

**KEYSPAN**



December 2003



Strategic Execution  
for Growth

# Agenda

## Strategy

Robert B. Catell

2003 Execution and  
Expense Reduction

Robert J. Fani

Business Drivers

Energy Delivery & Customer Focus

Wallace P. Parker Jr.

Gas Distribution

Energy Services

Energy Asset & Supply

Steven L. Zelkowitz

Electric Services

Energy Investments

Financial Strategy

Gerald Luterman

Maximizing

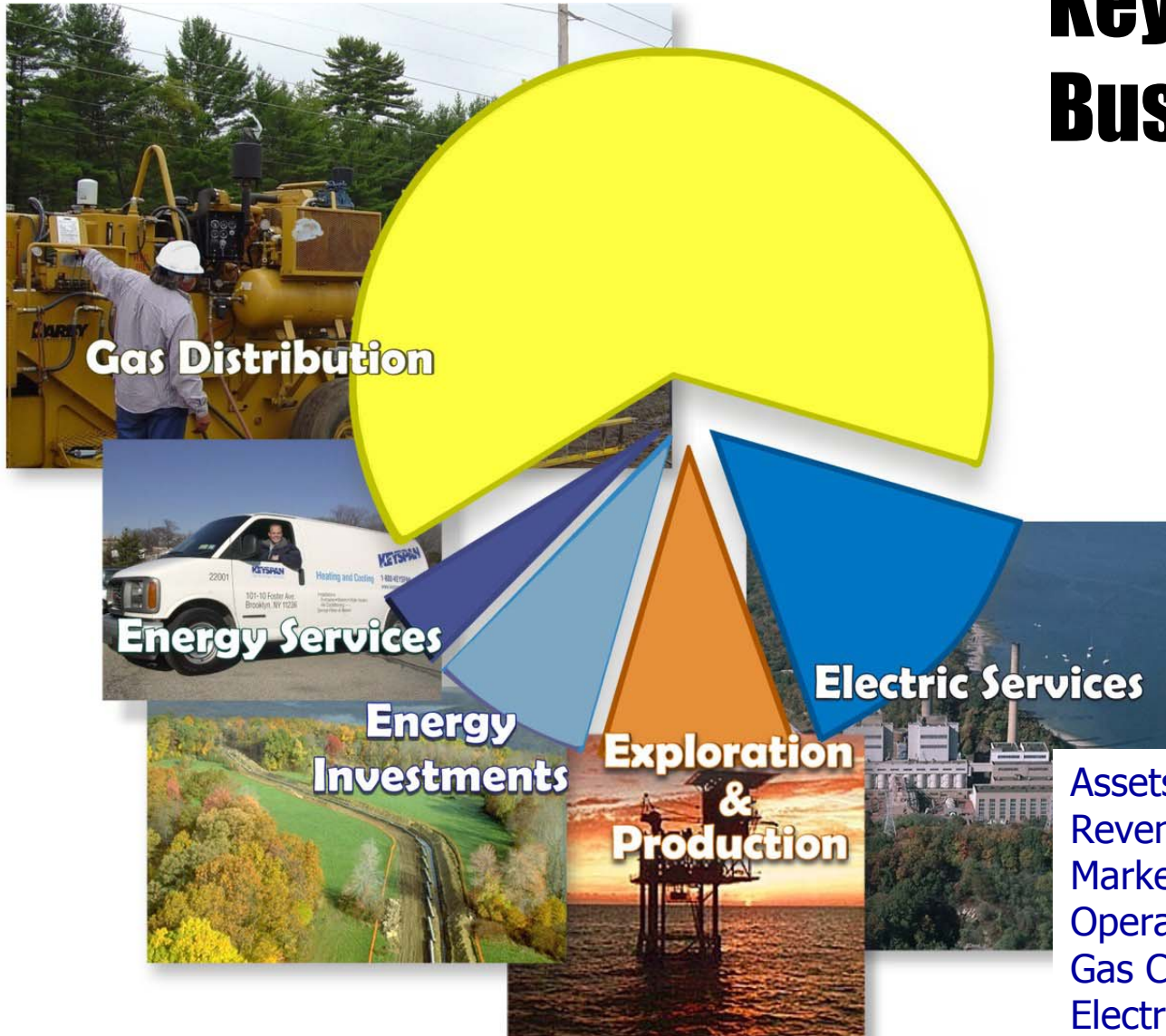
Shareholder Value

Robert B. Catell



# KeySpan's Business Profile

## Asset Mix



Assets	\$12.5B
Revenue	\$ 6.0B
Market Cap (11/30/03)	\$ 5.6B
Operating Income	\$ 1B
Gas Customers	2.5 M
Electric Generation	6,400 MW
Net Proved Gas Reserves (THX)	700+ BCFe

12/31/03 estimate

# KeySpan's Focused Strategy

## Emphasis on Growth

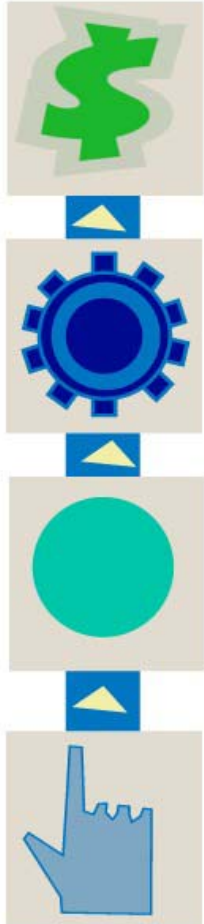
### *Gas Distribution*

- **Organically Grow the Business**
  - ◆ 50% Saturation Level
  - ◆ Offer Energy Products & Services
  - ◆ Build / Acquire New Pipeline, LNG & Storage Assets

### *Electric Generation*

- **Optimize Current Assets**
- **Build / Acquire Strategic Generation**

# Framework for Growth



- Focus on Core Business
- Business Segments Aligned for Growth
- Business Review Process
- Cost Reduction Program
- Balance Sheet Improvement
- Monetization of Non-Core Assets

# Minimizing Business Risk

## Gas Distribution

Commodity Pass Through

Weather Normalization

## Electric Services

Long-term Contracts

New York City Load Pocket

Hedged Electric Sales

## Exploration & Production

Multi-year Gas Prices Hedges



***80% to 85%*** of KeySpan's Operating Income comes from Regulated, Contractual and "Load Pocket" Businesses

# Objectives

- Grow Core Earnings by 5% - 6%
- Maintain an "A" Quality Credit Rating
- Monetize Non-Core Assets
- Maintain / Increase Dividend



# 2003 – 2004 Earnings Guidance

**\$2.45 - \$2.60**  
**\$0.30 - \$0.40**  
E&P

**\$2.55 - \$2.75**  
**\$0.35 - \$0.45**  
E&P

**CORE**  
**\$2.15**  
**to**  
**\$2.20**

**5% - 6%**  
**Core Growth**

**CORE**  
**\$2.20**  
**to**  
**\$2.30**

**2003E**

**2004E**



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## **In 2003 KeySpan has ...**

***Remained focused on executing our strategy of growing our core businesses***

## **And in 2004 ...**

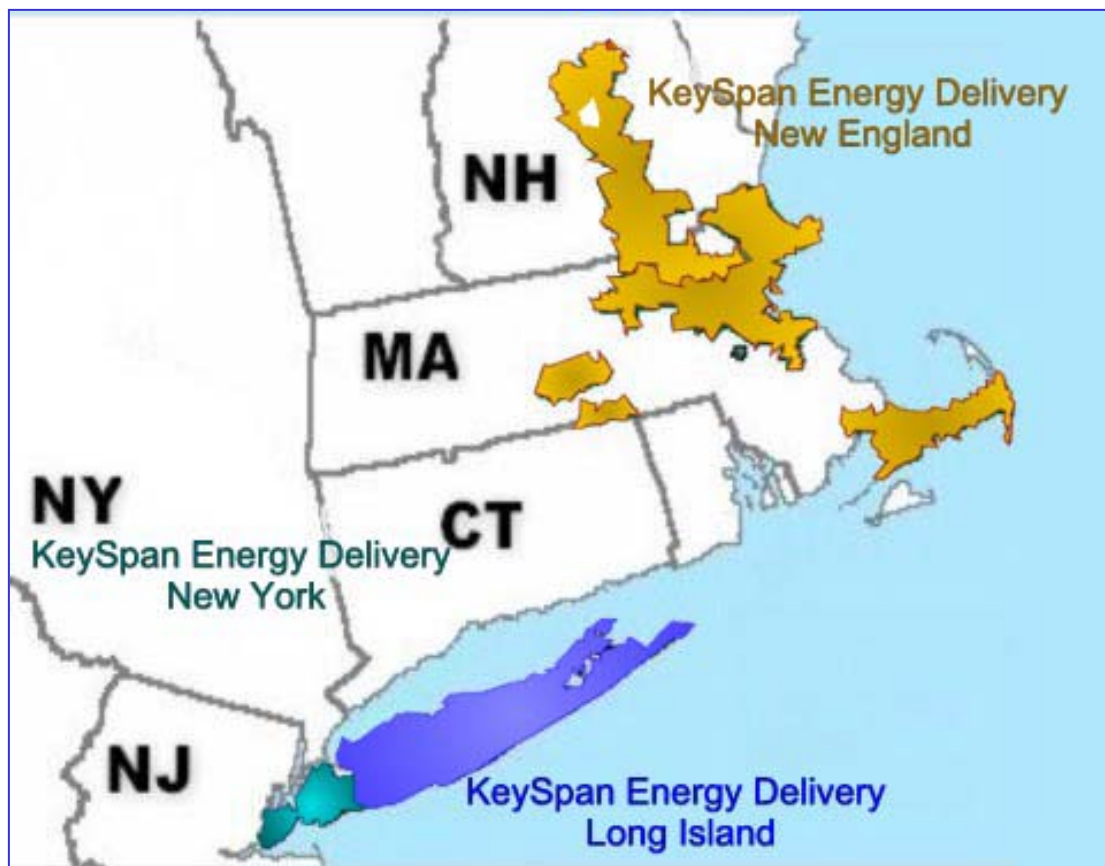
***We will continue this growth with an increased focus on efficiency***

# 2003 Business Execution

- Gas Business Organic Growth
- Asset Growth
- Operational Excellence
- Non-Core Asset Monetization
- Expense Reduction

# Growth in the Gas Businesses

Projecting \$55 - \$60 million in new Gross Profit Margin



## New England Rate Case Decision

- \$26 million rate increase
- 10.2% ROE
- 50/50 capital structure
- True-up on pension and OPEB
- Performance based rate plan up to 10 years



# Asset Growth

## Ravenswood, NYC - 250 MW Plant

- Load Pocket
- Currently in start-up mode
- Expected commercial operation early '04
- On budget and on schedule



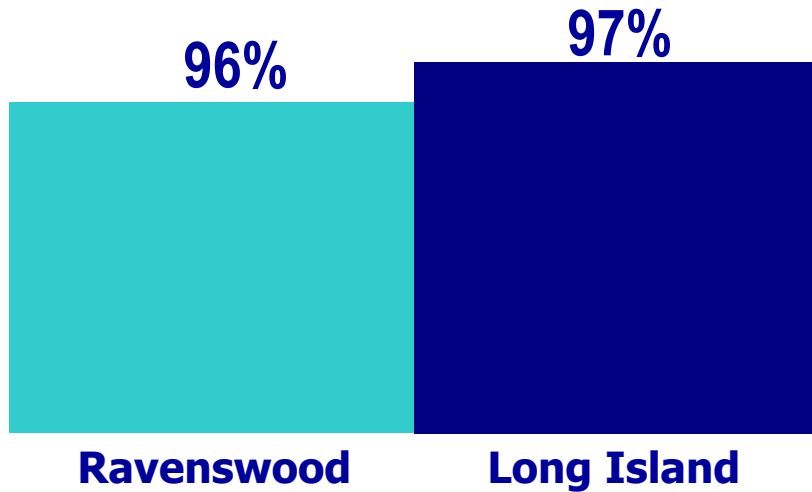
## LNG Facility Expansion

- Planned conversion to marine deliveries
- Partnering with British Gas
- Approximately \$50 M investment
- Will help meet gas supply needs in New England
- Expected in service late 2005

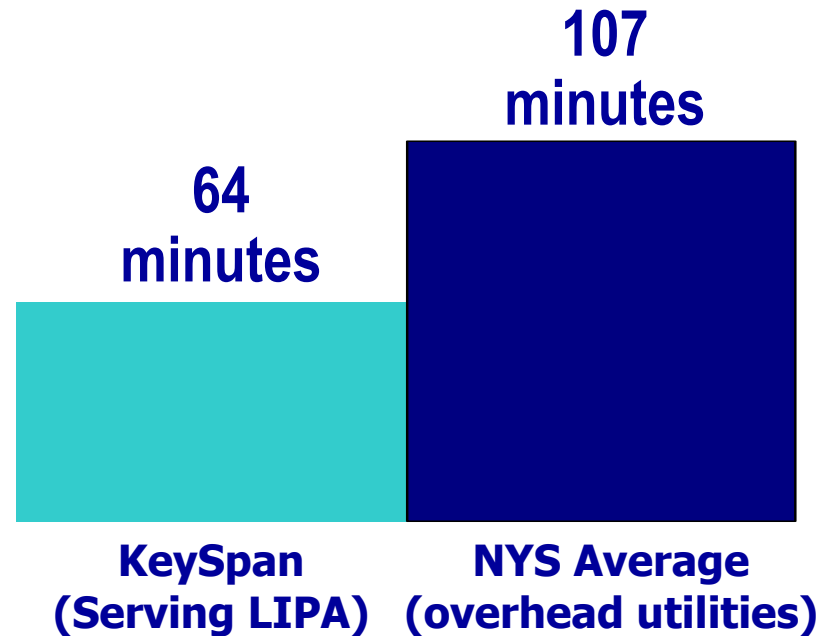
# Operational Excellence

## ELECTRIC GENERATION Continued Excellent Performance

Summer Availability



## ELECTRIC T&D KeySpan has the Fastest Power Restoration Time in New York State



# Monetization of Non-Core Assets

## The Houston Exploration Company

- Reduced ownership from 66% to 56%
- Received net proceeds of \$79 million

## KeySpan Canada

- Monetized 39% through Canadian Income Trust
- Received net proceeds of \$120 million

## Northern Ireland

- Monetize investment in Phoenix Natural Gas (Dec '03)
- Sale price of approximately \$95 million



# Expense Management

**KeySpan is undertaking a multi-year, enterprise-wide initiative to improve operational efficiency**

- Align KeySpan's cost structure with our strategic growth priorities
- Ensure that KeySpan's expense structure is in-line with our peers
- Re-think business processes to achieve sustainable expense reductions
- Leverage technology to strengthen controls and streamline processes
- Build a model for continuous process improvement and expense reduction

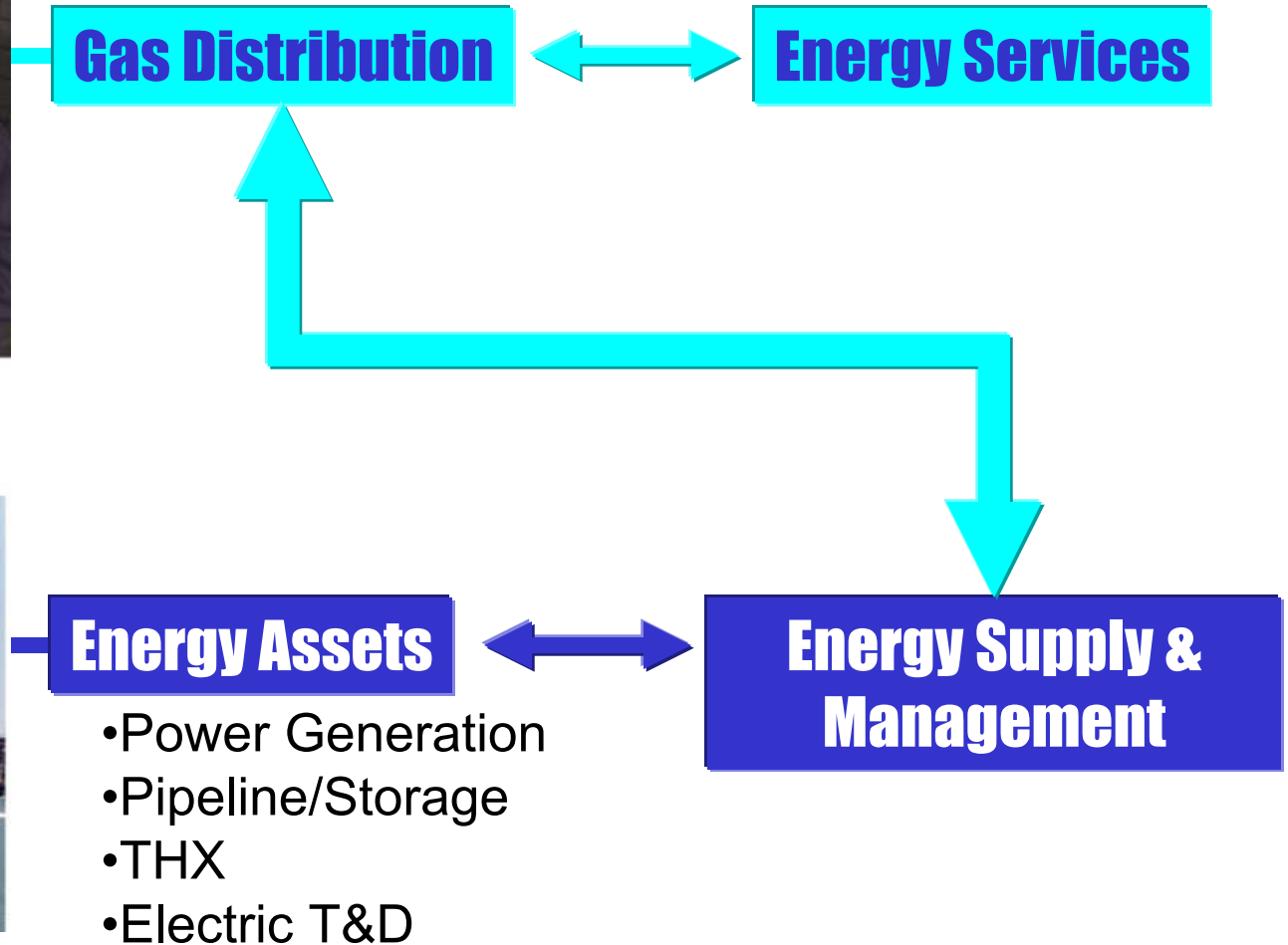


**\$100 million in expense cuts to cover increasing costs**



# KeySpan's Structure Supports Its Strategy

Organizational Effectiveness & Supply Management



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**Energy Services**

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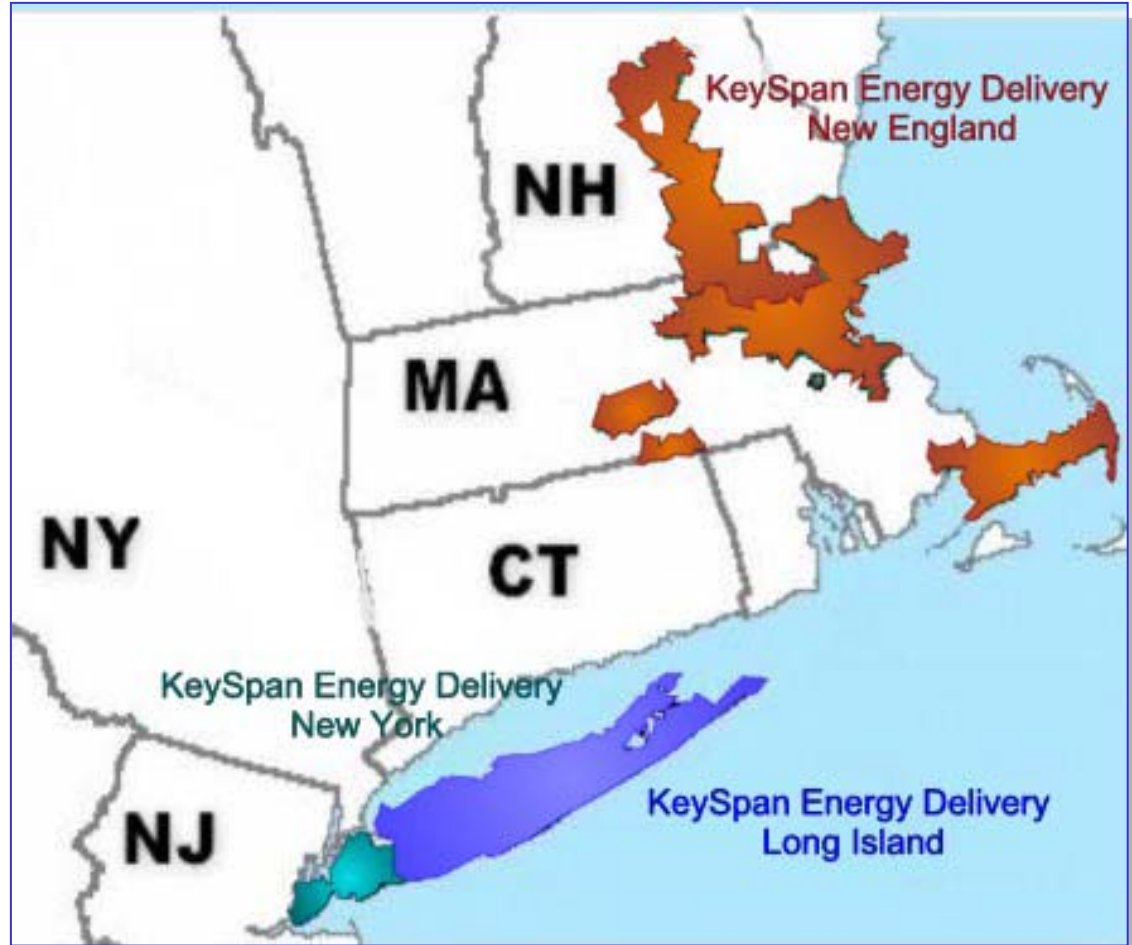
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# KeySpan Gas Distribution – “Size & Efficient Growth”

- 4,300 Square Miles of Territory
- 2.5 Million Customers
- 1 Million Residential Heating Prospects
- 150,000 Commercial Prospects
- \$1.6 Billion Annual Total GPM
- \$55 - \$60 Million Annual New GPM

*(12/31/03 estimates)*



# Gas Distribution Outlook

	<u>New York</u>	<u>Long Island</u>	<u>New England</u>
Customers	1.2 million	500,000	800,000
Allowed ROE	13.25%	11.1%	10.2% <i>(Boston Gas)</i>

Operating Income (\$millions)		
	2003E	2004E
<b>Guidance</b> (assumes normal weather)	\$520 - \$530	\$545 - \$565

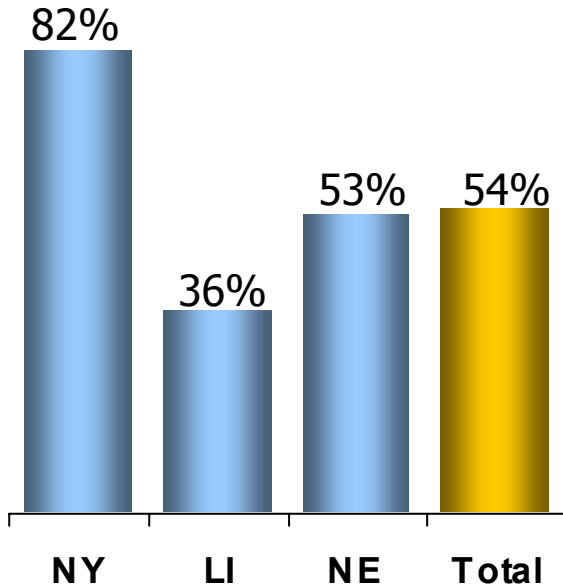
**New 2004 Annual GPM      \$55M**



# Unique Organic Growth Opportunity

## Residential

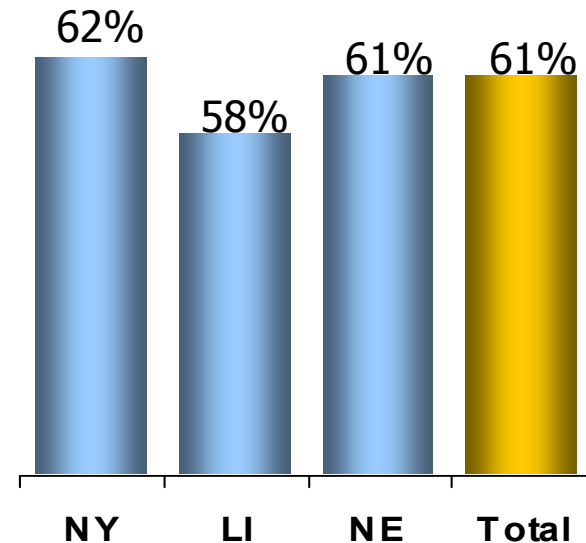
Market Saturation Levels



- 1 million prospects
- \$650+ million in GPM potential

## Business

Market Saturation Levels



- 150,000 prospects
- ~\$300 million in GPM potential

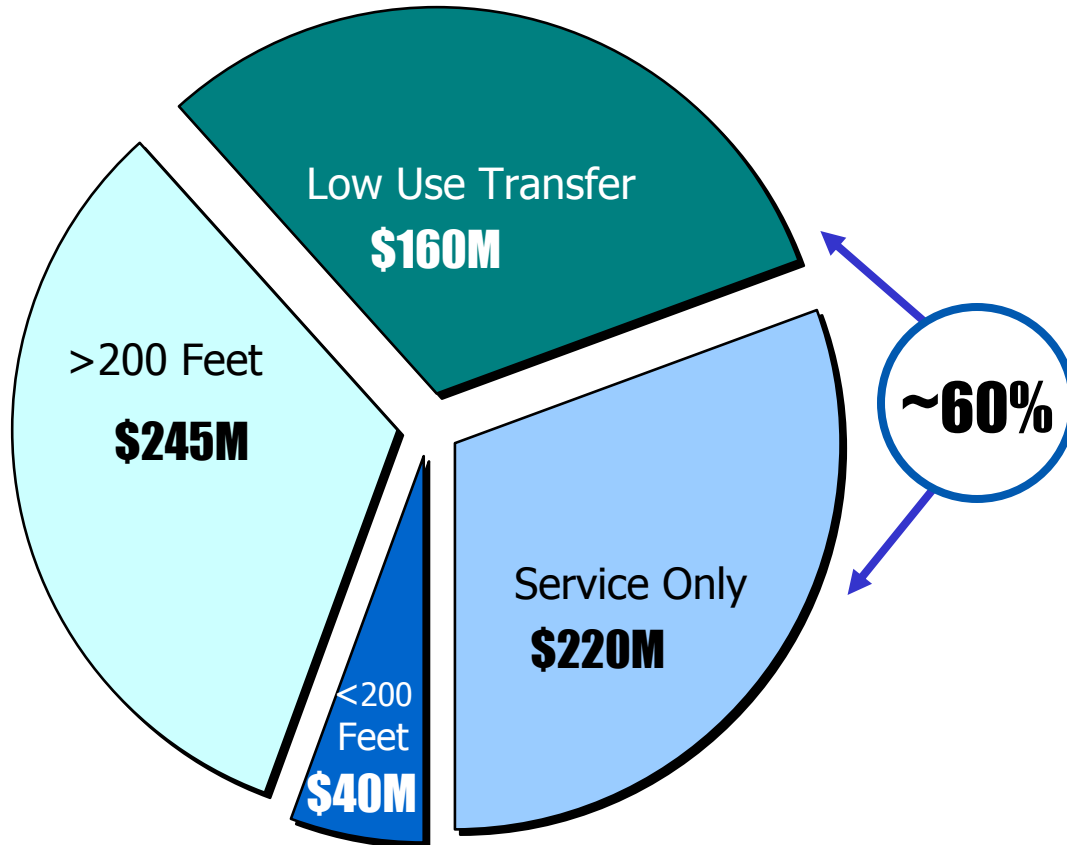
# 2004 Strategic Execution

- Optimize resources by allocating capital to the most profitable segments
- Develop intelligence-based tools for Business Markets
- Redesign compensation plans
- Launch a Business Review team

# Residential Market Potential

## Conversion / Home Heating

GPM Potential



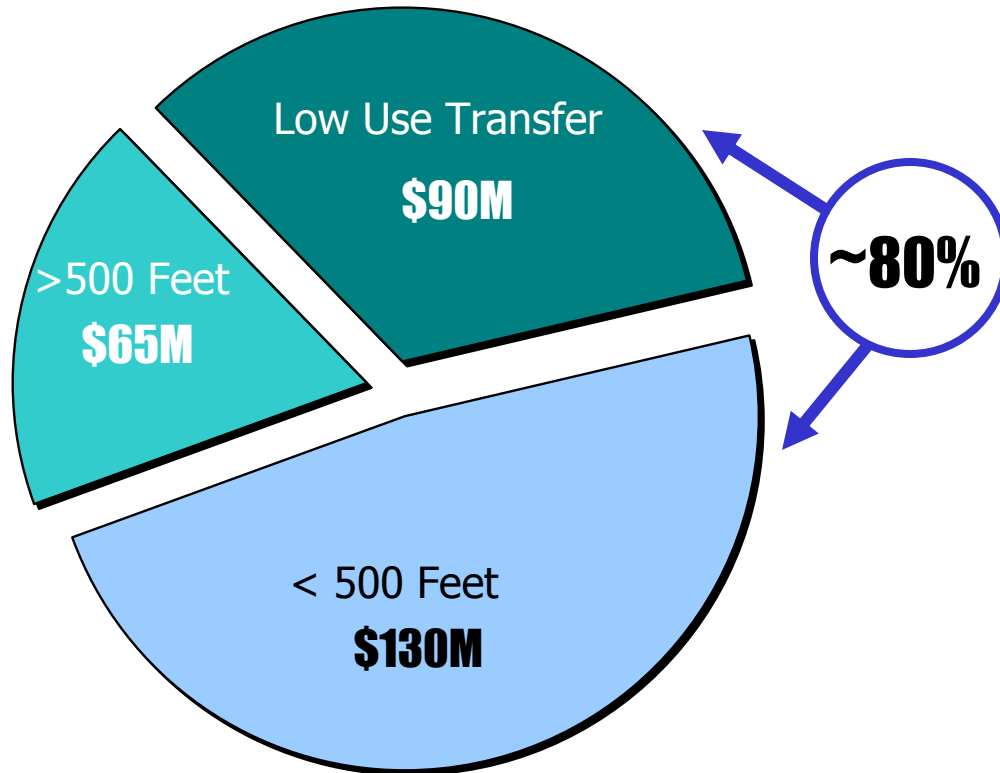
- Optimize customer additions
- Target the most profitable customers requiring low capital investment
- Capture larger share through Relationship Marketing
- Focus on cross-selling affiliated services

**\$380 million or ~60% of GPM potential requires minimum capital investment**

# Business Market Assessment

## Conversions / Additional Load

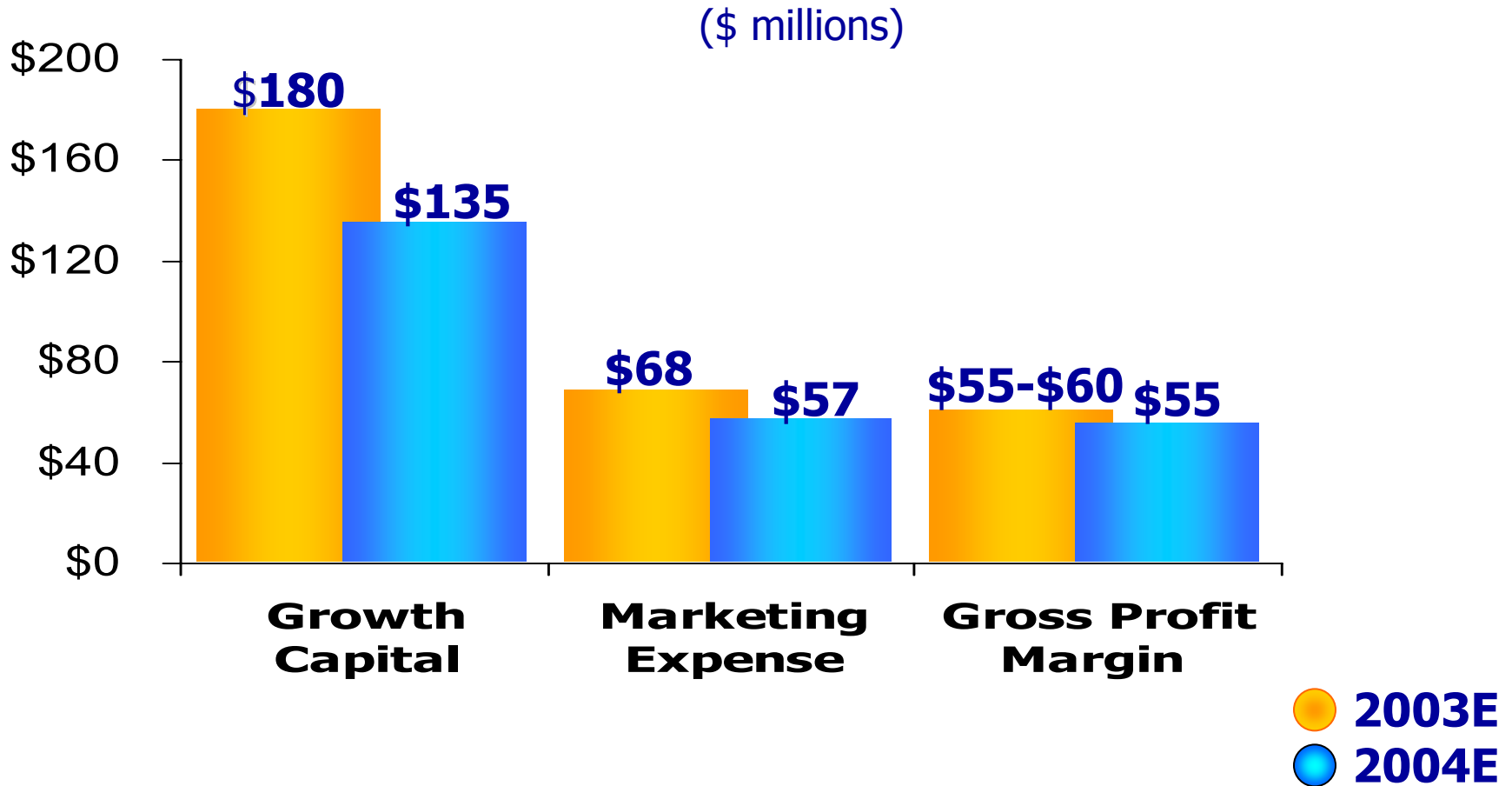
GPM Potential



- Target profitable segments based on load factor
- Focus on 20 most profitable business markets
  - Service industry
  - Retail trade
- Understand specific customer needs
- Sell additional services to existing customers

**\$220 million or ~80% of GPM potential close to existing infrastructure**

# Capital, Expense & Marketing Efficiency



	<u>2003E</u>	<u>2004E</u>
Growth CapEx / GPM	3.1-to-1	2.5-to-1
Marketing Expense/GPM	1.2-to-1	1.0-to-1

# KeySpan Services

...provides a portfolio of energy related products and services to homes and businesses



- Strategic Fit
- Core Business
- Enhances Brand & Customer Satisfaction

Operating Income (\$millions)		
	2003E	2004E
<b>Guidance</b>	\$10 - \$20	\$0 - \$10

Note: 2003 guidance estimated as of 12/02



# KeySpan Services - Growth Drivers

## Home Energy Services

*Leveraging the KeySpan  
“brand” through product &  
service up-sell opportunities*

- 200,000 Service Contracts
  - Premium Contract Focus
- 25,000 On-Demand Service Calls
- Installation Services
  - Gas Boilers
  - Central Air Conditioning
  - Other Energy Products

## Business Solutions

*Design – Build – Operate –  
Maintain – Fuel*

### Design, Planning & Engineering Services

- Heating
- Air Conditioning
- Ventilation

### Mechanical Contracting

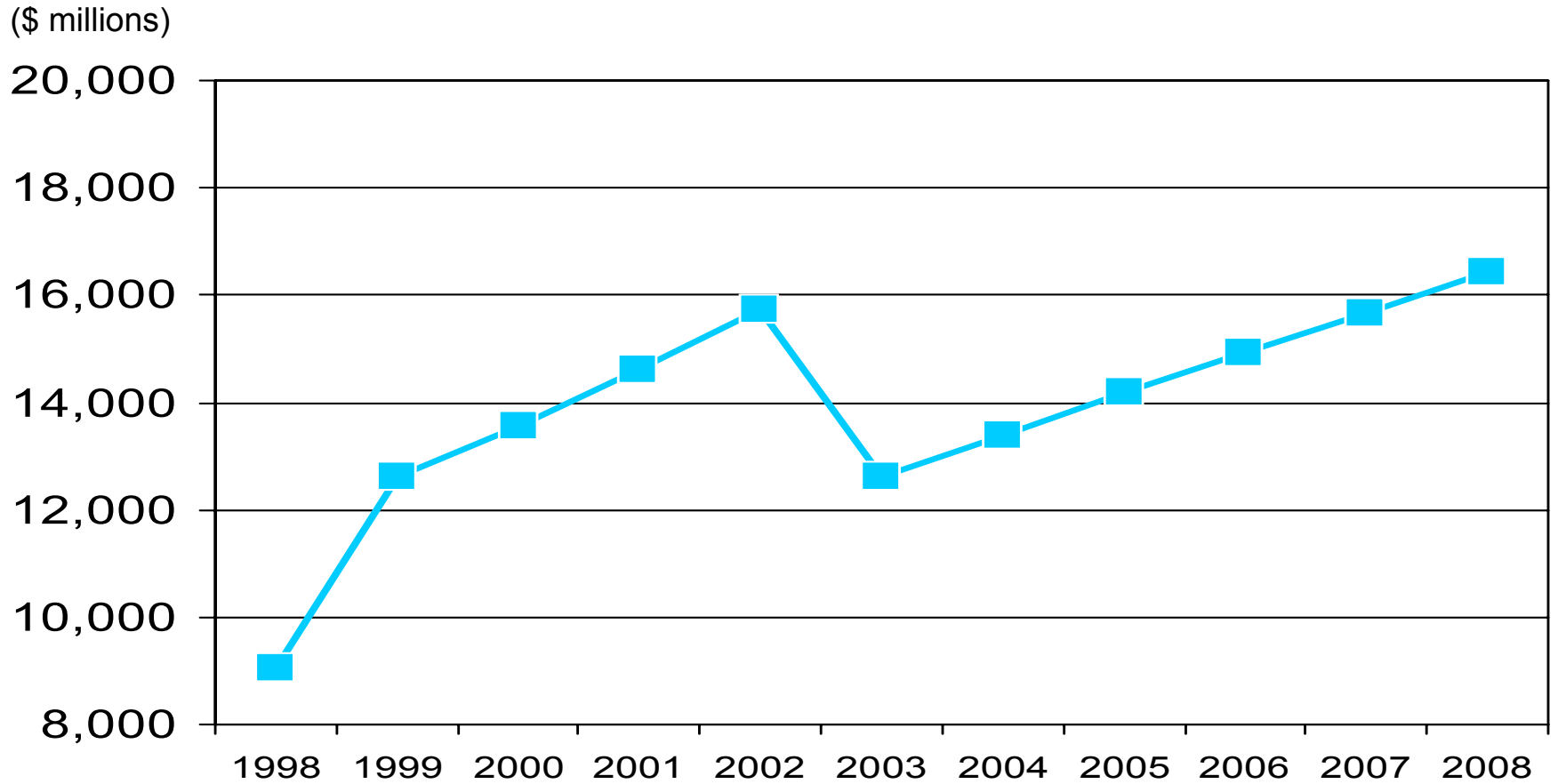
- \$525M Backlog
- Niche Market Focus
- 2,000+ Commercial Customers

Serving:  
Pharmaceuticals  
Universities  
Hospitals  
Real Estate

# Refinement of KeySpan Services

- Initiated comprehensive review of Energy Services
- \$10 million expense reduction from cost cutting in 2003
- Other business refinements
  1. Shifting to better funded markets
  2. Enhanced bidding review process
  3. Increased use of technology
  4. Enhanced use of customer and sector information

# New York Downstate Construction Market Forecast



Source: FW Dodge – August 2003

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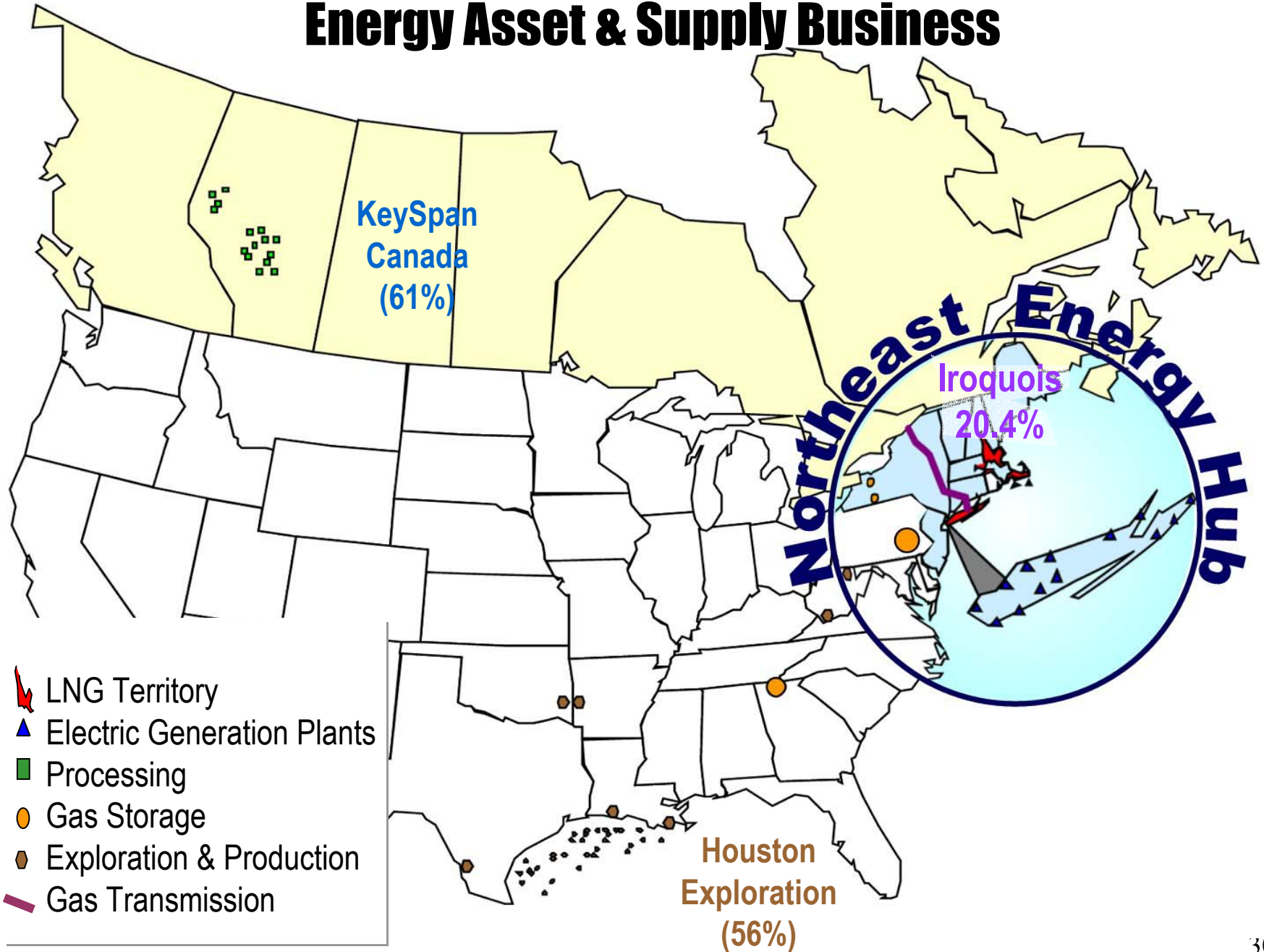
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# Energy Asset & Supply Business



# Focus on Growth

- Existing Assets & Contracts
  - Optimize asset management and performance
  - Continue to integrate asset portfolio
  - Identify expense efficiencies
  - Evaluate opportunities
- New Assets
  - Improve deal identification & execution
  - Acquire and/or build new assets
  - Focus on Northeast Energy Hub assets
    - Generation
    - Pipeline
    - LNG / Storage
- Manage regulatory, political and contractual environment to enhance flexibility and value





# KeySpan Electric Services

*“The Largest Investor Owned Generator in New York State”*

## •Generation – 6,650 MW

- Long Island 4,200 MW
- New York City 2,200 MW
- New Ravenswood 250 MW

## •Long Island

- Manage LIPA’s T&D System (1.1 million customers)
- 4,200 MW under long-term contract

## •New York City – 2,200 MW

- Load Pocket
- Supply 25% of NYC Capacity

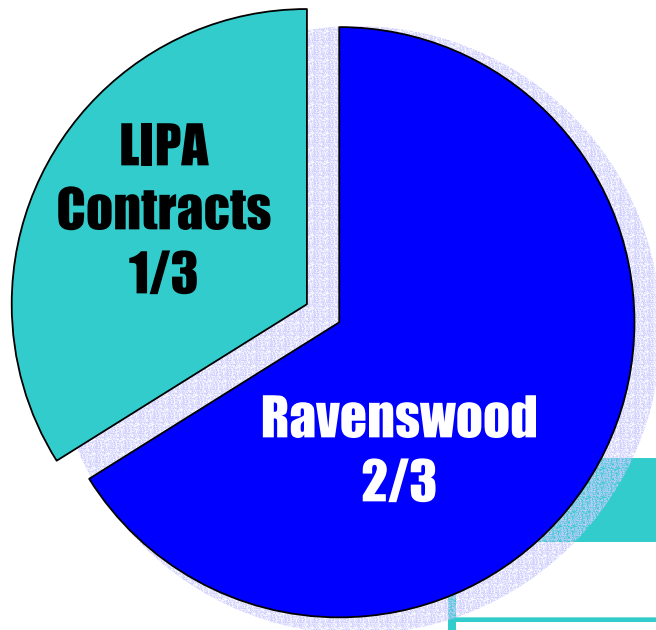


- Ravenswood
- Long Island Generation
- New Generation

- 1,230 Square Mile Territory
- \$1.4 Billion in Gross Revenue

(12/31/03 estimates)

# Electric Services – Earnings Guidance



Operating Income (\$millions)		
	2003E	2004E
<b>Guidance</b> (assumes normal weather)	\$275 - \$285	\$305 - \$325

## Assumptions for Ravenswood

Capacity

Energy (Peak Spread)

2003

Estimate

\$90 - \$95/kW-yr

\$20 - \$25/MWH

2004

Estimate

\$95 - \$105/kW-yr

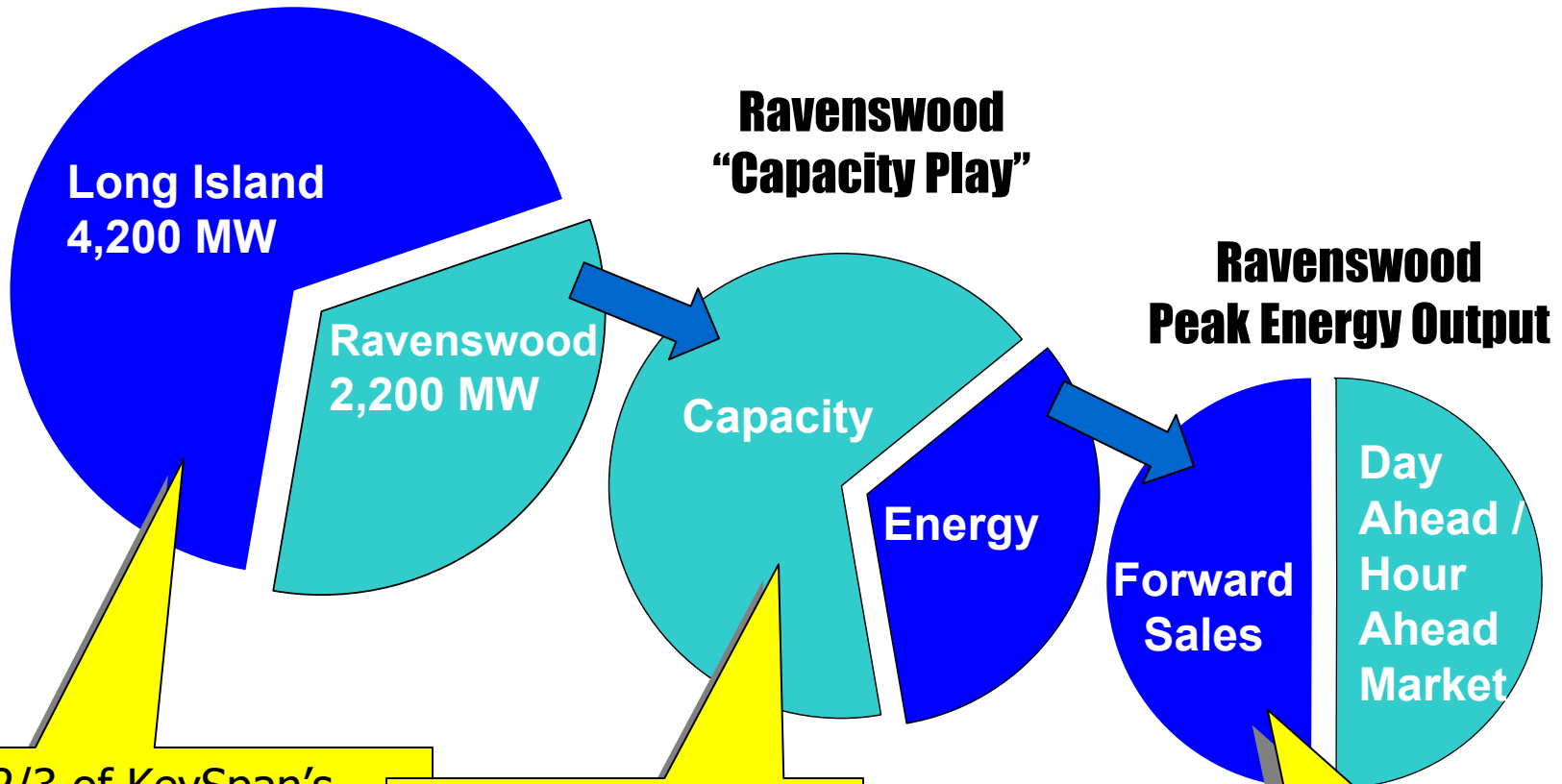
\$20 - \$25/MWH

Notes: 2003 guidance estimated as of 12/02

Ravenswood 2004 estimates include new 250 MW plant

# Focused Generation Strategy

## Low-Risk Generation Portfolio 6,400 MW



2/3 of KeySpan's total generation is under long-term contract

2/3 of Ravenswood's net revenues are from capacity payments

Up to 50% of Ravenswood's peak is sold forward

# New Low Risk Generation Projects for Growth

## Ravenswood, NYC 250 MW plant

- Load Pocket
- Currently in start-up mode
- Expected commercial operation early '04
- On budget and on schedule

## Long Island Two - 250 MW plants

- Awaiting decision on LIPA's RFP
- Joint Venture with ANP
- KeySpan to operate both facilities
- Turnkey contract, no construction risk
- In service in 2006 and 2007



# Core Energy Investments



## Pipeline

- Iroquois Pipeline -- 20% Interest
- Proposed Islander East Pipeline -- 50% Interest
- In service 2005

## LNG Storage

- Algonquin LNG Storage and Receiving Facility in Rhode Island
- 2 Bcf Capacity
- Proposed conversion to accept marine deliveries and enhanced vaporization
- In service late 2005

■ Growth Opportunities

# Non-Core Energy Investments

## Exploration & Production



## E&P

- The Houston Exploration Company (NYSE:THX) – 56% Interest
- 700+ BCFe Proved Reserves

## Gas Processing Plants

- KeySpan Canada (TSE:KEY.UN) – 61% interest
- Process approximately 1 Bcf of natural gas per day

### Energy Investments Operating Income (\$millions)

	2003E	2004E
<b>E&amp;P</b>		
Guidance	\$110 - \$130	\$180 - \$200
<b>Other Energy Investments</b>		
Guidance	\$35 - \$40	\$40 - \$50

Note: 2003 guidance estimated as of 12/02



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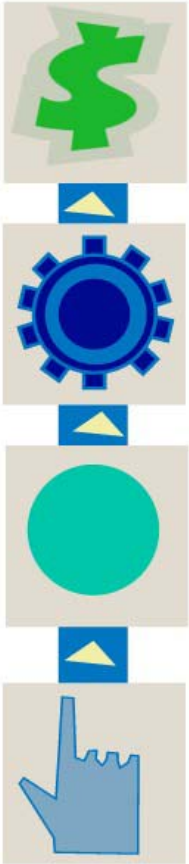
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# 2003 Financial Accomplishments

Equity Issuance	THX Sell-down	Redeemed High-cost Long-Term Debt	Issued Low-cost Long-Term Bonds	Partial Monetization of KeySpan Canada	Renewed Corporate Credit Facility	Issued Tax-exempt Bonds	Sale of interest In Phoenix Natural Gas
\$473M	\$79M	\$447M	\$300M	\$120M	\$1.3B	\$128M	\$95M
Jan	Feb	Mar	Apr	May	Jun	Nov	Dec

- Improved Balance Sheet by 700 basis points
- Non-core asset sales over last two years generated net cash proceeds of \$400M and reduced debt by approximately \$1 billion

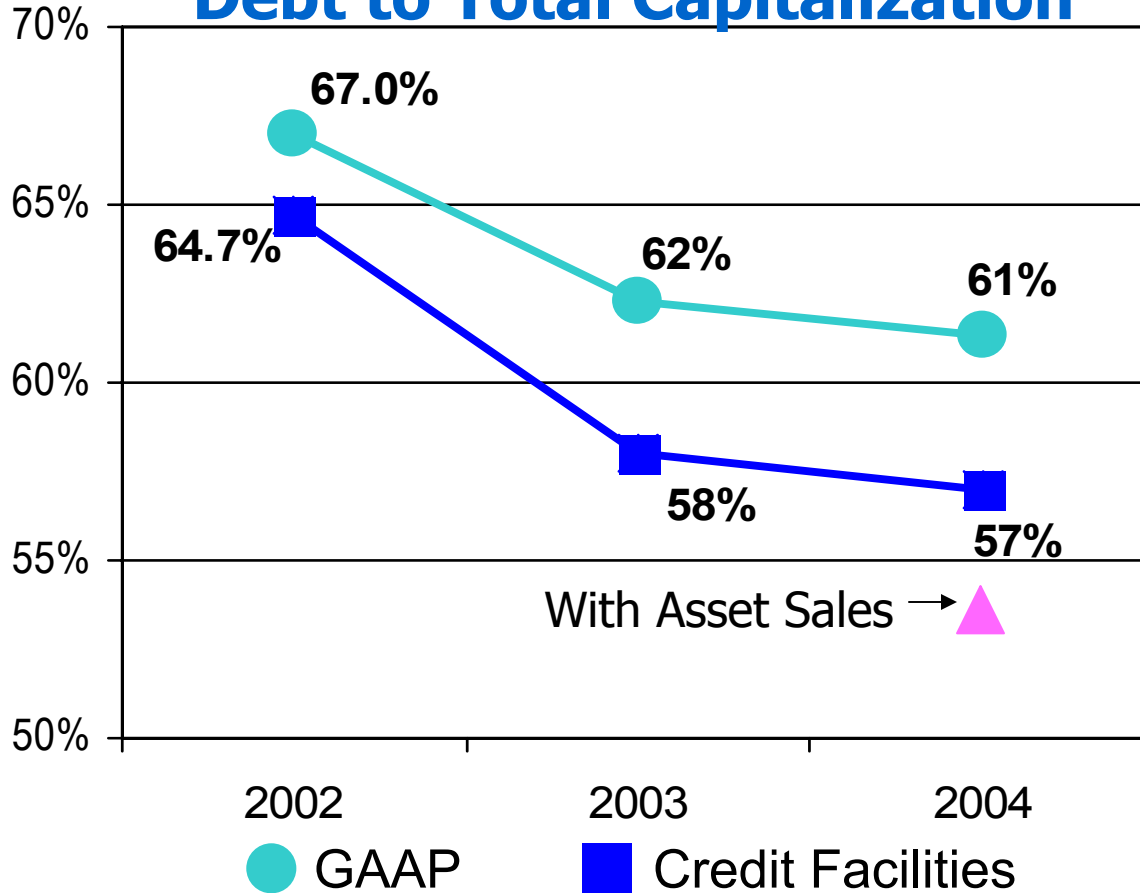
# 2004 Financial Focus



- Continue to strengthen balance sheet and maintain an “A” quality credit rating
- Improve profitability and target growth
- Optimize Capital spending
- Generate sufficient cash flow from Core operations to fund dividend / dividend growth and investment opportunities

# Balance Sheet Strengthening

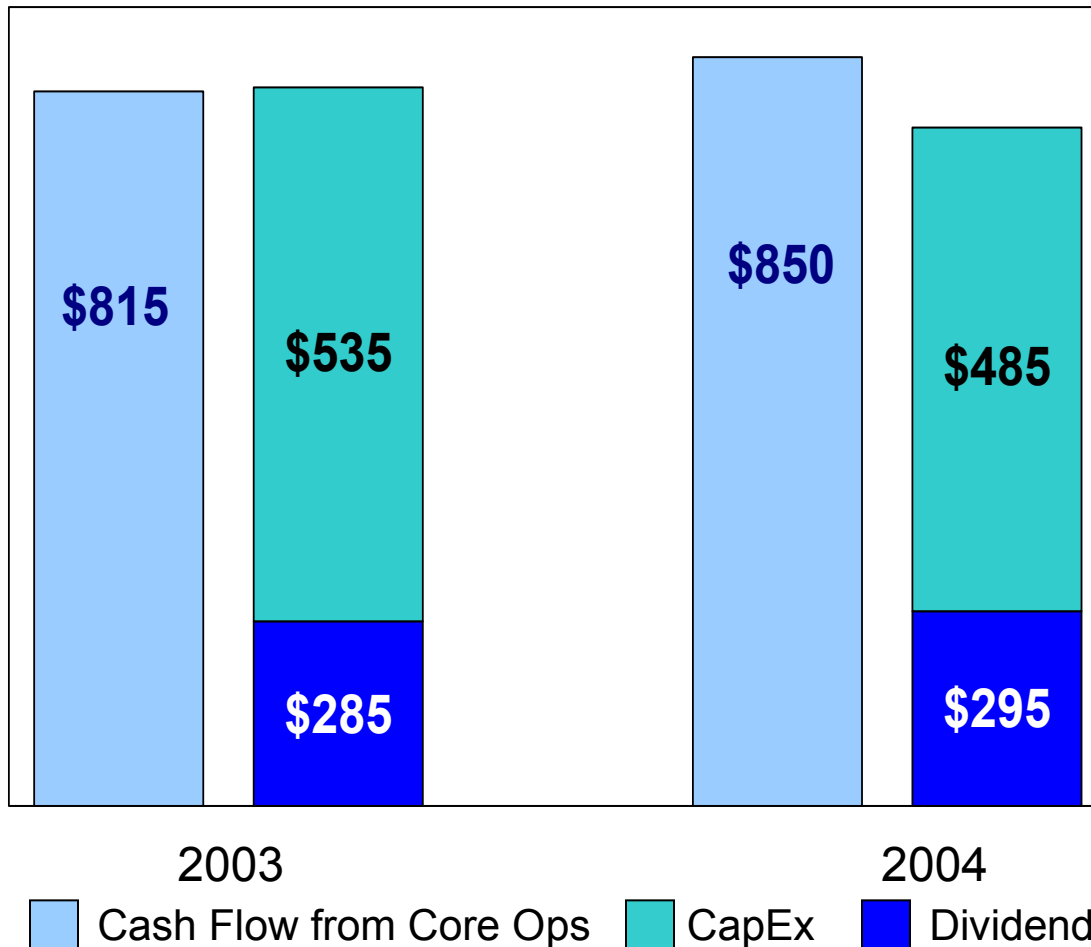
## Debt to Total Capitalization



- Debt to Total Capitalization ratio continues to improve
- Minimum borrowing anticipated in 2004
- 80% fixed rate debt
- No major maturities until 2005

# Improving Core Cash Flow

## Net Cash Flow (before working capital)



- Net cash flow from 2004 core operations covers capex and dividend (excluding new investments of \$140 million)
- \$75 million improvement in net cash flow from Core operations vs 2003

# Cash Flow / Capital Expenditures

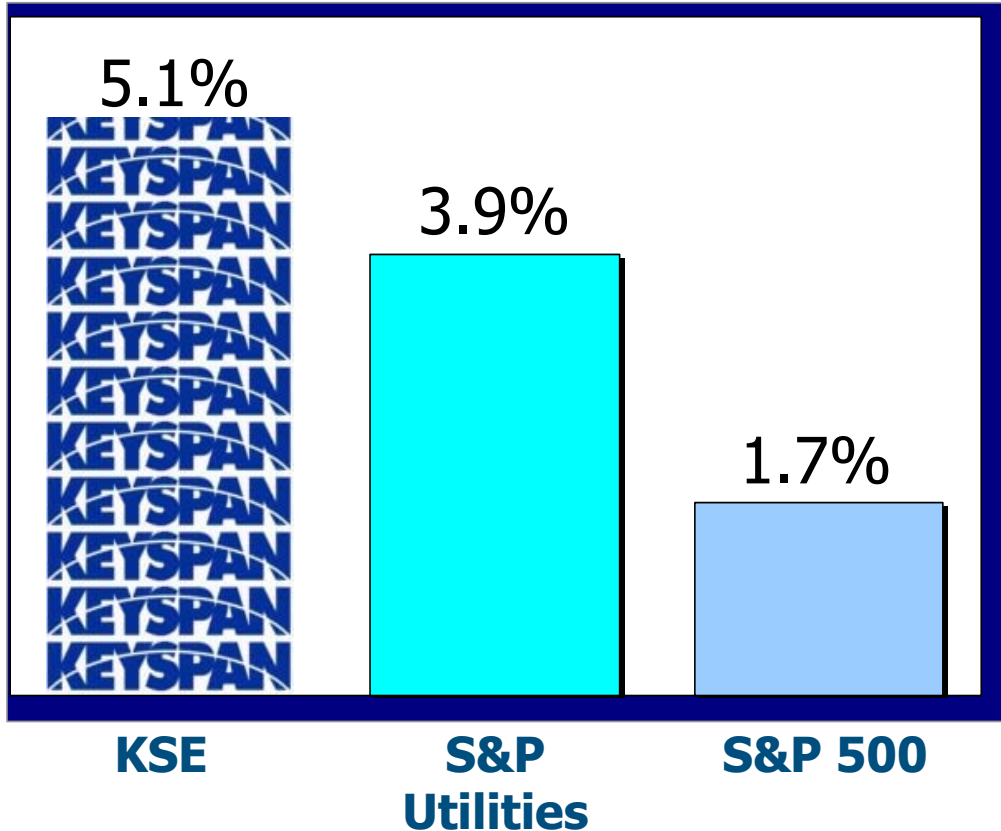
(\$millions)

	2003E	2004E
<b>Cash flow from Operations</b> (excluding working capital)	\$800 - \$825	\$825 - \$875
<b>CapEx</b>		
Core: Gas – Maintenance	\$210	\$215
Gas – Growth	\$180	\$135
Electric – Maintenance	\$100	\$100
Energy Investments	\$ 20	\$ 15
Energy Services	\$ 15	\$ 10
Other	\$ 10	\$ 10
<b>Total</b>	<b>\$535</b>	<b>\$485</b>
<b>Net Cash Flow</b>	<b>\$265 - \$290</b>	<b>\$340 - \$390</b>
<b>Dividend</b>	\$285	\$295
<b>Investments</b>	\$200	\$140



# Solid Dividend

## Dividend Yield



- Higher than S&P Utilities and S&P 500
- Strong commitment to dividend

# 2004 Earnings Guidance

## 5%-6% Growth in Core Operations

<b>Earnings Per Share</b>		
	<b>2003</b>	<b>2004</b>
<b>Core</b>	\$2.15 - \$2.20	\$2.20 - \$2.30
<b>E&amp;P</b>	\$0.30 - \$0.40	\$0.35 - \$0.45
<b>Total</b>	<b>\$2.45 - \$2.60</b>	<b>\$2.55 - \$2.75</b>
<b>Core Cash Earnings Per Share</b> (excluding working capital)		
<b>Total</b>	<b>\$5.05 – \$5.25</b>	<b>\$5.15 - \$5.50</b>

# Financial Strength

**Solid Balance Sheet**

**Strong Coverage Ratios**

**Efficient Use of Capital**

**Strong Earnings and  
Cash Flows**

**Solid Dividend of \$1.78  
per Share**



**Support  
Core  
Business  
Growth**

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**Maximizing  
Shareholder Value**

**Robert B. Catell**

# Maximizing Shareholder Value

- Consistent focused strategy
- Diversified growth opportunities
- Improving operational efficiencies
- Minimizing business risk
- Improving balance sheet and liquidity
- Strong corporate governance
- Commitment to the dividend

**10% to 11%  
Total Return**

**5-6%  
Growth**

**5%  
Dividend  
Yield**

# Disclaimer

Certain statements contained herein are forward-looking statements, which reflect numerous assumptions and estimates and involve a number of risks and uncertainties. For these statements, we claim the protection of the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995.

There are possible developments that could cause our actual results to differ materially from those forecast or implied in the forward-looking statements. You are cautioned not to place undue reliance on these forward-looking statements, which are current only as of the date of this presentation. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Among the factors that could cause actual results to differ materially are: general economic conditions, especially in the Northeast United States; available sources and costs of fuel; volatility of energy prices in a deregulated market environment as well as in the source of natural gas and fuel used to generate electricity; potential write-down of our investment in natural gas properties when natural gas prices are depressed or if we have significant downward revisions in our estimated proved gas reserves; federal and state regulatory initiatives that increase competition, threaten cost and investment recovery and impact rate structure; our ability to successfully reduce our cost structures; the exercise by LIPA of its right to acquire our Long Island generation operations and the deployment of the proceeds received in connection therewith; implementation of new accounting standards; the successful integration of our subsidiaries, including Eastern, EnergyNorth and their subsidiaries; the degree to which we develop unregulated business ventures, as well as federal and state regulatory policies affecting our ability to retain and operate those business ventures; our ability to identify and make complementary acquisitions, as well as the successful integration of those acquisitions; inflationary trends and interest rates; and risks detailed from time to time in reports and other documents filed by us with the Securities and Exchange Commission.

# Appendix:

## KeySpan 2003 / 2004 Earnings Guidance

(\$ millions except per share amounts)

	<b>2003E</b>	<b>2004E</b>
Operating Income		
Gas Distribution	\$520 - \$530	\$545 - \$565
Electric	\$275 - \$285	\$305 - \$325
Energy Services	\$10 - \$20	\$0 - \$10
E & P (reflects 100% of THX)	\$110 - \$130	\$180 - \$200
Other Energy Investments	\$35 - \$40	\$40 - \$50
Other \ Reconciliations	\$15	\$0 - \$20
<b>Total Operating Income</b>	<b>\$965 - \$1,020</b>	<b>\$1,070 - \$1,170</b>
Other income & Deductions	\$0	(\$30) - (\$50)
Interest	(\$305) - (\$325)	(\$335) - (\$355)
Taxes	(\$260) - (\$280)	(\$300) - (\$320)
Preferred Dividends	(\$6)	(\$6)
Consolidated Earnings (from Continuing Operations)	\$390 - \$410	\$410 - \$440
Average shares outstanding (millions)	158	160
Earnings Per Share (from Continuing Operations)	\$2.45 - \$2.60	\$2.55 - \$2.75

**Notes:** Does not foot due to rounding and ranges

Excluding special items

2003 guidance as provided December 2002, updated March 2003 to reflect conversion from EBIT to Operating Income

# Appendix : 2004 Earnings Assumptions

## Gas Distribution

	<u>2003</u>	<u>2004</u>
New Gross Profit Margin	\$ 55M - \$60M*	\$ 55M
New England Rate Increase	-	\$ 26M

## Electric Services

Peak Spark Spread	\$20-\$25/MWhr	\$20-\$25/MWhr
Capacity	\$90-\$95/KWyr	\$95-\$105/KWyr
Sensitivity:	\$1 change in Peak Spark Spread ~ 1.5 cents per share	
	\$1 change in Capacity Price ~ 1 cent per share	

## Exploration & Production

Gas Price (NYMEX)	\$3.25 - \$4.00/Mcfe	\$4.25 - \$5.00/Mcfe
Percent Hedged	~67%	~70%
Floor Price	\$3.42/MMBtu	\$4.25/MMMBtu
Ceiling Price	\$4.55/MMBtu	\$5.70/MMBtu
Sensitivity:	\$0.10 change in Gas Prices ~ 3 cent per share (unhedged)	
	\$0.10 change in Gas Prices ~ 1 cent per share (hedged)	

## Financial

O&M	Flat	Flat
Short-Term Interest Rates	3.25%	3.80%



# Appendix: LIPA Contracts

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## Power Supply Agreement (PSA)

- *Sale of 4,000 electric capacity and energy to LIPA from existing Long Island Generation Plants*
- *15 year contract through May 2013*

## Management Services Agreement (MSA)

- *Manage the day-to-day operations, maintenance and capital improvements of LIPA's T&D system*
- *10 year contract, through Dec 2008*

## Energy Management Agreement (EMA)

- *Fuel Procurement*
  - *Off System Management Services*
  - *15 year contract through May 2013 for Fuel Procurement*
  - *8 year Contract through May 2006 for Off System Services*

# Appendix: Gas Distribution Regulatory Agreements

## Recently Approved Regulatory Decision

### Boston, Massachusetts

- \$26 million rate increase
- 10.2% ROE
- 50/50 capital structure
- True-up on pension and OPEB
- Performance based rate plan up to 10 years

## Existing Regulatory Initiatives

### New York

- Threshold ROE of 13.25%
- 6 Year rate plan ended Sept. 30, 2002
- Weather Normalization

### Long Island

- Threshold ROE of 11.1%
- Rate plan expired Nov. 30, 2000
- Weather Normalization

### Massachusetts

- Essex Gas 10 year merger agreement freezing rates through 2008
- Colonial Gas 10 year merger agreement freezing rates through 2009

### New Hampshire

- Allowed ROE of 11%

*Note- Existing rate terms remain in place in New York and Long Island*

# Appendix: Energy Supply Assets

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## **KED NY,LI, NE**

Pipeline Transportation	428 Bcf
Pipeline Storage	83 Bcf
Peaking Supply	5 Bcf
LNG	9 Bcf

## **Electric Generation**

Long Island Generation	4,200 MW
KeySpan Ravenswood	2,200 MW
Ravenswood Expansion	250 MW

## **Exploration & Production**

56% owner of	
Net Proved Reserves	700+ Bcfe
Total Annual Production	105 - 109 Bcfe

## **Natural Gas Processing**

61% owner of KeySpan Canada	
14 natural gas processing plants	1.5 Bcf/d associate gathering systems

## **Natural Gas Transmission**

20.4% owner of Iroquois Gas Trans.	1.00 Bcf/d
50% interest in Islander East Pipeline	.25 Bcf/d

## **Gas Storage**

52% owner of Honeoye Gas Storage	4.0 Bcf
18.6% owner of Steuben Gas Storage	6.2 Bcf

## **KeySpan LNG and TransGas**

LNG Storage Facility in Providence, RI	2.3 Bcf
TransGas is the Largest LNG Trucking company in US serving more than 40 LNG facilities	

**KEYSPAN**



December 2003



Strategic Execution  
for Growth