KeySpan Quarterly Update

In the Fall edition of our 2002 Quarterly Update, we are pleased to report on our strong third quarter earnings and provide the following updates:

- Solid Summer Electric Performance
- Favorable Winter Gas Outlook
- Prudent Corporate Governance

Please feel free to contact us at financial@keyspanenergy.com if you need further information. We appreciate your investment and support of KeySpan.

Sincerely,

Michael J. Taunton
Vice President and Treasurer

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

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KeySpan Electric & Gas

KeySpan Electric Services – Superior Summer Performance

KeySpan's electric generation portfolio consists of a unique mix of high-performing contractual and "load pocket" generation located in New York City and on Long Island -- markets that have a growing appetite for electric power. KeySpan is also making significant progress with plans to expand our generating capacity in both markets.

KeySpan Powers Through the Summer

With three heat waves this past summer, peak demand records were set in both Long Island and New York City. KeySpan was prepared – an intensive preparatory program completed by June 1st enabled us to meet the season's unprecedented challenges.

This past summer, Long Island's 5,059-megawatt (MW) peak demand broke all previous records. KeySpan's Long Island plants were available more than 98% of the time. The new peaking units were both on-line by July 1, ahead of schedule, and thus able to meet Long Island's critical energy needs during an early July heat wave.

KeySpan's Ravenswood facility provided approximately one-fifth of the peak energy needs of New York City this past summer. Ravenswood's three steam units were available an outstanding 96% of the time, while our largest steam unit, the 970 MW generator known as "Big Allis", was available 100% of the time. This fall, KeySpan is undertaking a planned overhaul of Big Allis to ensure the continuation of this superb performance.

Low-Risk Generation Strategy

KeySpan's 6,400 MW generation portfolio is relatively low risk, due to a mix of contractual and load pocket generation, complemented by a very conservative hedging strategy. KeySpan is constantly improving the efficiency of our existing plants and strengthening regulatory relationships, while seeking expansion opportunities in areas with critical power supply needs.

Long Island

Two-thirds of KeySpan's generation is under contract to The Long Island Power Authority (LIPA). Therefore, KeySpan's Long Island generation operations provide stable revenues that are not subject to the fluctuations of the electric market.

New York City

The 2,200 MW Ravenswood plant in New York City represents the remaining one-third of KeySpan's generation portfolio. New York City is a load pocket and is subject to an "In-City Reliability" rule, which mandates that 80% of the capacity required by the City must be generated within the City limits. The "In-City" rule has resulted in a reliable capacity revenue stream for the Company. Moreover, our conservative hedging strategy of selling forward up to half of the peak summer output helps to mitigate weather risk.

The Critical Need for New Generation

The need for new generation in Long Island and New York City was highlighted in a 2002 New York Independent System Operator report that identified near-term deficiencies of nearly 1,000 MW on Long Island and 2,000 to 3,000 MW in New York City. The recent and planned additions to KeySpan's generation portfolio will provide critically needed power in New York City and Long Island.

Construction is progressing on KeySpan's 250MW Ravenswood Expansion.

In addition to the 158 MW's of new peakers on Long Island, our 250 MW expansion at Ravenswood is on track to be operational by the end of 2003. The permitting process is complete and construction is progressing according to schedule. The gas turbine and generator are on their foundations and the heat recovery steam generator is being erected. KeySpan also has plans to build a similar 250 MW generating facility on Long Island.

KeySpan is taking full advantage of our unique market position. Our focused electric generation strategy supported by operational excellence helps ensure that the electric business will remain a powerful part of our future.

Focused Northeast Energy Strategy

KeySpan Gas Distribution - Favorable Winter Outlook

In anticipation of the approaching winter heating season, KeySpan's Fall advertising campaign encourages commercial and residential customers to convert their heating systems from oil to gas. KeySpan is focusing on educating existing and potential consumers on the benefits associated with our principal product -- natural gas. Given the public's sensitivity to the nation's reliance on imported oil, the outlook for natural gas is extremely favorable. Since energy is vital to national security, it is critical to increase America's use of domestic sources of energy -- such as natural gas.

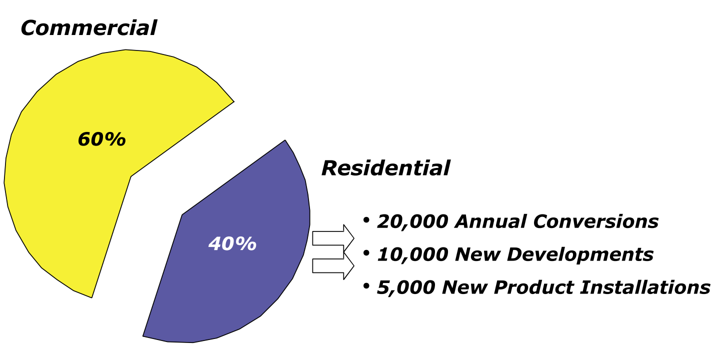
KeySpan seeks to enhance the value of our regulated assets through "intelligent" growth and efficient operations. Toward this end, KeySpan continues to successfully execute a growth strategy to meet our aggressive 2002 goal of $65 million in annual gross profit margin. This well-defined strategy focuses on:

1. Our existing 2.5 million customers
2. The potential 1 million+ new customers
3. New technologies such as distributed generation

This year, we are benefiting from the 50,000 gas installations completed in 2001 that added $62 million in new gross profit margins. These new margins represent a balanced mix of commercial and residential customers. Sixty percent of the new margin is from commercial prospects, such as small businesses, schools and apartment buildings, whereas forty percent is from growth in the residential market - - 20,000 conversions from oil to gas, 10,000 new development projects and 5,000 new product installations.

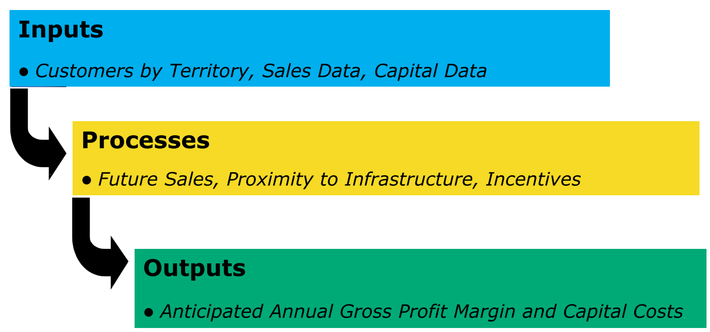
New Gas Installations

2002 Goal — $65 Million in Gross Profit Margin



In assessing profitability factors, KeySpan reviews long- and short-term growth objectives, specifically focusing on the efficient use of our capital. The review has led to the development of a sales optimization model -- an analytical tool that integrates sales, customer, and operational information in all markets and geographic areas. The model identifies strategic levers of profitable growth such as gross profit margin potential, capital expenditures, and operating and maintenance costs for existing and potential customers. Zip codes are analyzed by income, projected growth, pipe density and age of home. For KeySpan, the model identifies the "right customers in the right market at the right costs."

Sales Optimization Model



In addition, KeySpan is continually refining our existing processes to reduce expenses and enhance growth and profitability. Under the Company's "Operational Excellence" program, teams analyze "best practices" to maximize productivity, and reduce costs. Through one such initiative, KeySpan is using electronic technology to develop predictive maintenance schedules for our gas facilities and infrastructure.

"As we approach the upcoming heating season, the outlook is bright for KeySpan's continued growth. Our ability to leverage our marketing programs and our knowledge of our territory's specific customer demographics will enable us to expand our customer base with our products and services," notes Wally Parker, President of KeySpan Energy Delivery. "KeySpan's focus on intelligent growth and efficient operations enhances the profitability of the gas business unit for our shareholders."

Company Updates

KeySpan Conforms with New SEC and NYSE Governance Guidelines

KeySpan's Board of Directors completed a review of the Company's governance practices and concluded that KeySpan was in general conformance with the new SEC and NYSE guidelines.

KeySpan to Begin Expensing Stock Option Expense in 2003

KeySpan's Board of Directors approved the decision to record stock options as a compensation expense, beginning with options granted during the first quarter of 2003. Exercising options is not expected to have a significant impact on 2003 reported earnings.

Robert Catell Rings the Closing Bell on New York Stock Exchange

On October 9th, KeySpan's Chairman and CEO, Robert Catell, rang the closing bell on the New York Stock Exchange. As a kickoff to the Forbes Magazine's CEO Forum, Mr. Catell, Chairman of both the New York State Business Council and the New York City Partnership, rang the bell on behalf of all New York City companies.

KeySpan 2002 Third Quarter Earnings on Target

-- Company Reaffirms 2002 Earnings Guidance --

KeySpan Corporation (NYSE: KSE) reported third quarter earnings in line with Company expectations driven by strong electric business results. Consolidated earnings from continuing operations of $3.6 million, or $0.03 per share, compared to a loss of $38.9 million, or $0.28 per share, for the same period last year. For the nine-months ended September 30, 2002, KeySpan reported consolidated earnings from continuing operations of $244.5 million, or $1.74 per share, as compared to earnings of $171.8 million, or $1.25 per share, in the same period last year.

Earnings Before Interest & Taxes by Segment ($ millions)

	Three Months Ended September 30		Nine Months Ended September 30	
	2002	2001	2002	2001
Gas Distribution	$ (38.9)	$ (31.0)	$ 320.0	$ 318.6
Electric Services	$ 113.3	$ 96.5	$ 243.7	$ 229.8
Energy Services (1)	$ (4.5)	$ (69.6)	$ (23.9)	$ (133.0)
Energy Investments				
Exploration & Production	$ 21.3	$ 26.8	$ 60.5	$ 136.3
Other Energy Investments	$ 10.9	$ 2.4	$ 17.1	$ 18.8
Total Operating Segments	$ 102.1	$ 25.1	$ 617.4	$ 570.5
Other (2)	$ (15.9)	$ 24.7	$ (12.8)	$ 26.6
Total EBIT	$ 86.3	$ 49.8	$ 604.6	$ 597.1
($ millions except per share amounts)				
Revenue	$ 1,079.8	$ 1,102.4	$ 4,167.1	$ 5,016.8
Earnings for Common Stock	$ 3.6	$ (36.6)	$ 224.8	$ 178.7
Earnings from Continuing Operations	$ 3.6	$ (38.9)	$ 244.5	$ 171.8
Earnings Per Share (EPS)	$ 0.03	$ (0.26)	$ 1.60	$ 1.30
EPS from Continuing Operations	$ 0.03	$ (0.28)	$ 1.74	$ 1.25

Note: (1) 2001 Energy Services EBIT includes special charges of $72.6 million and $133.7 million, for the third quarter and nine-months ended, respectively, associated with operations of the former Roy Kay companies. (2) 2001 Other EBIT includes a benefit of $22.0 million, for the third quarter and nine-months ended, associated with a favorable appellate court decision.

"We continue to implement our focused core business strategy, highlighted by our electric business results this quarter," said Robert B. Catell, Chairman and Chief Executive Officer. "We successfully addressed the electric needs of New York and Long Island during a summer that experienced much hotter weather than normal. Moreover, our core gas distribution business is well positioned to address the natural gas supply needs of our existing and potential customers. We have a solid balance sheet and strong financial fundamentals in place, and we are pleased to reaffirm our 2002 earnings forecast of $2.60 to $2.75 per share and solid dividend of $1.78 per share."