except per share amounts)	**2005**	2004	2003
Total Operating Revenue	$7.662,0	$6.650,5	$6.535,5
Total Operating Expenses	($6.770,9)	($5.768,8)	($5.522,2)
Other Income/Expenses(1)	($492,5)	($267,1)	($587,3)
Income from Continuing Operations	$398,6	$614,7	$426,0
Other Items (Income/(Expenses)) (2)	($8,4)	($151,0)	($39,3)
Net Income (Loss)	$390,2	$463,6	$386,7
Basic (Loss) Earnings Per Share	$2,28	$2,86	$2,41
Diluted Earning (Loss) Per Share	$2,27	$2,84	$2,39
Dividends Per Common Share	$1,82	$1,78	$1,78

(1) Includes Total Other Income (Deductions) and Net Interest Expense.

(2) Includes Loss from Discontinued Operations and Cumulative Effect of Changes in Accounting Principles

Cash Flow Statement

(Dollars in millions)	**2005**	2004	2003
Cash provided/(used) by operating activities	$403,3	$750,1	$1.223,4
Cash provided/(used) by investing activities	($529,2)	$234,7	($997,1)
Cash provided/(used) by financing activities	($657,2)	($275,8)	($180,2)
Effect of exchange rates on cash & equivalents	$0,0	$0,0	$0,0
Increase/(Decrease) in cash and cash equivalents	($783,1)	$709,0	$46,1
Cash and cash equivalents beginning of the year	$922,0	$203,4	$170,6
Cash and cash equivalents end of the year	$124,5	$922,0	$203,4

Cash Profile Trend Analysis

	2005	2004	2003
Cash provided/(used) by operating activities	+	+	+
Cash provided/(used) by investing activities	-	+	-
Cash provided/(used) by financing activities	-	-	-

Cash profile: 4, 3, 4.

- Profile # 4: typical profile of mature companies, considered a good profile because means that the company is generating positive cash flow and is also investing in the future, borrowing some money
- Year 2004 has a profile # 3 which is not as good as # 4 since this profile indicates the company is reducing its assets to pay debt or stockholders

(Adapted from *Financial Accounting in an Economic Context*, Jamie Pratt, 2003. John Wiley & Sons, Inc)

Cash Profile Trend Analysis

Liquidity

- Cash flow from operations decreased $346.8 million, or 46%, for the twelve months ended December 31, 2005 compared to 2004, reflecting, in part, the absence of Houston Exploration and KeySpan Canada which combined contributed approximately $230 million to consolidated operating cash flow in 2004.
- Cash flow from operations for the year ended December 31, 2004 decreased $473.3 million, or 39%, compared to 2003 primarily due to federal tax refunds received in 2003.

Investing

- Construction expenditures for the Electric Services segment reflect costs to maintain our generating facilities and, for 2004, expand the Ravenswood Generating Station. Construction expenditures related to the Energy Investments segment for 2004 primarily reflect costs associated with gas exploration and production activities of Houston Exploration, as well as costs related to KeySpan Canada's gas processing facilities.

Financing

- In January 2005, KeySpan redeemed $500 million of outstanding debt – 6.15% notes due 2006. KeySpan incurred $20.9 million in call premiums and wrote-off $1.3 million of previously deferred costs. Further, we accelerated the amortization of approximately $11.2 million of previously unamortized benefits associated with an interest rate swap on these bonds.

Management Discussion & Analysis Summary - revenue

- As indicated in the income statement, operating income decreased $80.3 million, or 9%, for the twelve months ended December 31, 2006 compared to the same period of 2005.
- The consistent variation is due to (a decrease of $49.3 million) the operating income of the Electric Services segment. The Ravenswood Generating Station was adversely impacted by additional competing electric generating units and the comparatively cooler 2006 summer weather, resulting in a decrease of $110.3 million in net electric margins. However, net electric margins from KeySpan's service agreements with LIPA and its electric marketing operations increased in 2006 compared to 2005, offsetting some of the lost margin from the Ravenswood Generating Station. Further, this segment also recognized a $46.5 million gain on a fixed for floating unforced capacity financial swap which is reflected in the operating results of this segment.
- The decrease in net gas revenues reflects the significantly warmer weather experienced during the first and fourth quarter winter heating seasons (gas revenues decreased $51.8 million over the same time period)

Source: Mergent Online – EDGAR search

Management Discussion & Analysis Summary – cost of goods sold

- Net revenues from firm gas customers (residential, commercial and industrial customers) decreased $70.2 million in 2006 compared to 2005. The favorable impact to net gas revenues from load growth additions was more than offset by declining usage per customer due to the extremely warm weather during the winter heating seasons, the use of more efficient gas heating equipment and higher gas costs. KeySpan estimates that the warm weather during the two heating seasons resulted in an adverse impact to net gas revenues of approximately $32 million, net of the benefits from the weather normalization adjustment and weather derivatives discussed below.
- Firm gas distribution rates for KEDNY, KEDLI and KEDNE in 2006, other than for the recovery of gas costs, have remained substantially unchanged from rates charged in 2005.
- Firm gas sales and transportation quantities for the twelve months ended December 31, 2006, decreased 12% compared to the same period in 2006 due primarily to the warmer weather this year compared to last year.

Source: Mergent Online – EDGAR search

Management Discussion & Analysis Summary – operating expenses

- Operating expenses decreased $54.7 million in 2006 compared to 2005.
- The decrease in operating expenses was mainly driven by a lower provision for uncollectible accounts receivable resulting from the decrease in firm sales quantities, and from the beneficial impact of a recent regulatory order and improved accounts receivable collection activities.

Source: Mergent Online – EDGAR search

Ratio Analysis

- Profitability ratios and trend analysis
- Liquidity ratios and trend analysis
- Efficiency Ratios and trend analysis
- Solvency ratios and trend analysis

Profitability Ratios

SIC Code	**4924**	**Natural gas distribution**
NAICS Code	**221210**	**Natural Gas Distribution**

KEYSPAN CORPORATION	2005	2004	2003	Industry
Earnings per share (basic)	$2,28	$2,86	$2,41	
Return on assets	2,9%	3,3%	2,6%	4,3%
Return on common equity	9,3%	12,1%	10,3%	12,7%
Dividend payout ratio	80,2%	62,7%	74,5%	43,7%
Net profit margin ratio	5,1%	7,0%	5,9%	9,6%

Note: Industry ratios obtained from Quote.com and MSN.com

Profitability Ratios - Trend Analysis 1

- Earnings per share (is calculated by dividing a company's net revenues by the outstanding shares) – positive from 2003 to 2004, but negative from 2004 to 2005. This is due to a significative drop in the net income (463.6 in 2004 to 390.2 in 2005), mostly generated from an increase in the total expenses.
- Favorable. The industry average is not available, however, it is aligned with the selected peer companies (Energy East Corp. (EAS) shows $1.76, and Consolidated Edison Inc. (ED) shows $2.94 as of May 2007)

Profitability Ratios - Trend Analysis 2

- Rate of return on asset (The first part of the return on assets equation shows how much profit the company can wring from each sales dollar. The second part of the return on assets equation shows how efficiently the company can generate revenue from the assets it has. Both higher profitability and higher efficiency yield a better return on assets)
- Mostly favorable, but due to the low efficiency of the company, it is below the industry average (almost half)

Profitability Ratios - Trend Analysis 3

- Return on common equity (Sales and assets are in both numerator and denominator of the equation, so they cancel each other out and leave just the original return on equity ratio. If management can increase profitability (net margin) or efficiency (asset turnover), it can increase return on equity; it can also boost return on equity by using borrowed capital to increase returns (leverage). As with other financial ratios, a company's return on equity is best compared with those of firms in its industry)
- Mostly unfavorable, compared to the industry average and as per its downward trend

Profitability Ratios - Trend Analysis 4

- Dividend payout ratio (Dividend payout ratios vary by industry and are affected by market conditions and tax law. Moreover, both a low dividend payout ratio and a high dividend payout ratio can have good or bad implications. A low dividend payout ratio can indicate a fast-growing company whose shareholders willingly forego cash dividends, because the company uses the extra money to generate higher returns and, in turn, a high stock price. But a low dividend payout ratio can also point to a company that simply can't afford to pay dividends. Similarly, a high dividend payout ratio can indicate a blue-chip that pays high dividends and whose stock price is temporarily depressed. But a high dividend payout ratio can also point to a mature company with few growth opportunities)
- Favorable, almost double the industry average with a quite positive trend; the selected peer companies (Energy East Corp. (EAS) shows 66%, and Consolidated Edison Inc. (ED) shows 78% as of May 2007)

Profitability Ratios - Trend Analysis 5

- Net profit margin (As a general rule, an improving (ie, a higher) profit margin is a favorable sign. But note that the profit margin is only one element in measuring a company's ability to generate profits. For example, a company may maintain a high profit margin, but only by keeping prices high, thus reducing sales. By lowering prices and sacrificing some profit margin, the company may be able to increase sales sufficiently to more than offset the reduced profit margin. On the other hand, if a company can maintain the same level of sales while cutting cost of goods sold, SG&A expense, or taxes, it can increase its profit margin and raise total earnings as well)
- Unfavorable; positive trend from 2003 to 2004, but negative from 2004 to 2005, ending up with a percentage significantly below the industry average. The selected peer companies (Energy East Corp. (EAS) shows 4.97%, and Consolidated Edison Inc. (ED) shows 6.07% as of May 2007)

Profitability Ratios Overall

- Mostly unfavorable. According to the ratios, this company is not as profitable as the others operating in the same industry.

Liquidity Ratios

SIC Code	4924	Natural gas distribution
NAICS Code	221210	Natural Gas Distribution

KEYSPAN CORPORATION	2005	2004	2003	Industry
Current ratio	1,40	1,35	1,29	1,02
Quick ratio	0,83	0,98	0,80	0,59
Operating cash flow to current debt ratio	0,18	0,36	0,66	

Note:
- Industry ratios obtained from Quote.com and MSN.com
- Quick ratio calculated as: (Cash and temporary cash investments + Accounts receivable, net of allowances + Unbilled revenue) / Total current liabilities

Liquidity Ratios - Trend Analysis 1

- Current ratio (The ratio is mainly used to give an idea of the company's ability to pay back its short-term liabilities (debt and payables) with its short-term assets (cash, inventory, receivables). The higher the current ratio, the more capable the company is of paying its obligations)
- The trend is favorable: increased from 2003 to 2005. Over the industry average

Liquidity Ratios - Trend Analysis 2

- Quick ratio (The Acid-test or quick ratio measures the ability of a company to use its "near cash" or quick assets to immediately extinguish its current liabilities. Quick assets include those current assets that presumably can be quickly converted to cash at close to their book values. Such items are cash, stock investments, and accounts receivable)
- Favorable, the company’s trend is almost flat, but over the industry average

Liquidity Ratios - Trend Analysis 3

- Operating cash flow to current debt (measures the sufficiency of cash flow from operating activities to meet current obligations)
- Not favorable; trend is downward, this is due to the operating cash flow which is decreasing and the current debt is decreasing, but at a lower rate

Liquidity Ratios Overall

- Mostly favorable, positive for considering the capability to turn quick assets into cash, but not favorable for the cash flow that the company is generating

Efficiency Ratios

SIC Code	**4924**	**Natural gas distribution**
NAICS Code	**221210**	**Natural Gas Distribution**

KEYSPAN CORPORATION	**2005**	**2004**	**2003**	**Industry**
Asset turnover	0,56	0,47	0,45	0,50
Receivables turnover	9,05	8,56	7,84	17,60
# days sales in receivables	40,34	42,66	46,57	20,74
Inventory turnonver	6,78	6,38	5,96	19,00
#days sales in inventory	53,81	57,17	61,28	19,21

Note: - Industry ratios obtained from Quote.com and MSN.com
- Inventory turnover calculated as: Cash and temporary cash investments / current and previous year average of Purchased gas, fuel, and power

Efficiency Ratios - Trend Analysis 1

- Asset turnover (The amount of sales generated for every dollar's worth of assets. Asset turnover measures a firm's efficiency at using its assets in generating sales or revenue)
- Favorable, it is in the average with a slight increase during the periods; the selected peer companies (Energy East Corp. (EAS) shows 0.45, and Consolidated Edison Inc. (ED) shows 0.47% as of May 2007)

Efficiency Ratios - Trend Analysis 2

- Receivable turnover (Number of times average Accounts Receivable are collected in a year. The higher the turnover, the shorter the time between sales and collecting cash)
- Not favorable, it is lower than the industry average, but with an increasing trend during the periods. For the company it takes as much as two times more to collect the money compared to the industry average; , the selected peer companies (Energy East Corp. (EAS) shows 5.11, and Consolidated Edison Inc. (ED) shows 10.92 as of May 2007)

Efficiency Ratios - Trend Analysis 3

- Inventory turnover (The Inventory Turnover measures how well the company can manage to sell its inventory. Another way of saying this is how efficiently the company converts inventory into sales)
- Not favorable: it takes as much as two times more to turn the inventory for the company with respect to the industry average. On the positive hand, there is an increasing trend; the selected peer companies (Energy East Corp. (EAS) shows 11.42, and Consolidated Edison Inc. (ED) shows 15.03 as of May 2007)

Efficiency Ratios Overall

- Not favorable, The company does not seem to be as efficient as the other of the average industry. Efficiency deals with profitability and these two family ratios for this company denote a performance below the average of its competitors

Solvency Ratios

SIC Code	**4924**	**Natural gas distribution**
NAICS Code	**221210**	**Natural Gas Distribution**

KEYSPAN CORPORATION	2005	2004	2003	Industry
Debt ratio	67,68%	70,71%	74,36%	
Debt-to-equity ratio	209,42%	241,40%	289,97%	216,00%
Times interest earned	3,37	3,84	3,30	3,60
Operating cash flow coverage ratio	4,29%	7,38%	11,24%	3,50%

Note: Industry ratios obtained from Quote.com and MSN.com

Solvency Ratios - Trend Analysis 1

- Debt ratio (A ratio that indicates what proportion of debt a company has relative to its assets. A debt ratio greater than 1 indicates that a company has more debt than assets, and a debt ratio less than 1 indicates a company has more assets than debt)
- Favorable decreasing trend

Solvency Ratios - Trend Analysis 2

- Debt-to-equity ratio (Indicates the relative proportion of equity and debt used to finance a company's assets)
- Favorable as per trend and compared to the industry average. The company has $2 of debt per every dollar of asset

Solvency Ratios - Trend Analysis 3

- Times interests earned (A metric used to measure the ability of a company to meet its debt obligations. Ensuring interest payments to debt holders and preventing bankruptcy depends mainly on a company's ability to sustain earnings. However, a high ratio can indicate that a company has an undesirable lack of debt or is paying down too much debt with earnings that could be used for other projects. The rational is that companies would yield greater returns by investing their earnings into other projects and borrowing, at a lower cost of capital than what it is currently paying for it's current debt, to meet it's debt obligations)
- Favorable stable trend, but below the average

Solvency Ratios - Trend Analysis 4

- Operating cash flow to coverage ratio (The number of times that financial obligations are covered by earnings before interest)
- Unfavorable negative trend, but over the average industry. The liabilities are decreasing at a lower rate than the generated cash flow

Solvency Ratios Overall

- Mostly favorable. The company is stable, it has just a cash problem

Company Developments

- New product announcement: 'Be Green, Win Green' Launched: KeySpan Announces Campaign and Sweepstakes to Help Combat Climate Change (www.Keyspanenergy.com – oil to gas conversion heating project). KeySpan earnings rise 2.5%: Gain for 1st quarter comes on 7.4% jump in revenues; company attributes gains to strong gas business (Newsday, Melville, N.Y.)
- Mergers/Acquisitions: A costly cleanup for KeySpan: Legislator says he'll seek to delay vote on National Grid merger until manufactured-gas plant issue is addressed (Newsday, Melville, N.Y.)
- Major asset sales: It should be noted the 2005 results include a loss of $1.8 million or $0.01 per share from discontinued operations, representing the sale of the mechanical contracting companies in the first half of 2005 (www.Keyspanenergy.com)
- Ventures: KeySpan Exploration is involved in a joint venture with Merit Energy Corporation, an independent oil and gas producer, which acquired its interest in the joint-venture from The Houston Exploration Company (Reuters – 05/16/2006).
- Litigations: KeySpan Corporation announced that Islander East Pipeline Company, L.L.C. (Islander East) has received a favorable decision from the U.S. District Court, District of Connecticut in New Haven. (26 March 2007) – Mergent Online
- Cost reductions: Permanent customer savings of more than $500 million anticipated during the 10-year proposal, possible through the cost-reductions generated from combining the companies (www.Keyspanenergy.com)

Source: Factiva, Newsday, www.Keyspanenergy.com, Reuters, Mergent Online.

Industry Developments

- Competitive environment: The electric power industry has been through a period of major changes. Historically, the regulated investor-owned utilities have had exclusive franchises to provide vertically integrated electric services to retail customers — usually within a given state, in contiguous areas outside the state, or both. However, the monopolistic, tightly regulated utilities created under trust-busting legislation more than 60 years ago have become increasingly exposed to competition, particularly in the generation and wholesale power markets, due to changes brought about by the National Energy Policy Act (NEPA) of 1992. (S&P)
- Recent market trends: Reflecting the decline in coal-fired generation, consumption of coal was down by 1% from January to October 2006. The use of petroleum liquid and petroleum coke also declined, by 54.2% and 9.2% respectively, while natural gas consumption was up by 6.1%, reflecting the moderation in natural gas prices. With the increasing consumption of electricity and natural resources, there is a growing need for inexpensive, renewable and reliable energy sources including wind, hydroelectric and solar power. Currently, these renewable energy sources account for about 12% of the electricity generated in the US, but this figure is projected to increase to 15% by 2020. Because of global warming fears and high energy costs, the use of wind energy is picking up. Wind farms in the US are the second largest source of renewable power generation after hydroelectricity. The country has potentially viable wind resources estimated at more than 2,000 GW. According to the American Wind Energy Association (AWEA), wind power generating capacity rose by 27% in 2006 (Mergent Online)
- Technological developments: Investment in clean energy companies witnessed a huge leap in 2006, increasing by more than 160%, from US$2.7 billion in 2005 to US$7.1 billion. The significant rise was driven by a surge in money flowing into the country's biofuels, solar, wind and other low carbon sectors (Mergent Online)
- Legal activities affecting business: In December, the US Senate approved the Tax Relief and Health Care Act of 2006, thereby extending many of the tax credits that benefit the renewable energy industries. The bill extends many of the important tax credits for another year, including PTC – which helps make larger projects economically feasible. (Mergent Online)

Source: Mergent Online, Standard & Poors.

SWOT Analysis - overall

Strengths

- Cost advantage from proprietary know-how
- Exclusive access to high grade natural resources
- Large gas supply portfolio

Weaknesses

- High cost structure
- Difficulties with the recent Merger/Acquisition

Opportunities

- Arrival of new technologies
- achieve economies of scale and reduce costs
- Increase in equity capital

Threats

- Emergence of competition
- New regulation
- Uncertain economic conditions
- Environment issues

SWOT Analysis - 1

Strengths

- The merged companies will provide benefits to customers by reducing costs through combining resources and by more comprehensively managing a large gas supply portfolio. The proposal, filed Thursday, calls for National Grid resources and expertise to complement KeySpan's existing strengths. "Our new combined company, which forms the third largest gas delivery company in the nation, means we can provide these additional benefits to our New Hampshire customers," said Nick Stavropoulos, president of KeySpan Energy Delivery. (www.Keyspanenergy.com)

SWOT Analysis - 2

Weaknesses

- We expect slightly higher income from electric services in 2007. We project continued weakness in capacity payments in New York due to new generating capacity in the market to be partly offset by more normal weather. (S&P)
- We see gas distribution earnings rising slightly as a drop in customer gas utilization due to continued high gas prices is outweighed by customer growth and a return to more normal weather. We also expect higher operating expenses from rising labor and pension costs and increased bad debt expense to impact profits, partly offset by lower marketing expenditures. (S&P)

SWOT Analysis - 3

Opportunities

- As part of this larger company, we'll have access to greater resources to better tackle the tough issues - like high-priced, volatile energy markets and the ability to meet customers' demand for energy through enhanced supply, natural gas pipelines and infrastructure. And because National Grid's U.S. business is focused on the Northeast, where our combined service areas are contiguous in many places, there are many opportunities to achieve economies of scale and reduce costs for customers. (http://www.secinfo.com)
- The combined company would become the third-largest energy delivery utility company in the US. The proposed transaction is subject to necessary approvals, including New York and New Hampshire state regulatory approvals. On July 10, 2006, it cleared the review by the Federal Trade Commission under the Hart-Scott-Rodino Act. Later, the shareholders of both companies and the FERC gave their consent to the merger. Assuming the required approvals, we expect the planned merger to be completed by mid-2007. We believe the acquisition will provide adequate resources for KSE to pursue its proposed investments in energy infrastructure and other growth opportunities as well as result in cost synergies for the company. (S&P)

SWOT Analysis - 4

Threats

- May 15--The cost of cleaning up the 25 toxic former manufactured-gas plant sites on Long Island and New York City could top $1 billion, a Suffolk legislator said yesterday, citing a 2003 study commissioned by KeySpan Corp., which is responsible for the cleanup. Legis. Wayne Horsley (D-Babylon) said the figure raises concerns about KeySpan's prior public claims about the cleanup costs, and about the pending buyout of KeySpan by National Grid Plc. He said the figure, which does not include 26 recently disclosed smaller manufactured-gas-making and storage sites, would burden ratepayers in the region with high costs for the cleanup. And he noted the costs would eclipse the so-called synergy savings promised by KeySpan and National Grid once their merger is complete. (Mergent Online)
- As a result, companies including American Electric Power (AEP) (NYSE: AEP) and Allegheny Energy Inc (NYSE: AYE) plan to invest billions of dollars to build new electric gateways that would link inexpensive energy produced in Appalachia and the Midwest with the power hungry eastern seaboard, where prices can spike in summer and winter when demand peaks. Either project could transmit enough electricity to power 3.5 million to five million homes, and would represent the largest investment in the region's power grid in decades. As the current investment initiatives are not expected to come online for ten or 15 years, the number of outages users experience over a year is expected to grow. Recent events, including rising oil prices and increasing pressure on renewable electricity power sources, have also strained the resources of utilities. (Mergent Online)

My Recommendation

- At the current market price, I do not recommend purchasing additional shares but, if you are a current stockowner, I recommend holding onto those shares. This recommendations infers that, for current holders the dividend yield plus future increases in the stock value, might make it a valuable holding. However the company's stock price might be to high to insure a worthwhile return, as compared to other available investments, within the next 12 months.

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