

The logo for KeySpan, featuring the word "KEYSPAN" in a bold, blue, sans-serif font. A white arc is positioned above the letters "Y" and "S". The logo is set against a white rectangular background that is part of a larger, colorful, abstract collage.

KEYSPAN

The title "Quarterly Update" is written in a large, white, serif font with a soft green glow effect. It is centered across the middle of the collage. The collage itself is a complex composition of various geometric shapes, colors, and silhouettes, including a green silhouette of a person with a tool, a red silhouette of a person, and a blue silhouette of a person in a suit.

Quarterly Update

The text "Third Quarter 2000" is displayed in a white, sans-serif font on a dark blue horizontal bar at the bottom of the collage.

Third Quarter 2000



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This issue of the Quarterly Update is printed on recycled paper with soy ink.

In this edition of our Quarterly Update, we are pleased to announce the completion of the acquisitions of Eastern Enterprises and EnergyNorth -- approximately one year after the transactions were announced. These acquisitions provide us with tremendous growth potential as we are now the largest gas company in the Northeast United States and among the 5 largest gas companies in the country.

We also report our record Third Quarter earnings and positive outlook going forward.

- Eastern Enterprises and EnergyNorth Acquisitions Completed
- Gas Growth Opportunities
- myHomeKey Update
- 3rd Quarter Earnings

Please feel free to contact me at (718) 403-3265 if you need further information. We appreciate your investment and support of KeySpan.

Sincerely,

Michael J. Taunton
Vice President and Treasurer



KeySpan Acquires Eastern Enterprises and EnergyNorth —Largest Natural Gas Company in Northeast Formed—



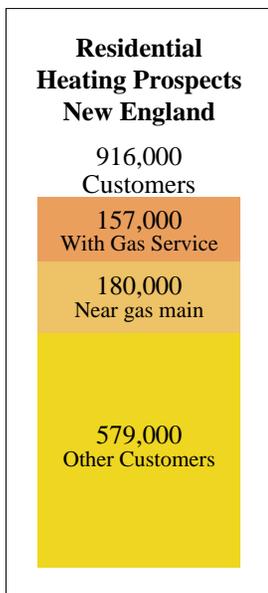
Our goal is to convert many of the potential customers to gas, and to sell them new energy products and services by applying the same successful marketing techniques we have implemented in New York and on Long Island (see related article inside).

"This expansion is a milestone in our company's history, exemplifying our growth strategy and vision of becoming the premier energy and services company in the Northeast. It provides access to more than 5 million customers and a platform for growth of our gas and electric businesses and our energy-services subsidiaries," said Robert B. Catell, chairman and chief executive officer of KeySpan.

On November 8, 2000, KeySpan completed its acquisitions of Eastern Enterprises and EnergyNorth -- the largest gas companies in Massachusetts and New Hampshire, respectively. These acquisitions are a major step in KeySpan's strategy to become the premier energy and services company in the Northeast. We now have 2.4 million gas customers, making us the largest gas distribution company in this region, and the 5th largest in the United States.

Eastern Enterprises was the parent company of Boston Gas, Colonial Gas and Essex Gas, and was in the process of acquiring EnergyNorth. All former Eastern and

EnergyNorth utilities are now identified as KeySpan Energy Delivery New England. In acquiring these companies, we have added 800,000 gas customers and now have the opportunity to grow our gas business in New England – an affluent region with a low penetration of natural gas. Currently, only 35% of the customers in New England use natural gas for home heating.



(continued on page 4)

**KeySpan Acquires
Eastern Enterprises and EnergyNorth
—Largest Natural Gas Company in Northeast Formed—
(continued from page 3)**

Growth Opportunities

KeySpan expects the acquisition to yield pre-tax annual savings of approximately \$40 million, resulting primarily from the elimination of duplicate programs, greater efficiencies, the consolidation of information systems, and personnel reductions. The main driver of the transaction, however, is the growth opportunity. In the New England service territory, there are more than 900,000 potential customers – primarily customers who are presently heating their homes with oil. Of these potential customers, more than 150,000 already have a gas service for cooking or hot water. In addition, another 180,000 customers are in close proximity to a gas main. These customers require a minimal capital investment and provide the opportunity for short pay back periods and attractive returns. We estimate that there is approximately \$750 million of potential annual gross profit margin remaining in New England, approximately double the current amount.

Financing the Acquisitions

The purchase is valued at approximately \$2.5 billion -- \$1.96 billion in equity and the assumption of \$550 million in debt. KeySpan will ultimately finance the acquisitions with a \$1.65 billion issuance of five, ten and thirty-year bonds. In addition, the balance of the Company's short-term and seasonal capital needs will be financed in the commercial paper markets. Along these lines, Standard & Poor's has upgraded KeySpan's rating to a solid 'A' rating, Moody's recently re-affirmed the long-term 'A3' rating, and Fitch has issued an 'A-' rating on the Company.

KeySpan now has assets of more than \$10 billion, projected annual revenues of \$5 billion, and nearly 14,000 employees. KeySpan has also registered its holding company under the Public Utilities Holding Company Act with the Securities and Exchange Commission.

Terms for Shareholders

- Eastern Enterprises shareholders will receive an acquisition price of \$64.558 per share (including a 'ticking fee'), paid in cash, plus a portion of the fourth quarter dividend equal to \$0.1692 per share.
- EnergyNorth shareholders will receive an acquisition price of \$61.4587 per share (including a 'ticking fee'), paid in cash, plus a prorated dividend of \$0.2683 per share.
- KeySpan shareholders are not affected by this transaction, therefore, no action is required.



KeySpan Launches myHomeKey.com "Your Home Management" Web Site

In September, KeySpan officially launched its first e-commerce web site, www.myHomeKey.com. The myHomeKey.com site is an innovative, co-branded Web portal that gives busy consumers the advantage of convenient, one-stop, 'round-the-clock, on-line access to a comprehensive set of home management services and solutions. KeySpan MHK, Inc., a separate subsidiary of KeySpan, has developed the new web site with myHomeKey.com, Inc.

Using zip codes, www.myHomeKey.com provides free, personalized services, products, and information to consumers. The web site features six home-related categories:

- Shop for Products
- Schedule a Service
- Home Energy
- Home Connections
- Neighborhood
- My Information



Recently, Sears HomeCentral's vast network of qualified service technicians became a part of the on-line appliance service offering from myHomeKey.com. Sears joins other companies on the site including such highly-recognized brand names as GE and Amana.

During the eight weeks since its launch the web site has experienced rapid growth with approximately 30,000 people around the country becoming registered members of the site, of which nearly half are in the KeySpan market.

Simultaneous to the launch of the web site, an extensive advertising campaign began that included both traditional and new media. Ads have appeared in major New York metropolitan and suburban newspapers, commercials are on radio stations, and on-line banner ads were placed on major Internet search engines. The campaign features people enjoying their new-found leisure time after using myHomeKey.com services. New advertising and promotional efforts will be initiated in the Boston metropolitan area beginning early next year.

KeySpan announced its partnership with myHomeKey.com, Inc. last March, which included a \$12.5 million investment. Another major investor in the home management concept is Dallas-based TXU Energy Services. More energy service companies are expected to form partnerships soon in different regions of the country.

The web site is an integral part of KeySpan's overall vision to become the premier energy and services company in the

Northeast. KeySpan's business strategy with myHomeKey.com seeks to:

- Extend KeySpan's reach beyond its traditional utility borders into new areas
- Provide the opportunity to market new products and services to customers throughout the Northeast
- Establish KeySpan in the forefront of the new economy being shaped by e-commerce

The myHomeKey.com site from KeySpan currently provides services to communities in New York, New Jersey, Connecticut, Massachusetts, Rhode Island, and New Hampshire. Over the next several months, KeySpan will be adding new features to the site, including more household appliances and small electronics, special incentives for registered members of the site, and expanded information of interest to local community groups.

Company Update

Gas Supply Update

On the national scene, gas supply storage is below the historic inventory levels. However, in the KeySpan market area, storages are on target as our inventory was at 97% of capacity at the end of the injection season.

Although KeySpan will enter the heating season well prepared as far as inventory is concerned, the price impact on our customers is a big concern. We have utilized our gas supply expertise to minimize the commodity costs, yet we are projecting an approximate 25% increase in our customers' gas bills. The higher prices could have an impact on our record level of gas conversions. However, it should be noted that we have never sold our product on the basis of price, but rather on the benefits of natural gas, and are therefore expecting to continue a high level of growth.

KeySpan Acquires Remaining 50% of Gulf Midstream Services

KeySpan acquired Gulf Canada's 50 percent interest in Gulf Midstream Services (GMS) on October 16, 2000. KeySpan is now the sole owner of this leading independent midstream services company in western Canada — which will be known as KeySpan Energy Canada (KEC). KeySpan acquired its initial 50 percent interest in GMS from Gulf in December 1998. No additional equity was required to complete this transaction, which enabled KeySpan to effectively reduce the unit cost of its investment in KEC.

An Interview with Wallace Parker, Jr., Executive Vice President – KeySpan Energy Delivery

(New York and Long Island)

Mr. Parker was given the responsibility of heading up KeySpan Energy Delivery New York and Long Island in February 2000. Since joining Brooklyn Union in 1971 as a Management Trainee, Mr. Parker, 51, has served the company in a wide variety of management positions. In 1987, he was named Assistant Vice President for marketing and advertising; in 1990, he was elected Vice President with responsibility for sales management. He was promoted to Senior Vice President of Human Resources in 1994.

Wally Parker has served in many capacities as a member of the American Gas Association, and he was the Chairman of the Natural Gas Vehicle Committee. He served as a member of the Advisory Committee to the Governor's Energy Task Force in New York State, and was Founder and First Chairman of the Metropolitan Gas Marketing Group. In recognition of his contribution to the gas industry, Mr. Parker was inducted into the American Gas Association Hall of Fame.

What is KeySpan Energy Delivery (KED)?

KeySpan Energy Delivery (KED) is KeySpan's regulated Natural Gas Distribution Business Unit, the former Brooklyn Union. Our territories — New York City, Long Island and our newly acquired territory, New England — make KeySpan Energy Delivery the largest natural gas distribution company in the Northeast.

We have strong roots in the gas business. KeySpan has a 100-year tradition of leadership in the gas industry and a track record of consistent growth. Our goal is to leverage these core competencies in an effort to increase overall shareholder value.

What is KeySpan Energy Delivery's "new" growth potential?

KeySpan Energy Delivery now provides gas service to New England. This business is run by Chet Messer, Executive Vice President. Like our Long Island territory, New England has given us yet another region for impressive growth. Our low saturation levels on Long



Island and New England, combined with the continued potential in New York City, provide us with a \$1.3 billion opportunity for new profit margins.

Our current service territory covers over 4,300 square miles and contains an infrastructure of over 21,000 miles of gas main. We have a work force of 4,000 employees serving approximately 2.4 million customers that generate more than \$2.0 billion in gross revenue and \$1.0 billion in gross profit margin annually.

How do you plan to capitalize KeySpan Energy Delivery's growth potential?

Our vision is to install a pipe in every premise and maximize throughput. We will continue to enhance the value of the regulated business through strategic growth. KeySpan's multifaceted approach includes increasing usage from existing customers, optimizing and expanding our distribution system to attract new customers, and leveraging technologies and partnerships for growth and operational excellence. These strategies will employ a balanced portfolio methodology, including increased sales to low-use customers, the addition of new customers along our existing system, and the managed expansion of our distribution system.

What strategies do you use to maximize throughput opportunities?

KeySpan Energy Delivery targets residential and business customers with low-gas consumption and high profit potential, while emphasizing the value of additional burner tips and new products. Some examples of these additional burner tips and new products include pool heaters, gas lamps, and gas cooling. These additions are significant. For example, one pool heater equates to 80% of a gas-heated home. In 2000, we will add approximately 1,000 pool heaters.

(continued on page 7)



A Pool Heater equates to 80% of a gas heated home

An Interview with Wallace Parker, Jr., Executive Vice President – KeySpan Energy Delivery

(New York and Long Island)

continued from page 6

Could you give us some examples of how KeySpan Energy Delivery takes advantage of technological advances?

We employ many areas of advanced technology to achieve growth and operational excellence. KeySpan Energy Delivery leverages our web infrastructure, allowing customers to attain on-line price quotes that will assist them in the conversion process. Currently, 14% of the leads for Long Island and 5% of all of KeySpan's leads come from the Internet.

KeySpan Energy Delivery's strategy includes searching out new operational technologies such as directional drilling and remote gas shut-offs that employ wireless paging. We also employ best practices through benchmarking; we have utilized uniform bid procedures for our construction areas that have lowered our construction costs by 10%.

Some of the most exciting new uses of technology are in the area of distributed generation. KeySpan is a pioneer in this area; we are currently doing pre-commercial testing of small commercial Capstone microturbines and Plug Power residential fuel cells. As this technology progresses, the impact on gas load should be significant.

What role do business and government relationships play in your growth strategy?

Partnering has always been something that has worked for us, especially in our Governmental sector. To date, we have converted 129 of New York City's Housing Authority Buildings to natural gas and are in the final stages of converting the last two. This Agency represents a \$35 million revenue portfolio and a tenant population equivalent to the size of Rochester, New York. We have also partnered with the Fire and Police Department Agencies to accelerate their conversion process. This year, we worked with both of these Agencies to design a conversion schedule that focused on immediate needs and proactive replacement of their oil equipment. The project involves a total of 31 Police Precincts and Fire Departments.

What critical factors impact decisions to expand your infrastructure?

Efficient optimization and expansion of our distribution system enables us to add new customers today and create new markets for the future. Our focus is to target our "High Value" customers or those in the category we identify as our "Anchors for Growth". These anchor customers include hospitals, malls and industrial

complexes. We will attract these customers through creative marketing efforts that include incentives, rebates, free equipment and financing.

So, how is the infrastructure expansion progressing?

This year we will install one million feet of gas main, almost doubling the total from 1999. We have continually reduced our cost-per-foot to install mains and services by applying best practices and using new technologies, such as directional drilling.

We hope that with these operational improvements and rapid expansion, we will make gas available to the majority of customers within five to ten years.

What are the Benefits of this Growth to the Company?

Our third quarter results speak volumes about the benefits of growth to the Company. Through September, the Long Island and New York City markets combined are 13% over our gross profit margin (GPM) goal and 31% over last year at this time. The gas business will contribute 50% of the total Company revenues this year. We have added over 19,000 new customers, a 71% increase over 1999. This type of exciting growth was the very reason that we merged with LILCO and acquired Eastern Enterprises. In a nutshell, KeySpan Energy Delivery is now one of the fastest growing gas companies in the United States and we are well-positioned to capitalize on this growth.



KeySpan Reports Record Third Quarter Results

2000 Earnings Expected to Increase 40% Over 1999

Earnings Outlook

“Looking to the future, based on the quarter’s record performance, we now believe that this year’s earnings could be as much as 40% higher than 1999, excluding the impact of any transaction or restructuring charges to be recorded in the fourth quarter. We are now completing our resource allocation process for 2001 and are encouraged that we will achieve the growth and synergy savings projected as part of the Eastern Enterprises and EnergyNorth acquisitions. We will make more formal statements later in the year, however, we are hopeful that we can exceed the First Call consensus earnings forecast of \$2.41 per share in 2001.”

Robert B. Catell, Chairman and Chief Executive Officer
10/24/00

On October 24, 2000, KeySpan reported that third-quarter consolidated earnings for the three-month period ended September 30, 2000 were \$13.2 million, or \$.10 per share compared to break-even results for last year’s third quarter. Year-to-date earnings are \$223.8 million, or \$1.67 per share, significantly ahead of \$149.2 million, or \$1.06 per share, for the comparable period last year. Overall, results show significant improvement in all operations.

Commenting on the company’s performance, Robert B. Catell, chairman and chief executive officer, said, “We are gratified by our earnings being \$.61 per share higher than last year. We have realized solid performances in all our core business segments, especially from the electric generating operations and our exploration and production business. Clearly, our earnings demonstrate the success of our growth strategies and ability to capitalize on the changing energy marketplace. As we implement our customer-focused strategy, we will be expanding our revenue base and reducing our costs in growing our energy businesses.”

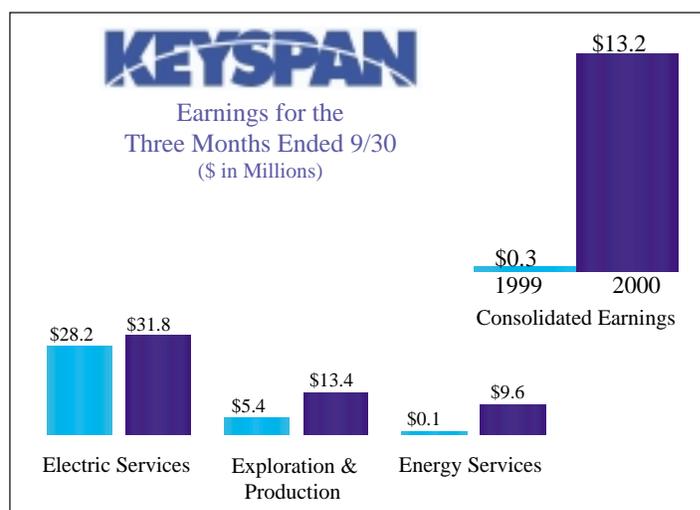
Third Quarter Highlights

Gas Distribution – The gas distribution business normally reports a loss during the third quarter, due to its seasonal nature. However, on a year-to-date basis, there has been significant improvement and a 70% increase in new gas customers.

Electric Services – Results include \$21.7M from the Ravenswood electric generation plant, which supplies 25% of the capacity for New York City’s capacity short market.

Gas Exploration & Production – KeySpan owns 70% of the Houston Exploration Company. Houston Exploration has had a 7% increase in production from 17.9 billion cubic feet during the third quarter of 1999 to 19.2 billion cubic feet this quarter. In addition, average realized gas prices were up 39% from \$2.33 per MCF in 1999 to \$3.24 per MCF in this past quarter.

Energy Services – Most of the earnings increase can be attributed to fuel procurement services for the Ravenswood generation plant.



KeySpan Third Quarter Earnings

	Three months ended 9/30				Nine months ended 9/30			
	Earnings for Common (\$ millions)		Earnings per Share		Earnings for Common (\$ millions)		Earnings per Share	
	2000	1999	2000	1999	2000	1999	2000	1999
Gas Distribution	(\$28.0)	(\$29.0)	(\$0.21)	(\$0.21)	\$101.0	\$92.9	\$0.75	\$0.66
Electric Services	\$31.8	\$28.2	\$0.24	\$0.21	\$103.3	\$59.8	\$0.77	\$0.43
Gas Exploration & Production	\$13.4	\$5.4	\$0.10	\$0.04	\$29.4	\$9.2	\$0.22	\$0.07
Energy Services	\$9.6	\$0.1	\$0.07	\$0.00	\$25.2	(\$2.3)	\$0.19	(\$0.02)
Energy Investments	\$2.7	\$2.8	\$0.02	\$0.02	\$7.9	\$5.9	\$0.06	\$0.04
Other	(\$16.3)	(\$7.2)	(\$0.12)	(\$0.06)	(\$43.0)	(\$16.3)	(\$0.32)	(\$0.12)
Total	\$13.2	\$0.3	\$0.10	\$0.00	\$223.8	\$149.2	\$1.67	\$1.06

Segmented Highlights

Three Months Ended September 30 (In Thousands of Dollars)

	Gas Distribution		Electric Services		Gas Exploration & Production		Energy Services		Energy Investments		Other		Eliminations		Total	
	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999
Unaffiliated Revenue	292,352	208,572	374,517	241,259	62,748	42,081	215,871	46,096	1,649	461	-	-	-	-	947,137	538,469
Intersegment Revenue	-	-	-	-	-	-	15,903	-	-	-	-	-	(15,903)	-	-	-
Total Revenue	292,352	208,572	374,517	241,259	62,748	42,081	231,774	46,096	1,649	461	-	-	(15,903)	-	947,137	538,469
Purchased Gas/Fuel	132,617	62,560	94,482	-	-	-	74,402	5,635	-	-	-	-	-	-	301,501	68,195
Operations and Maintenance	101,256	106,101	143,401	131,403	9,531	7,532	135,052	39,522	1,938	1,445	13,841	7,041	(15,903)	389,116	293,044	
Depreciation, Depletion, Amortization	29,330	24,630	12,253	12,395	22,008	18,644	2,667	939	491	250	6,224	6,272	-	72,973	63,130	
Operating Taxes	48,071	41,168	40,418	36,724	224	107	-	-	189	-	2,567	(682)	-	91,469	77,317	
Intercompany Billings	2,620	2,748	10,956	11,345	-	-	-	-	-	-	(13,576)	(14,093)	-	-	-	
Total Expense before FIT	313,894	237,207	301,510	191,867	31,763	26,283	212,121	46,096	2,618	1,695	9,056	(1,462)	(15,903)	855,059	501,686	
Operating Income before FIT	(21,542)	(28,635)	73,007	49,392	30,985	15,798	19,653	-	(969)	(1,234)	(9,056)	1,462	-	92,078	36,783	
Earnings for Common Stock	(28,033)	(29,037)	31,796	28,164	13,418	5,435	9,636	116	2,687	2,821	(16,350)	(7,171)	-	13,154	328	
Basic and Diluted Earnings Per Share	(0.21)	(0.21)	0.24	0.21	0.10	0.04	0.07	0.00	0.02	0.02	(0.12)	(0.06)	0.00	0.10	0.00	

Nine Months Ended September 30 (In Thousands of Dollars)

	Gas Distribution		Electric Services		Exploration & Production		Energy Services		Energy Investments		Other		Eliminations		Total	
	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999
Unaffiliated Revenue	1,458,595	1,208,254	1,097,616	606,552	169,966	103,622	480,511	123,165	4,650	1,510	-	-	-	-	3,211,338	2,043,103
Intersegment Revenue	-	-	-	-	-	-	48,677	-	-	-	-	-	(48,677)	-	-	-
Total Revenue	1,458,595	1,208,254	1,097,616	606,552	169,966	103,622	529,188	123,165	4,650	1,510	-	-	(48,677)	-	3,211,338	2,043,103
Purchased Gas/Fuel	663,246	470,633	235,131	-	-	-	152,898	27,976	-	-	-	-	-	-	1,051,275	498,609
Operations and Maintenance	315,245	299,700	469,955	334,690	31,179	19,817	317,080	97,368	6,792	4,481	32,007	9,165	(48,677)	1,123,581	765,221	
Depreciation, Depletion, Amortization	86,698	73,235	36,814	32,660	65,257	53,673	7,252	2,309	1,499	970	18,844	17,851	-	216,364	180,698	
Operating Taxes	172,561	159,457	117,603	94,162	1,016	253	-	3	381	8	6,449	4,472	-	298,010	258,355	
Intercompany Billings	8,157	6,664	33,279	32,388	-	-	-	-	-	-	(41,436)	(39,052)	-	-	-	
Total Expense before FIT	1,245,907	1,009,689	892,782	493,900	97,452	73,743	477,230	127,656	8,672	5,459	15,864	(7,564)	(48,677)	2,689,230	1,702,883	
Operating Income before FIT	212,688	198,565	204,834	112,652	72,514	29,879	51,958	(4,491)	(4,022)	(3,949)	(15,864)	7,564	-	522,108	340,220	
Earnings for Common Stock	101,025	92,873	103,316	59,786	29,381	9,239	25,221	(2,384)	7,877	5,937	(43,033)	(16,292)	-	223,787	149,159	
Basic and Diluted Earnings Per Share	0.75	0.66	0.77	0.43	0.22	0.07	0.19	(0.02)	0.06	0.04	(0.32)	(0.12)	0.00	1.67	1.06	

Certain statements contained herein are forward-looking statements, which reflect numerous assumptions and involve a number of risks and uncertainties. Actual results may differ materially from those discussed in such statements. Among the factors that could cause actual results to differ materially are: available sources and cost of fuel; State and Federal regulatory initiatives that increase competition, threaten cost and investment recovery, and impact rate structures; the ability of the Company to successfully reduce its cost structure; the ability of the Company to successfully integrate acquired operations; the degree to which the Company develops nonregulated business ventures; the effect of inflationary trends and increases in interest rates; the ability of the Company and its significant vendors to modify their computer software, hardware and databases to accommodate the year 2000; and risks detailed from time to time in reports and other documents filed by the Company and its predecessors with the Securities and Exchange Commission.