



**KEYSPAN CORPORATION**

**Notice of 2005 Annual Meeting of Shareholders and Proxy Statement**

One MetroTech Center  
Brooklyn, New York 11201-3850



## LETTER TO SHAREHOLDERS

March 30, 2005

Dear KeySpan Shareholder:

You are cordially invited to attend KeySpan Corporation's Annual Meeting of Shareholders, which will be held at 10:00 a.m. on Friday, May 20, 2005, at the Tilles Center for the Performing Arts located at Long Island University, C. W. Post Campus, 720 Northern Boulevard, Greenvale, New York. Directions to the location of the Annual Meeting are included in this Proxy Statement. In addition, enclosed with this Proxy Statement is KeySpan's 2004 Annual Report.

At the Annual Meeting, we will review with you our 2004 performance and our plans for the future. In addition, as more fully described in the Proxy Statement, we will consider the election of directors and ratification of Deloitte & Touche LLP, as our independent registered public accountants for the Company for the year ending December 31, 2005. The Board of Directors recommends a vote FOR each nominee for director and FOR the ratification of independent registered public accountants.

In an effort to make voting as simple as possible, you may vote your shares by returning the enclosed proxy card or by casting your ballot by telephone or through the Internet. Whether you choose to provide a written proxy card, or vote by telephone or through the Internet, please vote.

I look forward to seeing you at the Annual Meeting on May 20th. Please remember that we consider your vote to be very important.

Robert B. Catell  
Chairman and Chief Executive Officer



## NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

March 30, 2005

Dear Shareholder:

The Annual Meeting of Shareholders of KeySpan Corporation (“KeySpan” or the “Company”) will be held on Friday, May 20, 2005, at 10:00 a.m. at the Tilles Center for the Performing Arts located at Long Island University, C. W. Post Campus, 720 Northern Boulevard, Greenvale, New York, to consider and take action on the following items:

1. Election of ten directors;
2. Ratification of Deloitte & Touche LLP, as independent registered public accountants for the Company for the year ending December 31, 2005; and
3. Transact any other business properly brought before the Annual Meeting or any adjournment thereof.

Shareholders of record as of the close of business on March 22, 2005 are entitled to vote at the Annual Meeting or any postponement or adjournment thereof.

If you hold shares in your name and are attending the Annual Meeting, please bring your admission card. If your shares are held indirectly in the name of a bank, broker or other nominee, please request a letter or some other evidence of ownership from your bank, broker or other nominee, as well as proper authorization if you wish to vote your shares in person, and bring these documents to the Annual Meeting.

**IT IS IMPORTANT THAT YOUR SHARES BE REPRESENTED AT THIS MEETING. EVEN IF YOU PLAN TO ATTEND THE MEETING, WE HOPE THAT YOU WILL READ THE ENCLOSED PROXY STATEMENT AND THE VOTING INSTRUCTIONS ON THE ENCLOSED PROXY CARD, AND THEN VOTE (1) BY COMPLETING, SIGNING, DATING AND MAILING THE PROXY CARD IN THE ENCLOSED POSTAGE-PAID ENVELOPE, (2) BY CALLING THE TOLL-FREE NUMBER LISTED ON THE PROXY CARD, OR (3) THROUGH THE INTERNET AS INDICATED ON THE PROXY CARD. THIS WILL NOT AFFECT YOUR RIGHT TO ATTEND OR VOTE AT THE MEETING.**

**By Order of the Board of Directors,**

John J. Bishar, Jr.  
Executive Vice President, General Counsel and Chief Governance Officer

Directions to the

## **TILLES CENTER FOR THE PERFORMING ARTS**

Long Island University  
C. W. Post Campus  
720 Northern Boulevard  
Greenvale, New York

### ***By Car:***

*From the west:* Take the Long Island Expressway (Route 495) east to Exit 39 (Glen Cove Road). Proceed north to Route 25A (Northern Boulevard) and turn right (east). Proceed eastward on Route 25A approximately two miles; turn right at the fifth traffic light into the West Gate of the campus.

*From the east:* Take the Long Island Expressway (Route 495) west to Exit 41N (Route 106/107 North). Continue on Route 107 north to Route 25A (Northern Boulevard) and turn left (west). Proceed approximately 1/4 mile and turn left at the second traffic light into the West Gate of the campus.

NOTE: You may also use the Northern State Parkway instead of the Long Island Expressway. Use Exit 31 for Glen Cove Road north or Exit 35 for Route 107 north and follow above directions.

### ***By Public Transportation from New York City:***

*By Train:* From Pennsylvania Station: Take either the Long Island Rail Road to the Hicksville station, the Port Washington station, or the Greenvale station. The Port Washington station and the Hicksville station both have bus service to the C.W. Post Campus. Taxi service to the campus is available from the Greenvale, Port Washington, and Hicksville stations. Taxi service prices range from \$8 to \$16. To reach the Long Island Rail Road call (516) 822-5477.

*By Bus:* C.W. Post is serviced by the Metropolitan Transit Authority, Long Island Bus N20. For schedule times call the MTA at (516) 228-4000.

**PROXY STATEMENT  
OF  
KEYSPAN CORPORATION  
ANNUAL MEETING TO BE HELD ON MAY 20, 2005**

Proxies are being solicited on behalf of the Board of Directors of the Company for use at the Annual Meeting of Shareholders on May 20, 2005, or any adjournment thereof. This Proxy Statement is first being mailed to the shareholders of the Company on or about March 30, 2005.

**Q: What am I voting on?**

A: Election of ten directors; ratification of Deloitte & Touche LLP, as independent registered public accountants for the year ending December 31, 2005; and any other business properly brought before the meeting.

**Q: Who is entitled to vote?**

A: Common Stock shareholders as of the close of business on March 22, 2005 (the "Record Date"). Each share of KeySpan's Common Stock, par value \$.01 per share (the "Common Stock") is entitled to one vote.

**Q: How do I vote?**

A: If you hold your shares in your name, as a "shareholder of record," you can vote in person at the Annual Meeting or you can complete and submit a proxy by mail, telephone or the Internet, as provided on your proxy card.

The enclosed proxy card contains instructions for mail, telephone and Internet voting. Whichever method you use, the proxies identified on the proxy card will vote your shares in accordance with your instructions.

If you submit a proxy card without giving specific voting instructions with respect to any or all proposals, you give the named proxies the authority to vote, in their discretion, on each such proposal. In addition, a properly signed and dated proxy card (or a proxy properly delivered by telephone or through the Internet) gives the named proxies the authority to vote, in their discretion, on any other matter that may arise at the meeting.

If you hold your shares indirectly in the name of a bank, broker or other nominee, as a "street-name shareholder," you will receive instructions from your bank, broker or other nominee describing how to vote your shares.

**Q: Do I have the right to revoke my proxy?**

A: Yes. You can revoke your proxy by submitting a new proxy by mail, telephone or Internet; giving written notice to the Corporate Secretary of the Company prior to the Annual Meeting stating that you are revoking your proxy; or attending the Annual Meeting and voting your shares in person.

**Q: Is my vote confidential?**

A: Yes. Only EquiServe Trust Company N.A. ("EquiServe"), the inspector of election, and certain employees have access to your voting instructions. All written comments will be provided to KeySpan and only your name will be disclosed, unless you request that you are to remain anonymous.

**Q: Who will count the votes?**

A: EquiServe will tabulate the votes and act as inspector of election.

**Q: What if I get more than one proxy card?**

A: Your shares are probably registered differently or are in more than one account. Sign and return all proxy cards to ensure that all of your shares are voted. Please have all of your accounts registered exactly in the same name and social security number. You may do this by contacting our transfer agent, EquiServe, by calling 1-800-482-3638.

**Q: What constitutes a quorum?**

A: The record date for determining stockholders who are entitled to vote at the Annual Meeting is March 22, 2005. Each of the approximately 161,606,564 shares of common stock of the Company issued and outstanding on that date is entitled to one vote at the Annual Meeting. A majority of the outstanding shares, present or represented by proxy, constitutes a quorum. For purposes of determining the presence of a quorum, shares represented by abstentions and "broker non-votes" will be counted as present. If you vote by proxy card or give a proxy by telephone or through the Internet, you will be considered part of the quorum. In the absence of a quorum, the Annual Meeting may be adjourned.

**Q: What percentage of stock do the directors and officers own?**

A: The directors and certain executive officers own approximately 2.90 % of our Common Stock, as of March 10, 2005.

**Q: When are the shareholder proposals due for the 2006 Annual Meeting?**

A: Shareholder proposals for the 2006 Annual Meeting must be received by KeySpan at its offices at One MetroTech Center, Brooklyn, New York 11201-3850, Attention: Corporate Secretary, by December 2, 2005, to be considered by the Company for possible inclusion in the proxy materials for the 2006 Annual Meeting. In addition, all shareholder proposals or nominations for election as director for the 2006 Annual Meeting must be submitted to the Company in accordance with Section 2.7 of the Company's By-Laws not less than 60 nor more than 90 calendar days in advance of the first anniversary date of the 2005 Annual Meeting.

## PROPOSAL 1. ELECTION OF DIRECTORS

The current term of office of all of the Company's directors expires at the 2005 Annual Meeting. The Board of Directors proposes that the following nominees, all of whom are currently serving as directors, be elected for a new term of one year or until his or her successor is duly elected or chosen and qualified. No third party received a fee for either identifying or evaluating potential director nominees. The Company did not receive any recommendations for board membership from any large, long-term shareholders. If any director is unable to stand for election, the Board may provide for a lesser number of directors or designate a substitute. In the latter event, shares represented by proxies may be voted for a substitute director. KeySpan does not anticipate that any of the individuals listed below will be unable to serve the full term of office to which he or she may be elected.

Nominees for election this year are:

- Robert B. Catell
- Andrea S. Christensen
- Robert J. Fani\*
- Alan H. Fishman
- James R. Jones
- James L. Larocca
- Gloria C. Larson
- Stephen W. McKessy
- Edward D. Miller
- Vikki L. Pryor

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\* Mr. Fani was appointed to serve as a member of the Board of Directors as of January 26, 2005.

**The affirmative vote of a plurality of the shares of KeySpan Common Stock cast is required for the election of directors.**

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR EACH OF THE TEN NOMINEES NAMED ABOVE TO SERVE AS MEMBERS OF THE BOARD OF DIRECTORS FOR A ONE YEAR TERM.**

### Nominees for the Board of Directors

#### **ROBERT B. CATELL - Age 68 - Director since May 1998**

Chairman and Chief Executive Officer of KeySpan Corporation since July 1998. Joined KeySpan's subsidiary, The Brooklyn Union Gas Company, in 1958 and was elected Assistant Vice President in 1974, Vice President in 1977, Senior Vice President in 1981 and Executive Vice President in 1984. Elected Brooklyn Union's Chief Operating Officer in 1986 and President in 1990. Served as President and Chief Executive Officer from 1991 to 1996 when elected Chairman and Chief Executive Officer. Serves on the Boards of Alberta Northeast Gas, Ltd., Edison Electric Institute, New York State Energy Research and Development Authority, Independence Community Bank Corp., J & W Seligman, Keyera Energy Management Ltd., the Business Council of New York State, Inc., The Houston Exploration Company, New York City Partnership, and as Chairman of the Long Island Association.

#### **ANDREA S. CHRISTENSEN - Age 65 - Director since January 2001**

Special Counsel to the law firm of Kaye Scholer LLP since January 1, 2005. Previously was a partner of Kaye Scholer LLP since 1976. Joined that firm in 1968 and previously was an associate with the law firm of Kelley, Drye & Warren. Adjunct Professor at New York University School of Law from 1984 to 1994. Member of the Association of the Bar of the City of New York, American Bar Association, International Society for Labor Law and Social Security. Former Chairperson of New York County Lawyers Association Committee on Labor Relations. Served as Director of The Brooklyn Union Gas Company from 1980 to 2000, and the American Arbitration Association from 1988 to 1999. Serves as a Member of the Board of Inwood House since 2000.

**ROBERT J. FANI – Age 51 - Director since January 2005**

President and Chief Operating Officer of KeySpan since October 2003. Joined KeySpan's subsidiary, The Brooklyn Union Gas Company, in 1976 and has since held a variety of management positions in distribution, engineering, planning, marketing, and business development. Elected Vice President in 1992 and promoted to Senior Vice President of Marketing and Sales and was responsible for all marketing, sales, rate and regulation activities. Member of the Society of Gas Lighters and sits on the Board of the Gas Technology Institute.

**ALAN H. FISHMAN - Age 59 - Director since May 1998**

President, Chief Executive Officer and a Director of Independence Community Bank Corp., the parent savings and loan holding company of Independence Community Bank, since March 2001. Joined Chemical Bank in 1969, named Chief Financial Officer in 1979 and elected Senior Vice President responsible for worldwide investment banking activities in 1983. Joined Neuberger & Berman in 1988 and was responsible for an investment partnership. Joined American International Group, Inc. in 1989 as Senior Vice President of AIG. Joined the firm of Adler & Shaykin in 1990 as a Managing Partner. Former Managing Partner and founder of Columbia Financial Partners, L.P. in 1992. President and Chief Executive Officer of ContiFinancial Corporation from July 1999 to March 2001. Chairman of the Brooklyn Academy of Music, and the Brooklyn Navy Yard.

**JAMES R. JONES - Age 65 - Director since May 1998**

Co-Chairman and Chief Executive Officer of Manatt Jones Global Strategies, LLP since October 2001 and Chairman of GlobeRanger Corporation since September 1999. Senior Counsel to the law firm of Manatt, Phelps & Phillips, LLP from March 1999 to present. Retired as President of Warnaco, Inc. - International Division in 1998. Director of Anheuser Busch since 1998 and Kansas City Southern since 1997. White House Staff, Special Assistant and Appointments Secretary from 1965 to 1969 and Congressman from Oklahoma from 1973 to 1987. Partner in the law firm of Dickstein Shapiro Morin & Oshinsky LLP from 1987 to 1989. Chairman and Chief Executive Officer of the American Stock Exchange from 1989 to 1993. Served as United States Ambassador to Mexico from 1993 to 1997.

**JAMES L. LARocca - Age 61 - Director since January 2001**

Distinguished Professor of Public Policy at Long Island University's Southampton College since April 2000 and Adjunct Professor of Public Policy at Hofstra University since January 1999. Practiced law with the firm of Cullen and Dykman immediately prior to appointment to Southampton College. Served in the cabinets of two New York governors as Commissioner of Transportation, Commissioner of Energy, Director of Federal Affairs, Trustee of the New York Power Authority and Chairman of the Energy Research and Development Authority. Served as President of the Long Island Association from 1985 to 1993. Served as Director of The Brooklyn Union Gas Company from 1992 to 1993 and from 1995 to 2000. Former Director of European American Bank and ContiFinancial Corporation. Current Director and past Chairman of the Long Island Nature Conservancy.

**GLORIA C. LARSON - Age 54 - Director since June 2003**

Partner and Co-chair of the Government Practices Group at the law firm of Foley Hoag LLP. Has held senior positions within the federal government and the Commonwealth of Massachusetts government, including serving as the Massachusetts Secretary of Economic Affairs, Deputy Director of Consumer Protection and legal counsel for the Federal Trade Commission. Current Chairperson of the Massachusetts Convention Center Authority (MCCA) since 1998. Member of the Rose F. Kennedy Greenway Conservancy board, director of RSA Security, Inc. and Unum Provident Corp., as well as several Boston-based not-for-profit organizations, including the Massachusetts Technology Collaborative, Jobs for Massachusetts, Greater Boston Chamber of Commerce and the Massachusetts Women's Forum. Serves on the New England Council's e-commerce privacy task force and is the Co-Chair of the Board of Directors of MassINC.

**STEPHEN W. MCKESSY - Age 67 - Director since May 1998**

Retired partner of PricewaterhouseCoopers. Served in various management and leadership positions at PricewaterhouseCoopers from 1960 to 1997. Serves as a Director of The Houston Exploration Company, and the Greater Boy Scouts of America. Member of the Board of Advisors of St. John's University College of Business Administration, member of the Board of Governors of the Silver Spring Country Club, and member of the Property Owners Association at SailFish Point, Florida.

**EDWARD D. MILLER - Age 64 - Director since May 1998**

Served as a member of the Supervisory Board and senior advisor to the Chief Executive Officer of AXA Group from June 2001 to April 2003. Served as President and Chief Executive Officer of AXA Financial, Inc. from August 1997 through May 2001. Chairman and Chief Executive Officer of The Equitable Life Assurance Society, the principal insurance subsidiary of AXA Financial, Inc., from August 1997 through May 2001. Served as Senior Vice Chairman of The Chase Manhattan Bank from 1996 through 1997. Serves as a member of the Board of Directors of American Express Company, Topps Company, Incorporated, and Korn/Ferry International. Member of the Board of Governors of the United Way of Tri-State and Chairman of the Board of Directors of Phoenix House. Trustee of the Inner-City Scholarship Fund, the New York City Police Foundation, Pace University, and the New York Blood Center. Chairman of the New York City Partnership's Security and Risk Management Task Force.

**VIKKI L. PRYOR - Age 51 - Director since March 2004**

President and Chief Executive Officer of SBLI USA Mutual Life Insurance Company, Inc. and its family of companies since 1999. Served as Senior Vice President of Oxford Health Plans from June 1998 to January 1999. Served in various Senior Vice President and Vice President positions at Blue Cross Blue Shield of Massachusetts from 1993 to 1997. Served as Director and in a variety of senior level positions at Allstate Life Insurance Company from 1986 to 1992. Served in various positions including acting assistant district counsel, senior attorney and associate in the Office of Chief Counsel of the Internal Revenue Service, Chicago office, from 1978 to 1986. Served on the boards of the Life Insurance Council of New York (LICONY), New Jersey Chamber of Commerce, UST Corporation and the Pension Reserves Investment Management Board. Serves on the Dean's Advisory Council of the University at Buffalo Law School.

## The Board of Directors

The Board of Directors is responsible, under New York law and the Company's Certificate of Incorporation and By-Laws, with overseeing the business and management of the Company. The Board of Directors met 12 times between January 1 and December 31, 2004.

In January 2005, the Board of Directors amended the Company's Corporate Governance Guidelines, which had been adopted in 1998, in light of the requirements imposed under the Sarbanes-Oxley Act of 2002 and the New York Stock Exchange's Corporate Accountability and Listing Standards Committee recommendations, as well as in an effort to continue to apply best practices to its corporate governance policies and procedures. The full text of the Company's Corporate Governance Guidelines is attached to this Proxy Statement as Appendix A and can also be found on the Investor Relations section of the Company's website at <http://www.keyspanenergy.com> or directly at the Company's corporate governance website (<http://governance.keyspanenergy.com>).

Pursuant to our Corporate Governance Guidelines, the Board undertook a review of director independence. As a result of this review, the Board affirmatively determined that all of the directors nominated for election at the Annual Meeting (and named above) are independent under the standards set forth in the Corporate Governance Guidelines, and relevant New York Stock Exchange ("NYSE") and Securities and Exchange Commission ("SEC") rules and regulations, with the exceptions of Robert B. Catell and Robert J. Fani. Mr. Catell can not be deemed independent under the Corporate Governance Guidelines because he serves as Chief Executive Officer of the Company. Mr. Fani can not be deemed independent under the Corporate Governance Guidelines because he serves as President of the Company.

The basis for the Board's determination that the above named directors are independent is set forth in the Company's Corporate Governance Guidelines and is set forth, in relevant part, below:

To be considered independent under the NYSE rules, the Board must determine that a director does not have any direct or indirect material relationship with KeySpan. The Board established the following guidelines to assist it in determining director independence:

- a. A Director will not be considered independent if, within the preceding three years: (i) the Director was employed by KeySpan or one of its subsidiaries; (ii) an immediate family member of the Director was employed by KeySpan as an officer; (iii) the Director was employed by or affiliated with KeySpan's independent auditor; (iv) an immediate family member of the Director was employed by KeySpan's independent auditor as a partner, principal or manager; (v) the Director received more than \$100,000 in direct compensation from KeySpan or its subsidiaries, other than for Board service or pension or deferred compensation; (vi) an immediate family member of the Director received more than \$100,000 in direct compensation from KeySpan or its subsidiaries, other than for Board service or pension or deferred compensation; (vii) the Director was employed as an executive officer of another company where any of KeySpan's officers serve on that company's compensation committee; or (viii) an immediate family member of the Director was employed as an executive officer of another company where any of KeySpan's officers serve on that company's compensation committee;
- b. The following commercial or charitable relationships will not be considered to be material relationships that would impair a Director's independence: (i) if a KeySpan Director or an immediate family member of the Director is an executive officer of another company that does business with KeySpan and the annual sales to, or purchases from, KeySpan are less than the greater of \$1 million or two percent of the annual revenues of the company he or she serves as an executive officer; (ii) if a KeySpan Director is an executive officer of another company which is indebted to KeySpan, or to which KeySpan is indebted, and the total amount of either company's indebtedness to the other is less than one percent of the total consolidated assets of the company he or she serves as an executive officer; and (iii) if a KeySpan Director serves as an officer, director or trustee of a charitable organization, and KeySpan's discretionary charitable contributions to the organization are less than the greater of \$1 million or two percent of that

organization's total annual charitable receipts. (KeySpan's automatic matching of employee charitable contributions will not be included in the amount of KeySpan's contributions for this purpose.) The Board will annually review all commercial and charitable relationships of Directors.

- c. For relationships not covered by the guidelines in subsection (b) above, the determination of whether the relationship is material or not, and therefore whether the Director would be independent or not, shall be made by the Directors who satisfy the independence guidelines set forth in subsections (a) and (b) above. For example, if a Director is the chief executive officer of a company that purchases products and services from KeySpan that are more than two percent of that company's annual revenues, the independent Directors could determine, after considering all of the relevant circumstances, whether such a relationship was material or immaterial, and whether the Director would therefore be considered independent.

KeySpan will not make any personal loans or extensions of credit to directors or executive officers. No director or family member may provide personal services for compensation to the Company.

The directors shall complete and submit an annual director questionnaire to identify and assess relationships so that the Board can determine independence under these standards. The directors also shall complete and submit an annual statement on Ethical Business Conduct to identify and assess relationships they may have with third parties (including vendors, service providers, competitors, etc.) that may impact the Company and could be construed as compromising the director's independence.

#### Committees of the Board

During 2004, the Board maintained four standing committees. The functions, number of meetings held and composition of the Board committees, as of December 31, 2004, are described below:

Director	Committee			
	Executive	Audit	Compensation and Management Development	Corporate Governance and Nominating
R. B. Catell	X (Chair)			
A. S. Christensen		X		X
A. H. Fishman	X	X (Chair)		
J. A. Ives*	X			
J. R. Jones	X		X	X (Chair)
J. L. Larocca		X	X	X
G. C. Larson			X	X
S. W. McKessy	X	X	X	
E. D. Miller	X		X (Chair)	
V. L. Pryor				X
Meetings held from January 1 to December 31, 2004	2	6	7	4

X: Member.

Chair: Committee Chairperson.

\* As of September 16, 2004, Mr. Ives retired as a member of the Board of Directors and as a member of the Executive Committee.

**Executive Committee:** Acts on behalf of the Board of Directors whenever the Board is not in session, except for certain matters as prescribed by New York law. The Executive Committee operates under a written charter adopted by the Board of Directors, as amended and restated as of March 10, 2004 (the full text of the Executive Committee charter can be found on the Investor Relations section of the Company's website (<http://www.keyspanenergy.com>) or directly at the Company's corporate governance website: <http://governance.keyspanenergy.com>).

**Audit Committee:** Provides oversight with respect to the quality and integrity of the Company's financial statements; compliance with legal and regulatory requirements; the independent auditor's qualifications and independence; the performance of the Company's internal audit function and independent auditors, the business practices of the Company, risk assessment and risk management, and the preparation of the Audit Committee report required to be included in the Company's annual Proxy Statement. Pursuant to the rules of NYSE all members of the Audit Committee are independent and non-management directors. The Company's Board of Directors has determined that Mr. Fishman meets the qualifications of an "audit committee financial expert," as that term is defined by rules of the SEC. In addition, the Company's Board of Directors has determined that Mr. Fishman and Mr. McKessy have "accounting or related financial management expertise," in accordance with the NYSE corporate governance standards rules, section 303A.07. Each of the members of the Audit Committee is financially literate, in accordance with the NYSE corporate governance standards rules, section 303A.07. None of the Audit Committee members simultaneously serves on the audit committees of more than three public companies. The Audit Committee is composed of five independent directors and operates under a written charter adopted by the Board of Directors, as amended and restated as of January 26, 2005 (the full text of the Audit Committee charter is attached hereto as Appendix B and can be found on the Investor Relations section of the Company's website (<http://www.keyspanenergy.com>) or directly at the Company's corporate governance website: <http://governance.keyspanenergy.com>).

**Compensation and Management Development Committee:** Establishes, maintains and assesses the competitiveness of the Company's compensation philosophy and programs to ensure they are fair and equitable, designed to attract, develop, motivate and retain directors and officers; and consistent with best practices in the marketplace as determined by an outside consultant hired directly by the Committee. Reviews and recommends all officer appointments and promotions to the Board. Reviews performance of all officers based on corporate goals and objectives, reviews and recommends to the Board their compensation and benefits. Reviews and makes recommendations to the Board with respect to incentive compensation plans and equity-based plans, including the performance and goals of the Company, officers and management. Prepares annual report on executive compensation. Reviews director compensation and makes recommendations to the full Board. Establishes and maintains corporate succession plans for the Chief Executive Officer and all other officers. Reviews and approves employment agreements, severance agreements, retirement arrangements, change in control agreements, equity based awards and any special or supplemental benefits for the Company's officers. All members are independent directors. The Compensation and Management Development Committee operates under a written charter adopted by the Board of Directors, as amended and restated as of February 24, 2005 (the full text of the Compensation and Management Development Committee charter is attached hereto as Appendix C and can be found on the Investor Relations section of the Company's website (<http://www.keyspanenergy.com>) or directly at the Company's corporate governance website: <http://governance.keyspanenergy.com>).

**Corporate Governance and Nominating Committee:** Establishes qualifications and other criteria for candidates for a position on the Company's Board of Directors. Identifies individuals qualified to become directors and recommends to the Board candidates for all directorships to be filled. Oversees evaluation of the performance of the Board, with participation of the full Board of Directors. Considers and recommends to the Board the composition and size of all committees of the Board of Directors. Develops and recommends to the Board corporate governance principles. Considers and recommends to the Board changes to the Company's certificate of incorporation and by-laws. Reviews environmental matters that impact or may impact the Company and its assets and monitors the status of the Company's environmental compliance and remediation programs. Establishes and reviews policies and programs with respect to employee matters, including but not limited to, business ethics, Diversity and Equal Employment Opportunity Initiatives, community affairs, and work safety issues. The Company will consider director candidates nominated by shareholders. Any shareholder may nominate a person for election to the Board of Directors by giving written notice to the Secretary of the Company at the principal executive office of the Company

not later than the close of business on the 60<sup>th</sup> calendar day, nor earlier than the 90<sup>th</sup> calendar day, prior to the first anniversary of the preceding year's annual meeting in accordance with Section 2.7 of the Company's by-laws.

In identifying and/or reviewing the qualifications of candidates for membership on the Board of Directors, the Committee shall take into account all factors it considers appropriate, which may include (a) ensuring that the Board, as a whole, is diverse and consists of individuals with various and relevant career experience, required and demonstrated technical skills, industry knowledge and experience, financial expertise (including expertise that could qualify a director as an "audit committee financial expert," as that term is defined by the rules of the NYSE and/or the SEC), local community relationships and (b) minimum individual qualifications, including personal and professional ethics, integrity and values, strength of character, practical wisdom, mature judgment, familiarity with the Company's business and industry, independence of thought and an ability to work collegially. The Committee also may consider the extent to which the candidate would fill a present need on the Board.

The Committee is authorized to conduct all necessary and appropriate inquiries into the backgrounds and qualifications of possible candidates and to consider issues of independence and possible conflicts of interest of members of the Board and executive officers, and whether a candidate has special interests or a specific agenda that would impair his or her ability to effectively represent the interests of all shareholders.

The Committee is authorized to review and make recommendations, as the Committee deems appropriate, regarding the composition and size of the Board, retirement provisions and/or term or age limits, all in order to ensure the Board has the requisite expertise and its membership consists of persons with sufficiently diverse and independent backgrounds to further the interests of the Company and its shareholders.

The Committee is designated by the Board and receives its authority from the Board to which it reports. The Board has vested in the Committee the power and authority to carry out the responsibilities as noted in its charter, and any other duties that the Committee deems necessary to fulfill in its obligations to the Board and the shareholders of the Company. To such end, the Committee is authorized to select, retain and/or replace, as needed, advisors, consultants and legal counsel to provide independent advice to the Committee. In that connection, in the event the Committee retains any such advisor, consultant, or legal counsel the Committee shall have the sole authority to approve such consultant's fees and other retention terms. The Committee shall also have the sole authority to retain and to terminate any search firm to be used to assist it in identifying candidates to serve as directors of the Company, including the sole authority to approve the fees payable to such search firm and any other terms of retention.

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

- All members are required to be determined by the Board to be "independent" under the rules of the NYSE and the Sarbanes-Oxley Act of 2002.

The members of the Committee shall be appointed by the Board of Directors and shall serve until such member's successor is duly elected and qualified or until such member's earlier resignation or removal. The members of the Committee may be removed, with or without cause, by a majority vote of the Board.

Each of the members of the Committee are and have been determined by the Board to be "independent" under the rules of the NYSE and the Sarbanes-Oxley Act of 2002.

The Corporate Governance and Nominating Committee operates under a written charter adopted by the Board of Directors, as amended and restated as of January 26, 2005 (the full text of the Corporate Governance and Nominating Committee charter is attached hereto as Appendix D and can be found on the Investor Relations section of the Company's website (<http://www.keyspanenergy.com>) or directly at the Company's corporate governance website: <http://governance.keyspanenergy.com>).

## Corporate Governance Guidelines

Meetings of the Board of Directors are governed by the following guidelines:

### *Selection of Meeting Agenda Items*

The Chairman and Chief Executive Officer shall establish the agenda for the Board meetings. Any Director may request inclusion of an item on the agenda. The Chairman and Chief Executive Officer may annually distribute to the Board the proposed agenda items, along with the proposed schedule of meetings, for the following year.

### *Advance Distribution of Board Meeting Materials*

The Corporate Secretary shall distribute to the Directors all materials necessary to conduct an effective meeting of the Board of Directors prior to the meeting.

### *Regular Attendance of Non-Directors at Board Meetings*

At the invitation and approval of the Chairman or the Chief Executive Officer, non-directors, whether or not officers of the Corporation, may attend or give presentations before the Board.

### *Strategy Sessions*

At least one meeting of the Board of Directors each year shall be devoted to a review with executive management of the Corporation's strategic plan and its long range goals and direction.

### *Executive Sessions*

#### *Sessions of the Board and the Chief Executive Officer*

The Directors and the Chief Executive Officer shall convene in executive session as often as is appropriate, as part of regularly scheduled meetings of the Board of Directors. Executive sessions may be requested by any Director, as well as the Chief Executive Officer.

#### *Sessions of the Non-Management Directors*

The non-management Directors of the Board shall meet at least quarterly to discuss any matter or recommend any action as the non-management Directors shall deem advisable consistent with the powers of the full Board. Non-management Directors who are members of the Corporation's Executive Committee shall serve as presiding directors of these meetings on a rotating basis.

Directors are encouraged to attend the annual meetings of the Company's shareholders. All directors who served during 2004 attended the 2004 annual meeting of shareholders.<sup>1</sup> Each of the directors who served in 2004 attended at least 98% of all meetings of the Board of Directors and each committee of which he or she was a member during the period from January 1 to December 31, 2004.

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<sup>1</sup> As of February 24, 2004, Edward Travaglianti resigned as a member of the Board of Directors and as a member of the Audit and Compensation and Management Development Committees, and accordingly was not in attendance at the 2004 annual meeting of shareholders.

## Codes of Ethics

The Company has adopted a Code of Ethics applicable to its Chief Executive Officer and Senior Financial Officers, and an Ethical Business Conduct Statement applicable to all directors, officers and employees of the Company. The Company's Code of Ethics, Ethical Business Conduct Statement, Corporate Governance Guidelines and Committee Charters can each be found on the Investor Relations section of the Company's website, (<http://www.keysenergy.com>) or directly at the Company's corporate governance website (<http://governance.keysenergy.com>), and provide information on the framework and high standards set by the Company relating to its corporate governance. Additionally, these documents are available in print to any shareholder requesting a copy. The Code of Ethics, Ethical Business Conduct Statement, Corporate Governance Guidelines and Committee Charters have all been approved by the Board of Directors and are vital to securing the confidence of KeySpan's shareholders, customers, employees, governmental authorities and the investment community.

## Director Compensation

The directors receive the following compensation:

- Non-employee directors:
  - \$43,500 annual retainer;
  - \$2,000 committee meeting fee;
  - \$5,000 committee chairman retainer; and
  - \$30,000 in common stock equivalents granted under the Directors' Deferred Compensation Plan.
- Employee directors:
  - Receive no additional compensation for serving on the Board or its committees.

## Directors' Deferred Compensation Plan

The Board of Directors has adopted the Directors' Deferred Compensation Plan to directly align the non-employee directors' financial interest with those of the shareholders. The Directors' Deferred Compensation Plan provides all non-employee directors with the opportunity to defer any portion of their cash compensation received as directors, up to 100%, in exchange for Common Stock equivalents or into a deferred cash account. Common Stock equivalents are valued by utilizing the average of the high and low price per share of KeySpan common stock on the first trading day of the quarter following the quarter in which contributions are received. Dividends are paid on Common Stock equivalents in the same proportion as dividends paid on Common Stock. Compensation not deferred and exchanged for Common Stock equivalents may be deferred into a cash account bearing interest at the prime rate. Additionally, a director may elect to invest his or her compensation by participating in the KeySpan Investor Program (a dividend reinvestment plan). Upon retirement, death or termination of service as a director, all amounts in a director's Common Stock equivalent account and/or cash account shall, at the director's election, (i) be paid in a lump sum in cash; (ii) be deferred for up to five years; and/or (iii) be paid in the number of annual installments, up to ten, specified by the director. The current non-employee directors are not entitled to benefits under any KeySpan retirement plan.

In addition, Directors are required to own shares of KeySpan stock (i.e., common stock, deferred stock units and/or common stock equivalents) with a value equal to five times the directors' annual retainer within five years of being elected to the KeySpan Board.

## EXECUTIVE COMPENSATION

### Summary Compensation Table

The following table presents the annual compensation paid to the Chief Executive Officer and the four other most highly compensated executive officers (the “Named Executive Officers”).

Name	Year	Annual Compensation		Long-Term Compensation			All Other Compensation (\$)
		Salary (\$)	Bonus (\$) <sup>(1)</sup>	Restricted Stock Awards (\$)	Shares Underlying Options	LTIP Payout (\$)	
Robert B. Catell Chairman & Chief Executive Officer	2004	1,032,231	1,056,938 <sup>(2)</sup>	0 <sup>(3)</sup>	225,100 <sup>(4)</sup>	0	1,086,404 <sup>(5)(6)</sup>
	2003	938,000	1,089,056 <sup>(7)</sup>	0	208,800 <sup>(8)(9)</sup>	0	994,545 <sup>(10)(11)(12)(13)</sup>
	2002	936,903	284,740 <sup>(14)</sup>	434,215	372,000 <sup>(15)</sup>	0	55,229
Robert J. Fani President & Chief Operating Officer	2004	618,269	452,485 <sup>(2)</sup>	0 <sup>(3)</sup>	95,600 <sup>(4)</sup>	0	462,323 <sup>(5)(6)</sup>
	2003	450,000	307,958 <sup>(7)</sup>	0	69,500 <sup>(8)(9)</sup>	0	320,117 <sup>(10)(11)(12)(13)</sup>
	2002	445,154	153,184 <sup>(14)</sup>	139,622	120,000 <sup>(15)</sup>	0	19,729
Wallace P. Parker Jr. President, Energy Delivery & Customer Relationship Group	2004	546,152	386,515 <sup>(2)</sup>	0 <sup>(3)</sup>	74,700 <sup>(4)</sup>	0	368,994 <sup>(5)(6)</sup>
	2003	450,000	348,288 <sup>(7)</sup>	0	69,500 <sup>(9)</sup>	0	329,176 <sup>(10)(11)(12)(13)</sup>
	2002	445,154	191,938 <sup>(14)</sup>	139,622	120,000	0	26,812
Steven L. Zelkowitz President, Energy Assets & Supply Group	2004	469,884	323,180 <sup>(2)</sup>	0 <sup>(3)</sup>	59,600 <sup>(4)</sup>	0	300,232 <sup>(5)(6)</sup>
	2003	392,000	278,750 <sup>(7)</sup>	0	43,300 <sup>(9)</sup>	0	212,111 <sup>(10)(11)(12)(13)</sup>
	2002	387,961	134,086 <sup>(14)</sup>	95,694	82,000	0	21,213
Gerald Luterman Executive Vice President & Chief Financial Officer	2004	419,231	248,559 <sup>(2)</sup>	0 <sup>(3)</sup>	41,500 <sup>(4)</sup>	0	210,059 <sup>(5)(6)</sup>
	2003	375,000	287,496 <sup>(7)</sup>	0	43,300 <sup>(8)(9)</sup>	0	304,950 <sup>(10)(11)(12)(13)(16)</sup>
	2002	370,962	128,059 <sup>(14)</sup>	95,694	82,000 <sup>(15)</sup>	0	21,824

- (1) Bonus awards paid each year are attributable to performance during the previous year.
- (2) Bonus awards paid in 2004 include amounts deferred by the Named Executive Officers into the Officers’ Deferred Stock Unit Plan as follows: R. B. Catell - \$528,469; R. J. Fani - \$226,242; W. P. Parker Jr. - \$193,257; S. L. Zelkowitz - \$161,590; and G. Luterman - \$74,567.
- (3) As of December 31, 2004, the aggregate value of the restricted stock awards and number of restricted stock awards held by each of the Named Executive Officers are as follows: R. B. Catell - \$601,112; 15,237 shares; R. J. Fani - \$193,287; 4,899 shares; W. P. Parker Jr. - \$193,287; 4,899 shares; S. L. Zelkowitz - \$132,475; 3,358 shares; and G. Luterman - \$132,475; 3,358 shares. The aggregate restricted stock values are based on the closing price per share of \$39.45 at December 31, 2004.
- (4) The amounts are comprised of stock options granted on March 10, 2004, based on the closing price as of such date. The options shall vest pro-rata over a 5 year period with a 10 year exercise period. Vesting may accelerate in the third year based upon achievement of certain goals.
- (5) The amounts are comprised of performance shares awarded to the Named Executive Officers. The performance share awards were granted on March 10, 2004. Performance shall be measured over a three year period and linked to certain performance levels. Threshold, target and maximum performance levels will determine the actual shares to be issued at the end of the performance period. At target, the number of shares granted to the Named Executive Officer will be as follows: R. B. Catell - 32,280 shares; R. J. Fani – 13,710 shares; W. P. Parker Jr. - 10,710 shares; S. L. Zelkowitz – 8,550 shares; and G. Luterman – 5,950 shares. The performance share award amounts are determined based on the Black Scholes value of \$29.29 per share. At threshold, 50% of the number of shares indicated above for the Named Executive Officer will be awarded. At maximum, 150% of the number of shares indicated above for the Named Executive Officer will be awarded. Performance below threshold will result in forfeiture of the award.

- (6) Amounts are also comprised of the value of a 20% match provided by the Company in 2004 on amounts deferred by the Named Executive Officers into the Officers' Deferred Stock Unit Plan. The amounts attributable to each of the Named Executive Officers are as follows: R. B. Catell - \$105,693; R. J. Fani - \$45,248; W. P. Parker Jr. - \$38,651; S.L. Zelkowitz - \$32,318; and G. Luterman - \$14,913. The amounts are also comprised of the cost of life insurance paid by the Company and allocated to the Named Executive Officers for income tax reporting purposes. The amounts attributable to each of the Named Executive Officers during 2004 with respect to the cost of life insurance paid are as follows: R. B. Catell - \$27,200; R. J. Fani - \$6,630; W. P. Parker Jr. - \$8,766; S.L. Zelkowitz - \$8,880; and G. Luterman - \$15,850.
- (7) Bonus awards paid in 2003 include amounts deferred by the Named Executive Officers into the Officers' Deferred Stock Unit Plan as follows: R. B. Catell - \$544,528; R. J. Fani - \$153,978; W. P. Parker Jr. - \$174,144; S. L. Zelkowitz - \$139,375; and G. Luterman - \$71,873.
- (8) The Named Executive Officer also received 2,000 stock options on September 22, 2003 and 2,000 shares of restricted stock on November 7, 2003 granted by The Houston Exploration Company (a former subsidiary of the Company) as compensation for such person's service as a director of The Houston Exploration Company.
- (9) The amounts are comprised of stock options granted on March 5, 2003, based on the closing price as of March 5, 2003. The options shall vest pro-rata over a 5 year period with a 10 year exercise period from the date of the grant. Vesting will accelerate in the third year based upon achievement of certain goals.
- (10) Amounts are comprised of the cost of life insurance paid by the Company and allocated to the Named Executive Officers for income tax reporting purposes. The amounts attributable to each of the Named Executive Officers during 2003 are as follows: R. B. Catell - \$27,200; R. J. Fani - \$5,012; W. P. Parker Jr. - \$8,620; S.L. Zelkowitz - \$8,350; and G. Luterman - \$14,524.
- (11) Amounts are also comprised of the value of a 20% match provided by the Company in 2003 on amounts deferred by the Named Executive Officers into the Officers' Deferred Stock Unit Plan. The amounts attributable to each of the Named Executive Officers are as follows: R. B. Catell - \$108,905; R. J. Fani - \$30,795; W. P. Parker Jr. - \$34,828; S.L. Zelkowitz - \$27,875; and G. Luterman - \$14,375.
- (12) Amounts are also comprised of disbursements made from the Supplemental Employee Savings Plan ("SESP") and are attributable to each of the Named Executive Officers as follows: R. B. Catell - \$13,440; R. J. Fani - \$2,610; W. P. Parker Jr. - \$4,028; S. L. Zelkowitz - \$186; and G. Luterman - \$351.
- (13) Amounts are also comprised of performance shares awarded to the Named Executive Officers. The performance share awards were granted on March 5, 2003. Performance shall be measured over a three year period and linked to certain performance levels. Threshold, target and maximum performance levels will determine the actual shares to be issued at the end of the performance period. At target, the number of shares granted to the Named Executive Officer will be as follows: R. B. Catell - 32,700 shares valued at \$845,000; R. J. Fani - 10,900 shares valued at \$281,700; W. P. Parker Jr. - 10,900 shares valued at \$281,700; S. L. Zelkowitz - 6,800 shares valued at \$175,700; and G. Luterman - 6,800 shares valued at \$175,700. The performance share award amounts are determined based on the Black Scholes value of \$25.84 per share. At threshold, 50% of the number of shares indicated above for the Named Executive Officer will be awarded. At maximum, 150% of the number of shares indicated above for the Named Executive Officer will be awarded. Performance below threshold will result in forfeiture of the award.
- (14) Bonus awards paid in 2002 include amounts deferred by the Named Executive Officers into the Officers' Deferred Stock Unit Plan as follows: R. B. Catell - \$142,370; R. J. Fani - \$76,592; W. P. Parker Jr. - \$95,969; S. L. Zelkowitz - \$67,043; and G. Luterman - \$38,418.
- (15) The Named Executive Officer also received 2,000 annual stock options granted by Houston Exploration as compensation for such person's services as a director of Houston Exploration.
- (16) Includes a special bonus in the amount of \$100,000.

## **COMPENSATION AND MANAGEMENT DEVELOPMENT COMMITTEE REPORT ON EXECUTIVE COMPENSATION**

The Compensation and Management Development Committee (the “Committee”) of the Board of Directors, composed of five independent directors, administers KeySpan’s executive and director compensation programs. The members of the Committee are James R. Jones, James L. Larocca, Gloria C. Larson, Stephen W. McKessy and Edward D. Miller serving as chairperson. None of such members is or has been an officer or employee of KeySpan or any of its subsidiaries. The Committee operates under a written charter adopted by the Board of Directors and attached to this Proxy Statement as Appendix C.

During 2004, the Committee directly engaged Towers Perrin, a national compensation consultant, to review competitive best practices and emerging trends in both the energy and utility sector, as well as general industry compensation levels in order to review the compensation for KeySpan’s officers, including the Named Executive Officers, and to provide advice with respect to incentive compensation plan matters. As part of the Towers Perrin review process, the Committee completed a comprehensive assessment of KeySpan’s executive compensation programs to ensure that KeySpan’s compensation philosophy and programs are consistent with best practices and provide a reasonable level of total compensation to the officers.

The Committee reviews and recommends changes to the Company’s compensation policies and programs for the Chief Executive Officer, the Named Executive Officers, other senior executives and certain key employees. In addition, the Committee makes recommendations concerning the Company’s employee benefit policies and exercises such powers and makes such other compensation-related determinations as are entrusted to the Committee by the Board of Directors. The Committee also reviews and approves awards under the Long-Term Performance Incentive Compensation Plan (described below). In addition, after review and final recommendation by the Committee, all other issues relating to executive compensation are submitted to the entire Board for approval. However, in accordance with the Company’s Corporate Governance Guidelines, only independent directors are authorized to vote on the compensation of the Chief Executive Officer.

### **Executive Compensation Philosophy and Policies**

The philosophy of KeySpan with respect to executive compensation is that the Chief Executive Officer and other executives should be compensated at market-competitive levels to attract, motivate, and retain talented executives needed to achieve KeySpan’s vision of being the premier energy company in the Northeast. Through the Committee, the Board of Directors has developed a “pay for performance” executive compensation philosophy and approved the implementation of a total compensation plan designed to focus attention on KeySpan’s strategic business initiatives and financial performance objectives. The Committee adheres to the following compensation policies, which are intended to facilitate the achievement of KeySpan’s business strategies and further the Company’s vision:

- The executive compensation program should emphasize pay for performance and encourage retention of those employees who enhance KeySpan’s performance;
- Compensation arrangements will maintain a reasonable balance between base salary, annual and long-term equity-based incentive compensation and will be designed to focus such executives on the long-term interests of the shareholders and creating value for the shareholders;
- The incentive compensation program for executives should strengthen the link of incentive compensation to the achievement of specific financial and strategic objectives, which are set in advance by the Board of Directors, upon recommendation of the Committee;

- In determining executive compensation levels for base salary, annual and long-term compensation, the compensation levels should be competitive with compensation levels for executive positions of similar scope for general industry on a nationwide basis, as well as peer energy companies. If KeySpan's performance exceeds that of the comparable group, compensation should be above the median; likewise, if KeySpan's performance falls below that of the group, the compensation paid to executives should be below the median of the comparable companies.

The Committee compares total compensation levels for KeySpan's executives to the compensation paid to executives in comparable general industry and energy companies on a nationwide basis. In this regard, the Committee uses analyses prepared by Towers Perrin to review the compensation levels of executives in the energy industry and in the national marketplace. In addition, the Committee reviews compensation data for executive positions comparable in scope to those in general industry companies. The companies analyzed in this process tend to have national business operations and have positions that are similar in scope with comparable revenue size or employment levels. Through this process, the Committee identifies the median compensation level both with respect to base salary and the overall executive compensation program.

The Committee strives to ensure that compensation for the Company's executive officers provides a direct link to strategic financial measures and shareholder value. To achieve this performance linkage, KeySpan has established three programs for the direct compensation of executive officers: the Base Salary Program, the Corporate Annual Incentive Compensation Plan and the Long-Term Performance Incentive Compensation Plan. The intent of these programs is to place increased emphasis on performance based pay and reduced emphasis on base salary in determining total compensation.

Each of the three programs is discussed in greater detail below.

### **The Base Salary Program**

In setting base salary levels for the Chief Executive Officer, the Named Executive Officers and other executive officers, the Committee considers the competitive market data for executives in comparable positions in other energy and general industry markets. In setting base salary levels, KeySpan currently targets the 50th percentile of the comparable nationwide labor market. The Committee also considers the experience level and actual performance achieved by the executive as it relates to KeySpan's corporate goals in setting such executive's base salary.

When Mr. Catell was promoted to and elected as Chairman and Chief Executive Officer on July 31, 1998, KeySpan entered into an employment agreement with Mr. Catell that provided a base salary of \$700,000 per year, subject to such increases that may be approved by the Board. Base salary increases based upon performance have been determined on an annual basis. In determining the base salary level for the Chief Executive Officer, the Committee has taken into consideration Mr. Catell's performance in connection with, among other things, an increase in overall earnings per share, total shareholder return and the continued focus on the core business and sustained earnings growth. Based upon an assessment of these various factors, effective January 1, 2005, the Committee and the Board approved an increase in annual base salary for Mr. Catell to \$1,075,000. As the Company continues to align base pay to competitive market levels, the base salary level for the Chief Executive Officer, the Named Executive Officers and other executive officers, compared to competitive market data, is generally at or above the 50th percentile of comparable positions at this time.

### **The Corporate Annual Incentive Compensation Plan**

The Board of Directors adopted the Corporate Annual Incentive Compensation and Gain Sharing Plan (the "Corporate Plan") in September 1998. The awards to be earned under the Corporate Plan will be paid as cash (with the option to defer up to 50% of the award in any year, as discussed below) based upon annual performance results. For 2004, the performance measurement period included the twelve-month period from January 1, 2004 to December 31, 2004. The awards for this period were paid in March 2005. The Corporate Plan provides annual

incentive awards to officers and all management employees who, by the nature and scope of their positions, regularly and directly make a significant contribution to the success of KeySpan in the achievement of corporate goals that the Committee believes are important to the shareholders of KeySpan. The specific corporate goals for the Corporate Plan are proposed by management and reviewed and approved by the Committee and the Board of Directors. The Corporate Plan is intended to improve shareholder return and corporate performance and includes goals which encourage growth in earnings per share, improved cash flow, business unit operating income, competitive positioning, customer satisfaction, control of operating expenses, employee diversity and other individual strategic initiatives. Incentive awards for 2004 performance are determined based upon Company performance, strategic business group performance and individual performance results, and are calculated as a percentage of cumulative base salary paid during 2004. The incentive award ranges are established annually by the Committee for eligible executives and management employees in the Corporate Plan. Incentive award levels are intended to provide awards that are competitive within the industry at target award levels when performance results are achieved.

With respect to the Chief Executive Officer, the incentive awards opportunity pursuant to the 2004 Corporate Plan ranged from zero, if below threshold performance levels, up to 80% of cumulative paid base salary at target performance levels, with a maximum award potential of 120% of cumulative paid base salary at maximum performance levels. For 2004, the Chief Executive Officer had a target award level of 80% of cumulative paid salary with performance criteria based upon consolidated earnings per share, cash flow, employee diversity, customer satisfaction and other individual strategic initiatives. Based upon actual 2004 results, an award payout of 101.5% of cumulative paid base salary was approved by the Committee and paid in March 2005. The amount reflected in the Summary Compensation table that was paid in March 2004 for performance during 2003 represented a payout of 112.7% of cumulative paid base salary. Upon the recommendation of Towers Perrin and the approval of the Committee and the Board, for the year 2005, the Chief Executive Officer's target award will increase from 80% of cumulative paid base salary to 100% of cumulative paid base salary, with a maximum award potential of 200% of cumulative paid base salary. All executives in the Corporate Plan have a portion of their incentive award linked directly to overall corporate performance goals, to the results achieved in their respective strategic business group and to their individual performance.

Pursuant to the Officers' Deferred Stock Unit Plan and consistent with the Company's desire to increase officer stock ownership in order to further align the interests of executives and shareholders, the Chief Executive Officer, the Named Executive Officers and certain other executives may elect to defer between 10% to 50% of their annual cash award under the Corporate Plan to purchase deferred stock units ("DSUs"), which track the performance of the Company's Common Stock but do not possess voting rights. Executives will also receive a 20% match by the Company on the amount deferred in each year. The DSUs must be deferred until retirement or resignation and are payable in Common Stock. The match component on the deferral will track the performance of the Company's Common Stock and will generally be payable in cash upon retirement or in the event of an executive's disability, death or upon change of control. The match is forfeited in the event of the executive's resignation prior to retirement. The Chief Executive Officer elected to defer 50% of his 2003 annual award, paid in March 2004 and 50% of his 2004 annual award, paid in March 2005, into a DSU account.

### **The Long-Term Performance Incentive Compensation Plan**

As a result of the Committee's review of the competitiveness of KeySpan's total compensation program, and review of long-term incentive plans used by a majority of energy companies, the Committee recommended, and the Board of Directors adopted, the KeySpan Long-Term Performance Incentive Compensation Plan (the "Incentive Plan") in March 1999. The Incentive Plan was subsequently approved by the shareholders at the May 1999 Annual Meeting of Shareholders. On May 10, 2001, shareholders approved an amendment to the Incentive Plan that increased the authorized shares to a total of 19,250,000. As of February 24, 2005, approximately 17,330,885 stock options; 136,158 shares of restricted stock; and 574,965 performance shares have been awarded under the Incentive Plan.

The Incentive Plan provides for the award of incentive stock options, non-qualified stock options, performance shares and restricted shares to key employees, directors and consultants of KeySpan and its subsidiaries as determined by the Committee. The purpose of the Incentive Plan is to optimize KeySpan's performance through

incentives that directly link the participant's goals to those of KeySpan's shareholders and to attract and retain participants who make significant contributions to the success of KeySpan.

The stock option component of the Incentive Plan entitles the participants to purchase shares of Common Stock at an exercise price per share determined by the Committee that is no less than the closing price of the Common Stock on the NYSE on the date of the grant. On March 10, 2004, based upon the performance of the Chief Executive Officer, the Committee approved a grant to Mr. Catell of 225,100 non-qualified stock options to purchase Common Stock at an exercise price of \$37.54 (vesting on a pro-rata basis over a three or five-year period, depending upon Company performance, or pro-rata upon retirement using the full months of employment from the grant date to retirement, divided by 36 months). In addition, Mr. Catell was also awarded 32,280 performance shares. On February 24, 2005, the Committee approved a grant to Mr. Catell of 80,700 performance shares. Performance shares have been granted with a three-year performance period with a threshold, target and maximum performance level. Consistent with the stock option performance goal, performance shares will be measured by comparing KeySpan's cumulative three-year total shareholder return ("TSR"). At threshold performance, 50% of the award shall be earned; at target, 100% of the award shall be earned; and at maximum, 150% of the award shall be earned. If the threshold level of performance is not achieved all shares granted shall be forfeited. In the event of retirement, performance shares shall be distributed based upon results achieved at the end of the performance period and prorated through the date of retirement.

Since 2001, the option award process has included a performance goal feature in the stock option vesting schedule for officers which directly links TSR for KeySpan Common Stock to the options granted. The TSR goal measures the total return to shareholders of KeySpan Common Stock, including price appreciation and dividends. KeySpan's performance will be measured against the S&P Utility Group over a three-year performance period, with the goal for KeySpan's TSR to be at or above the median of those comprising the group. Options were granted with a five-year pro-rata vesting schedule. If KeySpan achieves its TSR goal at the end of the three-year performance period, then those options that are not yet vested will vest immediately. If the TSR goal is not achieved in year three, the remaining unvested options will continue to vest on the five-year schedule.

On February 24, 2005, the Committee approved an aggregate of 1,029,000 non-qualified stock options, 214,600 performance shares and 8,750 restricted stock shares that were granted to all officers as a group. The grants of non-qualified stock options and performance shares that were made to executives generally were determined on the basis of the executive's performance and position within KeySpan and the level of such executive's compensation to focus such executives on the long-term interests of shareholders. The Committee believes that performance based stock options and performance shares are directly linked to KeySpan's shareholder value.

Commencing in 2003, the Company began expensing stock options on a prospective basis in accordance with Statement of Financial Accounting Standards ("SFAS") No. 123.

#### **Policy with Respect to Section 162(m) Deduction Limit**

Under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), the Company cannot deduct compensation in excess of \$1,000,000 paid in any year to the Chief Executive Officer or any of the Named Executive Officers whose compensation must be detailed in the Proxy Statement. Certain benefit plans and compensation paid under plans that are performance based are not subject to the \$1,000,000 annual limit if certain requirements are satisfied. Although the Company's compensation policy is designed to relate compensation to performance, certain payments do not meet such requirement because they allow the Committee and the Board to exercise discretion in setting compensation. The Committee is of the opinion that it is in the Company's best interest for the Committee and the Board to retain discretion in order to preserve flexibility in compensating such executive officers, especially in light of an increasingly competitive marketplace.

## KeySpan Executive Stock Ownership Policy

In January 2005, the Committee adopted the KeySpan Executive Stock Ownership Policy which modifies and expands on the guidelines which were approved by the Compensation and Management Development Committee (formerly the Compensation and Nominating Committee) in 2002. The policy requires increased ownership of KeySpan Common Stock and the retention of underlying shares upon the exercise of stock options by directors and officers. The policy establishes target levels of ownership of KeySpan stock for officers which must be achieved within a five-year period (beginning in 2003, or later, if applicable). Officers that do not meet the stock ownership requirements or are not on target to meet such requirements will be subject to certain remedial actions by the Corporation.

KeySpan's officers are expected to own shares of KeySpan stock with a value equal to a specific multiple of such officer's base salary, as indicated below:

<u>Executive Level</u>	<u>Target Level (Multiple of Base Salary)</u>
Chief Executive Officer	5 times
Chief Operating Officer	4 times
Presidents	3 times
Executive Vice Presidents	2 times
Senior Vice Presidents	1.5 times
Vice Presidents	1 times

The shares accounted for in calculating the stock ownership levels include the following:

- open market purchases;
- stock acquired upon the exercise of options;
- restricted shares;
- shares held in the 401(k) plan, the Employee Discount Stock Purchase Plan and the Investor Program (Dividend Reinvestment Plan);
- shares held in Deferred Compensation Plans; and
- performance shares (calculated at 50% of the total performance shares held).

Due to the fact that the market price of KeySpan's Common Stock is generally considered the strongest indicator of overall corporate performance, the policy provides a strong incentive to participants by linking compensation to the future value of KeySpan's Common Stock.

### Conclusion

The Committee believes that KeySpan's executive compensation policies, and executive ownership policies and programs serve both the interests of KeySpan and its shareholders effectively. The various stock compensation programs are appropriately balanced to provide the motivation for executives to contribute to KeySpan's overall success and enhance the value of KeySpan for the shareholders' benefit, and are consistent, with respect to both design and amount, with compensation programs of comparable companies in both general and energy industry segments on a nationwide basis.

The Committee will continue to monitor the effectiveness of KeySpan's total compensation program to meet the current and the future needs of KeySpan.

### Compensation and Management Development Committee

James R. Jones  
James L. Larocca  
Gloria C. Larson

Stephen W. McKessy  
Edward D. Miller, Chairperson

## STOCK OPTION GRANTS IN LAST CALENDAR YEAR

The following table provides information on stock option grants during 2004 for the Named Executive Officers and the grant date present value of such officers' unexercised options at December 31, 2004:

Name	Number of Securities Underlying Options Granted <sup>1</sup>	Percent of Total Number of Options Granted to Employees	Option Exercise Price (\$/Share)	Expiration Date	Grant Date Present Value of Options <sup>2</sup> (\$)
R.B. Catell	225,100	14.08%	37.54	3/9/2014	945,400
R.J. Fani	95,600	5.98%	37.54	3/9/2014	401,500
W.P. Parker Jr.	74,700	4.67%	37.54	3/9/2014	313,700
S.L. Zerkowitz	59,600	3.73%	37.54	3/9/2014	250,300
G. Luterman	41,500	2.60%	37.54	3/9/2014	174,300

- (1) Options vest ratably over a five-year period with the first one-fifth having vested on March 10, 2005 (accelerated vesting in third year applies upon achievement of certain prescribed goals).
- (2) Options have been valued using the Black-Scholes option pricing model adapted to reflect the specific provisions of the Incentive Plan and related assumptions regarding exercisability. The values shown are theoretical and do not necessarily reflect the actual values that may be realized upon the future exercise of the options. Any actual value will result to the extent that the market value of the Common Stock at a future date exceeds the exercise price. Assumptions for modeling are based on the dividend yield, risk-free rate of return, standard deviation of prices over a relevant period as of the grant date and the expected lives of the options.

## STOCK OPTION EXERCISES TABLE

The following table provides information on aggregated stock option exercises in 2004 and fiscal year end option values for the Named Executive Officers:

Name	Shares Acquired on Exercise	Value Realized (\$)	Number of Securities Underlying Unexercised Options at Fiscal Year End			Value of In-The-Money Options at Fiscal Year End (\$)		
			Exercisable	Unexercisable	Total	Exercisable	Unexercisable	Total
R.B. Catell	-	-	1,700,561	722,140	2,422,701	19,147,215	3,123,101	22,270,316
R.J. Fani	-	-	239,154	254,480	493,634	2,438,183	1,084,277	3,522,459
W. P. Parker Jr.	-	-	295,221	233,580	528,801	2,898,579	1,044,358	3,942,937
S. L. Zerkowitz	30,000	328,125	208,127	167,440	375,567	2,459,610	692,116	3,151,726
G. Luterman	60,000	900,000	175,927	149,340	325,267	1,602,779	657,545	2,260,324

## Security Ownership of Management

The following table sets forth information as of March 10, 2005, with respect to the number of shares of Common Stock beneficially owned, Common Stock equivalents and performance shares credited to each director, each Named Executive Officer and all directors and executive officers as a group.

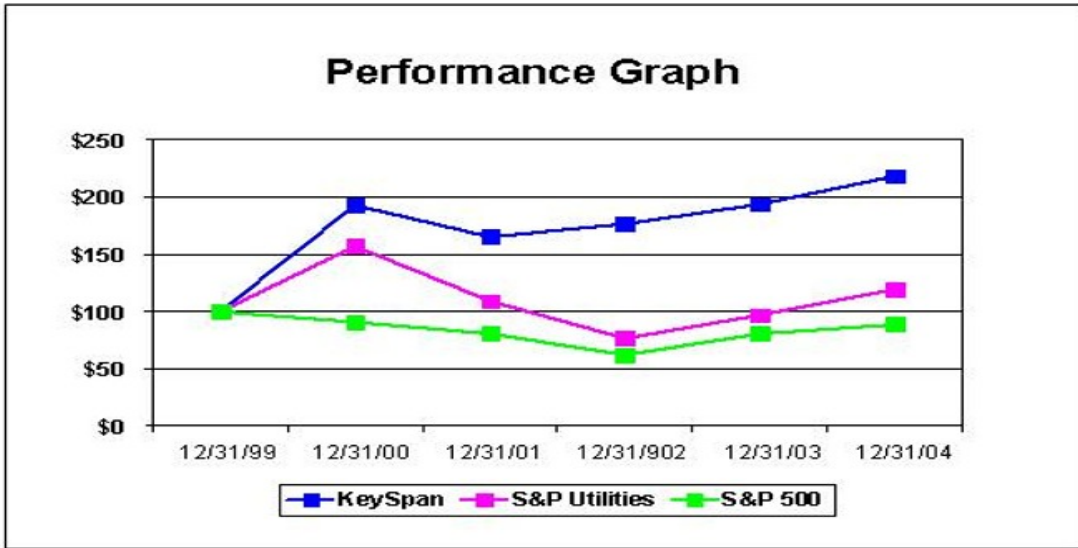
Name of Beneficial Owner	Amount and Nature of Beneficial Ownership of Common Stock	Common Stock Equivalents or Deferred Stock Units <sup>(1)</sup>	Performance Shares <sup>(2)</sup>	Percent of Outstanding Common Stock
R. B. Catell	2,014,572 <sup>(3) (4)</sup>	45,454	64,980	1.25%
A. S. Christensen	13,179	14,415	0	**
R. J. Fani	331,513 <sup>(3) (4)</sup>	16,834	24,610	**
A. H. Fishman	12,664	19,679	0	**
J. R. Jones	10,975	9,658	0	**
J. L. Larocca	13,973	11,407	0	**
G. C. Larson	506	3,324	0	**
G. Luterman	237,118 <sup>(3) (4)</sup>	6,950	12,750	**
S. W. McKessy	10,461	16,429	0	**
E. D. Miller	20,227	24,753	0	**
W. P. Parker Jr.	386,699 <sup>(3) (4)</sup>	17,367	21,610	**
V. L. Pryor	0	942	0	**
S. L. Zelkowitz	272,097 <sup>(3) (4)</sup>	13,731	15,350	**
All directors and executives as a group, including those named above, a total of 26 persons.	4,649,118	266,624	255,155	2.90%

\*\* Less than 1%.

- (1) Includes Common Stock Equivalents or Deferred Stock Units. The term “Common Stock Equivalents” refers to units of value which track the performance of Common Stock. Such units do not possess voting rights and have been issued pursuant to the Directors’ Deferred Compensation Plan. The term “Deferred Stock Units” also refers to units of value which track the performance of Common Stock. Such units do not possess voting rights and have been issued pursuant to the Officers’ Deferred Stock Unit Plan.
- (2) Performance shares have been granted with a three-year performance period with a threshold, target and maximum performance level. At threshold performance, 50% of the award shall be earned; at target, 100% of the award shall be earned; and at maximum, 150% of the award shall be earned.
- (3) Includes shares of common stock issuable pursuant to options that are either currently exercisable or exercisable within 60 days of the date of this Proxy Statement as follows: Mr. Catell – 214,580 shares; Mr. Fani – 72,660 shares; Mr. Parker – 68,480 shares; Mr. Zelkowitz – 48,980 shares; and Mr. Luterman – 45,360 shares.
- (4) Includes shares of restricted stock in the following amounts: Mr. Catell – 15,411 shares; Mr. Fani – 4,956 shares; Mr. Parker – 4,956 shares; Mr. Zelkowitz – 3,396; and Mr. Luterman – 8,396 (includes 5,000 shares of restricted stock granted to Mr. Luterman on February 24, 2005).

**PERFORMANCE GRAPH**

The following graph presents, for the period beginning December 31, 1999 through December 31, 2004, a comparison of cumulative total shareholder returns for KeySpan, the Standard & Poor’s Utilities Index and the Standard & Poor’s 500 Index.



	<u>December 31, 1999</u>	<u>December 31, 2000</u>	<u>December 31, 2001</u>
KeySpan	\$100.00	\$192.42	\$165.41
S&P Utilities Index	\$100.00	\$156.99	\$109.39
S&P 500 Index	\$100.00	\$ 90.89	\$ 80.14
	<u>December 31, 2002</u>	<u>December 31, 2003</u>	<u>December 31, 2004</u>
KeySpan	\$176.80	\$194.24	\$218.06
S&P Utilities Index	\$ 76.63	\$ 96.56	\$119.87
S&P 500 Index	\$ 62.47	\$ 80.35	\$ 89.06

Assumes \$100 invested on December 31, 1999 in shares of KeySpan Common Stock, the S&P Utilities Index and the S&P 500 Index, and that all dividends were reinvested.

## COMPENSATION UNDER RETIREMENT PLANS

The Company's retirement plan provides retirement benefits based upon the individual participant's years of service and final average annual compensation (as defined below). The following table sets forth the estimated annual retirement benefits (exclusive of Social Security payments) payable to the Named Executive Officers in the specified compensation and years-of-service categories, assuming continued active service until normal retirement age and that the Company's retirement plan is in effect at such time.

Remuneration (\$)	Benefits (\$)							
	Years of Service							
	15	20	25	30	35	40	45	50
275,000. . . .	61,875	82,500	103,125	123,750	144,375	165,000	185,625	206,250
350,000. . . .	75,750	105,000	131,250	157,500	183,750	210,000	236,500	262,500
425,000. . . .	95,625	127,500	159,375	191,250	223,125	255,000	286,875	318,750
500,000. . . .	112,500	150,000	187,500	225,000	262,500	300,000	337,500	375,000
575,000. . . .	129,375	172,500	215,625	258,750	301,875	345,000	388,125	431,250
650,000. . . .	146,250	195,000	243,750	292,500	341,250	390,000	438,750	487,500
725,000. . . .	163,125	217,500	271,875	326,250	380,625	435,000	489,375	543,750
800,000. . . .	180,000	240,000	300,000	360,000	420,000	480,000	540,000	600,000
875,000. . . .	196,875	262,500	328,125	393,750	459,375	525,000	590,625	656,250
950,000. . . .	213,750	285,000	356,250	427,500	498,750	570,000	641,250	712,500
1,025,000. . .	230,625	307,500	384,375	461,250	538,125	615,000	691,875	768,750
1,100,000. . .	247,500	330,000	412,500	495,000	577,500	660,000	742,500	825,000
1,175,000. . .	264,375	352,500	440,625	528,750	616,875	705,000	793,125	881,250
1,250,000. . .	281,250	375,000	468,750	562,500	656,250	750,000	843,750	937,500
1,325,000. . .	298,125	397,500	496,875	596,250	695,625	795,000	894,375	993,750
1,400,000. . .	315,000	420,000	525,000	630,000	735,000	840,000	945,000	1,050,000
1,475,000. . .	331,875	442,500	553,125	663,750	774,375	885,000	995,625	1,106,250
1,550,000. . .	348,750	465,000	581,250	697,500	813,750	930,000	1,046,250	1,162,500
1,625,000. . .	365,625	487,500	609,375	731,250	853,125	975,000	1,096,875	1,218,750
1,700,000. . .	382,500	510,000	637,500	765,000	892,500	1,020,000	1,147,500	1,275,000
1,775,000. . .	399,375	532,500	665,625	798,750	931,875	1,065,000	1,198,125	1,331,250
1,850,000. . .	416,250	555,000	693,750	832,500	971,250	1,110,000	1,248,750	1,387,500

For purposes of the retirement plan, the final average annual compensation is the average annual compensation for the highest five consecutive years of earnings during the last ten years of credited service.<sup>2</sup> The annual salary and bonus for the current year for the Named Executive Officers is indicated in the Annual Compensation columns of the Summary Compensation Table.

The number of years of credited service for R. B. Catell, the Chairman and Chief Executive Officer, based on continued service to age 70 and pursuant to the terms of his employment agreement, will result in Mr. Catell retiring with 48 years of service. The number of years of credited service for each of the other Named Executive Officers

<sup>2</sup> For purposes of determining the pension benefit for Mr. Catell, the final average annual compensation will be based upon 65% of his highest three years of earnings (excluding any earnings from LTIP) offset by 50% of his primary social security benefit.

based on continued service with the Company to age 65, normal retirement age, will be as follows: R. J. Fani - 43 years, W. P. Parker Jr. - 44 years, S.L. Zelkowitz - 18 years, and G. Luterman - 11 years.<sup>3</sup>

The Code limits the annual compensation taken into consideration for, and the maximum annual retirement benefits payable to, a participant under the Company's retirement plan. For 2004, these limits were \$205,000 and \$165,000, respectively. Annual retirement benefits attributable to amounts in excess of these limits are provided for under the Company's excess benefit plan and not under the Company's retirement plan.

## **COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

Neither Ms. Larson nor Messrs. Jones, Larocca, McKessy and Miller, the current members of the Compensation and Management Development Committee, nor Edward Travaglianti, who resigned from the Board and the Compensation and Management Development Committee on February 24, 2004, is an officer or employee, or former officer or employee, of KeySpan or any of its subsidiaries. No interlocking relationship exists between the members of KeySpan's Board or Compensation and Management Development Committee and the Board of Directors or compensation committee of any other company, nor has any such interlocking relationship existed in the past.

## **AGREEMENTS WITH EXECUTIVES**

### **Employment Agreements**

In September 1998, KeySpan entered into an employment agreement with Mr. Robert B. Catell relating to his services as Chairman and Chief Executive Officer which was amended on February 24, 2000 and June 26, 2002 (the "1998 Agreement"). The agreement covered the period beginning July 31, 1998 and ending July 31, 2005.

Effective January 1, 2005, the Company entered into a new Agreement (the "2005 Agreement"), which supersedes the 1998 Agreement, relating to Mr. Catell's service as Chairman and CEO. The 2005 Agreement provides for Mr. Catell's continued employment until July 31, 2006. However, this employment term may be extended until two years following the consummation of a Change of Control (as defined in the 2005 Agreement), if the Company enters into a definitive agreement that, if consummated, would result in a Change of Control and the Change of Control occurs. The period from the execution of the definitive agreement until two years following the consummation of the Change of Control is the Protection Period.

In addition to his base salary, annual and long-term incentive compensation and other employee benefits, Mr. Catell is entitled to a Supplemental Pension Benefit provided for in the 1998 Agreement and continued under the 2005 Agreement. Supplemental Benefits are determined based upon actual base salary and actual annual incentives paid. In the event the annual incentive target is decreased, Mr. Catell's Supplemental Pension Plan under the 2005 Agreement will be determined based upon the highest annual target level approved by the Board during the Executive's employment with the Company.

Mr. Catell's employment agreement also provides for severance benefits to be paid to him in the event his employment is terminated by KeySpan without cause or if Mr. Catell terminates his employment for good reason. The severance benefits to be provided during the Severance Period (as defined below) would include: (a) payment to Mr. Catell in a single lump sum of (i) all accrued obligations and (ii) the aggregate amount of salary and annual incentive compensation that he would have received had he remained employed through the end of the employment period; (b) continued accrual of Supplemental Executive Retirement Plan benefits (as provided in the agreement) during the severance period; (c) continuation of all other employee benefits; and (d) acceleration of vesting of all equity awards, as if he had remained employed by KeySpan during the Severance Period. If Mr. Catell's employment is terminated, the Severance Period is defined to mean the period from the date of termination through the end of the employment period.

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<sup>3</sup> Pursuant to the Supplemental Retirement agreements described below, both Mr. Zelkowitz and Mr. Luterman receive certain retirement benefits in addition to the amounts set forth above.

If Mr. Catell voluntarily terminates his employment, other than for good reason, the Company shall pay the accrued obligations to Mr. Catell and he shall be entitled to his Supplemental Pension Benefits. If Mr. Catell is terminated without cause or resigns for good reason during the Protection Period, Mr. Catell will be provided with severance at a multiple of 2 times base salary and annual bonus, continued benefits and additional Supplement Pension Benefits accrual for the two year period following his termination. In the event that any payments Mr. Catell receives from the Company or otherwise are subject to a parachute excise tax, the Mr. Catell will be entitled to a gross-up payment in order to put him in the same after-tax position he would have been in without the imposition of the excise tax.

The Company has entered into a supplemental retirement agreement with Mr. Zerkowitz. The agreement provides one year of credited service for each year worked, up to a maximum of ten years, in the calculation of pension benefits. The maximum enhancement would provide an incremental benefit of 15% of the executive's final five-year average earnings under the current pension plan formula. In addition, at retirement, Mr. Zerkowitz will receive Company paid medical and dental coverage at the same level of employee contribution in effect at retirement, which will be grossed up for federal and state taxes. Mr. Zerkowitz must remain employed through December 2006 in order to fully vest in this benefit. For retirement prior to this date, the benefit will vest pro-rata over a five-year period or 20% per year. If there is a change-in-control, termination without cause, or if Mr. Zerkowitz resigns for good reason, then the five-year vesting requirement will be waived and Mr. Zerkowitz will immediately vest in all additional service provided for in this agreement.

The Company has entered into a supplemental retirement agreement with Mr. Luteran. The agreement provides that Mr. Luteran will receive an annual supplemental retirement amount determined by multiplying Mr. Luteran's qualified and non-qualified pension accruals at age 62 by 35%. This annual supplemental amount will be aggregated with his actual qualified and non-qualified pension benefit at his retirement date. In addition, at retirement, Mr. Luteran will receive Company paid medical and dental coverage at the same level of employee contribution in effect at retirement, which will be grossed up for federal and state taxes. Mr. Luteran must remain employed through June 2005 in order to vest fully in this benefit. For retirement prior to this date, the supplemental amount will vest pro-rata over a three-year period. If there is a change-in-control, termination without cause, or if Mr. Luteran resigns for good reason, then the three-year vesting requirement will be waived and Mr. Luteran will immediately vest in all additional service provided for in this agreement.

### **Senior Executive Change of Control Severance Plan**

As of February 24, 2005, with the exception of Mr. Catell, 45 officers of the Company and certain subsidiaries will participate in the Senior Executive Change of Control Severance Plan (the "Change of Control Plan"). The Change of Control Plan, as amended, provides for the payment of severance and other benefits upon certain qualifying terminations of such executives within two (2) years of a "change of control" of the Company (as defined in the Change of Control Plan). The protection period under the Change of Control Plan commences upon the date that KeySpan enters into a definitive agreement, the transaction contemplated by which will, when consummated, constitute a change of control under the Change of Control Plan and will continue for a period of two years after the effective date of the actual change of control. The benefits payable under the Change of Control Plan generally provide for (i) the payment of the sum of the executive's base salary, incentive compensation and compensation previously deferred by the executive, all through the date of termination; (ii) the payment of an amount equal to three times an executive's base salary and incentive compensation for any President, any Executive Vice President and certain Senior Vice Presidents of KeySpan and certain subsidiaries and two times an executive's base salary and incentive compensation for other officers; (iii) the payment of amounts under retirement plans; and (iv) the continuation of certain other benefits for a period of two to three years depending on the executive's position with the Company. On October 29, 2003, the Board of Directors authorized a five year extension of the Change of Control Plan. The Change of Control Plan expires October 30, 2008, unless extended for an additional period by the Board of Directors; provided that, following a change of control, the Change of Control Plan shall continue until after all the executives who become entitled to any payments thereunder shall have received such payments in full.

### **Security Ownership of Certain Beneficial Owners**

As of March 10, 2005, there were no beneficial owners of more than 5% of the Company's Common Stock.

## **PROPOSAL 2. RATIFICATION OF DELOITTE & TOUCHE LLP AS INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS**

In accordance with the recommendations of its Audit Committee, the Board of Directors recommends that the shareholders ratify the appointment of the firm of Deloitte & Touche LLP (“Deloitte & Touche”), as independent registered public accountants to audit the books, records and accounts of KeySpan and its subsidiaries for the year ending December 31, 2005.

A representative of Deloitte & Touche will attend the Annual Meeting, be available to answer shareholder questions and have the opportunity to make a statement if he or she desires to do so.

**The affirmative vote of a majority of the votes cast at the meeting is required for approval of this proposal.**

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THIS PROPOSAL.**

### **FISCAL YEAR 2004 AUDIT FIRM FEE SUMMARY**

The following table provides information on the aggregate fees for services performed by Deloitte & Touche, the member firms of Deloitte & Touche Tohmatsu, and their respective affiliates for the years ended December 31, 2004 and December 31, 2003:

	<u><b>2004</b></u>	<u><b>2003</b></u>
Audit Fees (a)	\$ 4,172,682	\$ 3,263,333
Audit-Related Fees (b)	80,000	999,283
Tax Fees (c)	848,453	1,856,497
All Other Fees (d)	<u>0</u>	<u>56,985</u>
<b>Total</b>	<b>\$ 5,101,135</b>	<b>\$ 6,176,098</b>

- (a) In 2004, audit fees include base fees for the annual and statutory financial statement audits, audit of internal control over financial reporting, and quarterly reviews of 3,796,756; \$19,970 for fees related to financings and fees for consultations on financial accounting standards as part of the audit of \$355,956. In 2003, such fees were \$2,224,981 for the annual and statutory audits; \$820,604 for fees related to financings and \$217,748 for fees related to consultations on financial accounting standards as part of the audit..
- (b) Audit-related fees include benefit plan audits, accounting consultations and audits in connection with acquisitions, internal control reviews and consultation on financial accounting and reporting standards not arising as part of the audit. The amount reflected for 2004 represents benefit plan audit fees. During 2003, fees for acquisition services totaled \$160,000. In 2003, fees related to Sarbanes-Oxley Section 404 implementation assistance totaled \$467,000.
- (c) Fees for tax services billed in 2004 and 2003 consisted of tax compliance, tax consultation services and property tax assistance. Fees for tax compliance services totaled \$458,050 and \$1,010,295 in 2004 and 2003, respectively. Tax compliance services include services such as assistance with federal, state and local income tax returns. Fees for tax consultation services totaled \$390,403 and \$171,202 in 2004 and 2003, respectively. Fees for property tax assistance were \$675,000 in 2003.
- (d) Other fees include the performance of agreed upon procedures.

The Audit Committee has reviewed the nature and scope of the services provided by Deloitte & Touche and considers such to have been compatible with the maintenance of Deloitte & Touche’s independence throughout its service to the Company.

## Report of the Audit Committee

The Audit Committee of the Board of Directors of KeySpan is composed of five independent directors. The members of the Audit Committee are independent as such term is defined in the rules of NYSE and SEC. As previously stated, the Chair, Alan H. Fishman, of the Audit Committee meets the qualifications of an "audit committee financial expert," as that term is defined by the rules of the SEC. The Audit Committee operates under a written charter which was amended by the Board of Directors on January 26, 2005 and attached hereto as Appendix B.

Pursuant to its Charter, the Audit Committee provides oversight with respect to the quality and integrity of the Company's financial statements; compliance with legal and regulatory requirements; the independent auditor's qualifications and independence; the performance of the Company's internal audit function and independent auditors, the business practices of the Company, risk assessment and risk management, and the preparation of the Audit Committee report required to be included in the Company's annual Proxy Statement.

Additionally, in accordance with the Audit Committee Charter, the Audit Committee reviews the scope of the audit and approves the nature and cost of all services. The Audit Committee has reviewed the nature and scope of the services provided by Deloitte & Touche and considers such to have been compatible with the maintenance of Deloitte & Touche's independence throughout its service to the Company.

The Audit Committee has also determined that the scope of services to be provided by Deloitte & Touche in 2005 will generally be limited to audit and audit related services and tax services. The Audit Committee will expressly approve the provision of any services by Deloitte & Touche outside the scope of the foregoing services. Although it is the intent of the Audit Committee to pre-approve all non-audit services to be provided by Deloitte & Touche, any inadvertant failure to do so will not be deemed a breach of the Audit Committee charter if: (i) the aggregate amount of all such non-audit services provided to the Company constitutes not more than five percent of the total amount of revenues paid by the Company to its auditor during the fiscal year in which the non-audit services are provided; (ii) such services were not recognized by the Company at the time of the engagement to be non-audit services; and (iii) such services are promptly brought to the attention of the Committee and approved prior to the completion of the audit by the Committee or its Chairman pursuant to delegated authority.

The Audit Committee has reviewed and discussed with management the Company's audited financial statements as of, and for, the year ended December 31, 2004.

The Audit Committee has discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as amended, by the Auditing Standards Board of the American Institute of Certified Public Accountants.

The Audit Committee has received and reviewed the written disclosures and the letter from the independent auditors required by Independence Standard No.1, *Independence Discussions with Audit Committees*, as amended, by the Independence Standards Board, discussed with the auditors any relationships that may impact their objectivity and independence and satisfied ourselves as to the auditors' independence.

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements referred to above be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004.

### Audit Committee

Andrea S. Christensen	Stephen W. McKessy
Alan H. Fishman, Chairman	Vikki L. Pryor*
James L. Larocca	

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\* Ms. Pryor became a member of the Audit Committee on January 26, 2005.

## **CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

### **Involvement in Certain Legal Proceedings**

In May 2000, ContiFinancial Corporation (“ContiFinancial”) filed a voluntary petition for relief under the provisions of Chapter 11 of the United States Bankruptcy Code. At the time of such filing, Alan H. Fishman was serving as President and Chief Executive Officer and James L. Larocca was serving as a director of ContiFinancial.

### **Directors and Officers Liability Insurance and Indemnity**

KeySpan has director and officer (“D&O”) liability insurance for the purpose of reimbursing the Company when it has indemnified its directors and officers. D&O liability insurance also provides direct payment to KeySpan’s directors and officers under certain circumstances when KeySpan has not previously provided indemnification. KeySpan also has liability insurance which provides fiduciary coverage for KeySpan, its directors, officers and employees for any alleged breach of fiduciary duty under the Employee Retirement Income Security Act. The D&O insurance was purchased from Associated Electric & Gas Insurance Services, Energy Insurance Mutual, Zurich American, Hartford, Starr Excess, Quanta and Liberty Mutual for a one year period commencing May 28, 2004 at a cost of \$3,270,835. Fiduciary Liability was purchased from the American International Group, CHUBB, Zurich American, and Energy Insurance Mutual commencing August 26, 2004 at a cost of \$666,552. The company plans to renew both programs upon expiration.

### **Legal Proceedings**

KeySpan and certain of its current and former officers and directors are defendants in a consolidated class action lawsuit filed in the United States District Court for the Eastern District of New York. This lawsuit alleges, among other things, violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended (“Exchange Act”), in connection with disclosures relating to or following the acquisition of the Roy Kay companies. In June 2004, the parties reached an agreement in principle to settle the consolidated class action lawsuit. The proposed settlement provides for KeySpan to make certain payments to plaintiffs, all of which is to be funded by the insurance carrier providing liability coverage for KeySpan’s directors and officers. While KeySpan continues to deny any wrongdoing, we believe the proposed settlement is in the best interest of KeySpan and its shareholders. The settlement is subject to court approval, the timing of which cannot be determined.

On February 9, 2005, KeySpan was served with a shareholder derivative action asserting claims on behalf of KeySpan based upon breach of fiduciary duty. The complaint, which was filed in the New York State Supreme Court for the County of Kings, relates to the 2001 Roy Kay related losses and alleges that KeySpan’s directors and certain senior officers breached their fiduciary duties when they placed their own personal interests above the interests of KeySpan by using material non-public information (the fraud at Roy Kay) to sell securities at artificially inflated prices.

This new complaint asserts essentially the same allegations as contained in two prior federal shareholder derivative actions which were commenced in October 2001 and June 2002. On March 15, 2004, KeySpan and the individual defendants filed a motion to dismiss those earlier federal complaints. On April 14, 2004, the plaintiffs filed a notice of voluntary withdrawal of their actions. On April 23, 2004, the federal court dismissed both actions without prejudice. KeySpan intends to file a motion to dismiss this new complaint. While the Company denies any wrongdoing, the outcome of this proceeding cannot be determined as yet.

In late 2001, KeySpan received inquiries from the U.S. Attorney’s Office, Southern District of New York and the SEC regarding trading in KeySpan Corporation stock by individual officers of KeySpan prior to the July 17, 2001 announcement that KeySpan was taking a special charge in its Energy Services business and otherwise reducing its 2001 earnings forecast.

In March 2002, the SEC issued a formal order of investigation pursuant to which it indicated that it would review the trading activity of certain company insiders as well as KeySpan's compliance with reporting rules and regulations, generally during the period following the acquisition of the Roy Kay companies through the July 17, 2001 announcement. Since mid 2002, KeySpan has not received any further notifications or inquires concerning any of these matters.

### **Deadline For Shareholder Proposals**

Shareholder proposals for the 2006 Annual Meeting must be received by the Corporate Secretary at KeySpan's principal executive office at One MetroTech Center, Brooklyn, New York 11201-3850, Attention: Corporate Secretary, by December 2, 2005, to be considered by the Company for possible inclusion in the proxy materials for the 2006 Annual Meeting.

In addition, all shareholder proposals or nominations for election of a director for the 2006 Annual Meeting must be submitted to the Company in accordance with Section 2.7 of the Company's By-Laws not less than 60 nor more than 90 calendar days in advance of the anniversary date of the 2005 Annual Meeting.

### **Additional Information**

KeySpan's Annual Report for the period ended December 31, 2004 is included with this Proxy Statement. **The Company's Annual Report and Annual Report on Form 10-K, except for exhibits, can also be found on the Investor Relations section of the Company's website (<http://www.keyspanenergy.com>).**

### **Compliance with Section 16(a) of the Exchange Act**

Section 16(a) of the Exchange Act requires KeySpan's directors, executive officers and persons who own more than ten percent (10%) of a registered class of KeySpan's equity securities to file with the SEC initial reports of beneficial ownership and reports of changes in beneficial ownership of Common Stock and other equity securities of KeySpan. Executive officers, directors and greater than ten percent (10%) shareholders are required by SEC regulation to furnish KeySpan with copies of all Section 16(a) forms which they file.

To KeySpan's knowledge, based solely on review of information furnished to KeySpan, reports filed through KeySpan and representations that no other reports were required, all Section 16(a) filing requirements applicable to its directors, executive officers and greater than ten percent (10%) beneficial owners were complied with during the twelve-month period ended December 31, 2004.

### **Method and Cost of Solicitation of Proxies**

The proxies being solicited hereby are being solicited by the Board of Directors of the Company. The costs of soliciting proxies will be borne by the Company. In addition to the use of the mails, proxies may be solicited personally, by telephone or through the Internet by KeySpan directors, officers, employees and agents for no additional compensation. In addition, KeySpan will reimburse brokers, bank nominees and other institutional holders for their reasonable out-of-pocket expenses in forwarding proxy materials to the beneficial owners of the Company's Common Stock.

### **Communications with the Board**

Shareholders and other interested parties may communicate directly with the Board, any Director, group of Directors or Committee of the Board by writing to: KeySpan Corporation, One MetroTech Center, Brooklyn, New York 11201, Attention Corporate Secretary's Office and specifying to whom the correspondence should be directed. Alternatively, communications can be sent via e-mail to [boardofdirectors@keysipanenergy.com](mailto:boardofdirectors@keysipanenergy.com). These addresses are posted on the Corporation's website. The Corporate Secretary will review all such correspondence and forward to the Board of Directors, or to a particular Director or Directors, any such correspondence that deals with the functions of the Board or its Committees or that the Corporate Secretary can reasonably determine requires the attention of any Director, group of Directors or Committee of the Board.

## **Disclosure of “Broker Non-Votes” And Abstentions**

SEC rules provide that specifically designated blank spaces are provided on the proxy card for shareholders to mark if they wish either to withhold authority to vote for one or more nominees for director or to abstain on one or more of the proposals. Votes withheld in connection with the election of one or more of the nominees for director will not be counted as votes cast for or against such individuals. With respect to the proposal relating to the selection of auditors, abstentions are not counted in determining the number of votes cast in connection with this proposal since New York law requires a majority of only those votes cast “for” or “against” approval, while broker non-votes are treated as shares not entitled to vote, thus giving both abstentions and non-votes no effect. All abstentions and broker non-votes are counted towards the establishment of a quorum.

## **Confidential Voting**

KeySpan has adopted a policy to the effect that all proxy (voting instruction) cards, ballots and vote tabulations which identify the particular vote of a shareholder are to be kept secret from KeySpan, its directors, officers and employees. Accordingly, proxy cards are returned in envelopes addressed to the tabulator, EquiServe, which receives and tabulates the proxies and is independent of KeySpan. The final tabulation is inspected by inspectors of election who also are independent of KeySpan, its directors, officers and employees. The identity and vote of any shareholder shall not be disclosed to KeySpan, its directors, officers or employees, nor to any third party except (i) to allow the independent inspectors of election to certify the results of the vote to KeySpan, its directors, officers and employees; (ii) as necessary to meet applicable legal requirements and to assert or defend claims for or against KeySpan; (iii) in the event of a proxy solicitation based on an opposition proxy statement filed, or required to be filed, with the SEC; or (iv) in the event a shareholder has made a written comment on such form of proxy.

## **Other Matters**

As of the date of this Proxy Statement, KeySpan knows of no business that will be presented for consideration at the Annual Meeting of Shareholders other than the proposals discussed above. If any matter is properly brought before the meeting for action by the shareholders, proxies in the form returned to KeySpan will be voted in accordance with the recommendation of the Board of Directors or, in the absence of such a recommendation, in accordance with the judgment of the proxy holder.

## **By Order of the Board of Directors**

Robert B. Catell  
Chairman and Chief Executive Officer

**KEYSPAN CORPORATION**

**Corporate Governance Guidelines**  
(Amended and Restated January 26, 2005)

The following governance guidelines have been established by the Board of Directors of KeySpan Corporation. These guidelines, together with the Corporation's certificate of incorporation, by-laws and the charters governing the activities of the Committees of the Board, provide the framework for KeySpan's corporate governance. The Board will, not less frequently than annually, review these guidelines and the Board Committee charters.

***BOARD OF DIRECTORS***

**Role of Board and Management**

KeySpan's business is conducted by its officers and employees, under the direction of the Chief Executive Officer and subject to the oversight of the Board of Directors, with the goal of enhancing the long-term value of the Corporation for its shareholders. The Board is elected by the shareholders to oversee management and to assure that the long-term interests of the shareholders are being served by responsibly addressing the concerns of other stakeholders and interested parties including employees, customers, KeySpan's communities, government officials and the public at large.

**Functions of Board of Directors**

The Board of Directors has eight regularly scheduled meetings each year at which it reviews and discusses reports by management on the Corporation's financial and operational performance, approves and monitors KeySpan's strategic objectives and plans, and addresses policy issues facing the Corporation. Directors are expected to attend all scheduled Board and Committee meetings. In addition to its general oversight of management, the Board and its Committees also perform a number of specific functions, including, but not limited to the following:

- a. selecting, evaluating and compensating the Chief Executive Officer and overseeing Chief Executive Officer succession planning;
- b. providing counsel and oversight on the selection, evaluation, development, compensation and succession planning of other senior management;
- c. reviewing, approving and monitoring the Corporation's principal financial, operational and business strategies and other major corporate activities;
- d. identifying and assessing major risks facing KeySpan and reviewing options for their mitigation; and
- e. ensuring processes are in place for maintaining the accuracy and integrity of the Corporation's financial statements, its compliance with law and ethics, and its relationships with customers, suppliers, shareholders and the Corporation's other stakeholders.

**Director Qualifications**

Directors should possess the highest personal and professional ethics, integrity and values, and be committed to representing the long-term interests of the shareholders.

Directors must also have an inquisitive and objective perspective, practical wisdom and mature judgment. KeySpan endeavors to have a Board of Directors exhibiting diversity and representing experience at policy-making levels in business, government, education, finance and technology, and in other areas that are relevant to the Corporation's businesses.

Directors must be willing to devote sufficient time to carrying out their duties and responsibilities effectively.

Directors who also serve as chief executive officers or in equivalent positions at other companies should not serve on more than two boards of unaffiliated public companies, in addition to the KeySpan Board and their own board; and other Directors should not serve on more than four other boards of unaffiliated public companies, in addition to the KeySpan Board. Directors who serve on the Audit Committee should not serve simultaneously on the audit committees of more than three unaffiliated public companies.

The Corporate Governance and Nominating Committee shall be responsible for determining the criteria for and qualifications of Director candidates.

### **Independence of Directors**

At all times, a majority of the Directors shall be independent directors under the rules of the New York Stock Exchange, Inc. (NYSE) and the Sarbanes-Oxley Act of 2002 and the regulations promulgated thereunder. The following guidelines are established to assist the Board in determining the independence of a Director:

- a. A Director will not be considered independent if, within the preceding three years: (i) the Director was employed by KeySpan or one of its subsidiaries; (ii) an immediate family member of the Director was employed by KeySpan as an officer; (iii) the Director was employed by or affiliated with KeySpan's independent auditor; (iv) an immediate family member of the Director was employed by KeySpan's independent auditor as a partner, principal or manager; (v) the Director received more than \$100,000 in direct compensation from KeySpan or its subsidiaries, other than for Board service or pension or deferred compensation; (vi) an immediate family member of the Director received more than \$100,000 in direct compensation from KeySpan or its subsidiaries, other than for Board service or pension or deferred compensation; (vii) the Director was employed as an executive officer of another company where any of KeySpan's officers serve on that company's compensation committee; or (viii) an immediate family member of the Director was employed as an executive officer of another company where any of KeySpan's officers serve on that company's compensation committee;
- b. The following commercial or charitable relationships will not be considered to be material relationships that would impair a Director's independence: (i) if a KeySpan Director or an immediate family member of the Director is an executive officer of another company that does business with KeySpan and the annual sales to, or purchases from, KeySpan are less than the greater of \$1 million or two percent of the annual revenues of the company he or she serves as an executive officer; (ii) if a KeySpan Director is an executive officer of another company which is indebted to KeySpan, or to which KeySpan is indebted, and the total amount of either company's indebtedness to the other is less than one percent of the total consolidated assets of the company he or she serves as an executive officer; and (iii) if a KeySpan Director serves as an officer, director or trustee of a charitable organization, and KeySpan's discretionary charitable contributions to the organization are less than the greater of \$1 million or two percent of that organization's total annual charitable receipts. (KeySpan's automatic matching of employee charitable contributions will not be included in the amount of KeySpan's contributions for this purpose.) The Board will annually review all commercial and charitable relationships of Directors.
- c. For relationships not covered by the guidelines in subsection (b) above, the determination of whether the relationship is material or not, and therefore whether the Director would be independent or not, shall be made by the Directors who satisfy the independence guidelines set forth in subsections (a) and (b) above. For example, if a Director is the chief executive officer of a company that purchases products and services from KeySpan that are more than two percent of that company's annual revenues, the independent Directors could determine, after considering all of the relevant circumstances, whether such a relationship was material or immaterial, and whether the Director would therefore be considered independent.

The Corporation will disclose its determinations on Director independence in its annual proxy statements.

KeySpan will not make any personal loans or extensions of credit to Directors or officers.

The Directors shall complete and submit an annual director questionnaire to identify and assess relationships so that the Board can determine independence under these standards. The Directors also shall complete and submit an annual statement on Ethical Business Conduct to identify and assess relationships they may have with third parties (including vendors, service providers, competitors, etc.) that may impact the Corporation and could be construed as compromising the Director's independence.

#### **Size and Selection of the Board of Directors**

The Board shall consist of a number of Directors such that the Corporation is effectively managed, given the size and breadth of the Corporation's activities and the need for diversity of Board views. The number of Directors shall be fixed from time to time by the Board and recorded in the minutes of the Corporation. The Directors are elected each year by the shareholders at the annual meeting of shareholders.

The Board, upon the recommendation of the Corporate Governance and Nominating Committee, will propose candidates for election or re-election at each annual meeting of shareholders. A review of each Director's service on the Board will be conducted prior to such nomination. Shareholders may propose nominees for consideration by the Corporate Governance and Nominating Committee as set forth in Article 2.7 of KeySpan's by-laws.

It shall be the responsibility of the Corporate Governance and Nominating Committee to recommend to the Board of Directors nominees to fill Board vacancies and to replace retiring Board members. Between annual shareholder meetings, the Board may elect Directors to fill such vacancies to serve until the next annual meeting of shareholders.

#### **Board Membership of Former Executive Officers**

The Board of Directors shall not, as a general rule, have former executive employees serving on the Board. It is assumed that retiring executives will tender their resignations as officers and Directors, if applicable, simultaneously. The Board may, however, at its discretion, invite a retiring executive to serve or continue to serve as a Director.

#### **Board Performance Evaluation**

The Corporate Governance and Nominating Committee shall annually oversee the evaluation of the performance of the Board, with the participation of the full Board of Directors. As part of this review, the independent Directors may meet separately to assess the Board's performance.

#### **Director Compensation Review**

The Compensation and Management Development Committee shall have the responsibility for performing an annual review of the compensation and benefits provided to non-employee Directors. In discharging this duty, the Committee shall be guided by three goals: compensation should fairly pay Directors for work required in a corporation of KeySpan's size and scope; compensation should align Directors' interests with the long-term interests of shareholders; and the structure of the compensation should be transparent and easy for shareholders to understand. The Committee may also review industry analyses of Director's compensation and benefits to assist it in recommending any changes in the compensation and benefits provided to Directors. Any changes to the Directors compensation and benefits must be approved by the full Board.

**Director's Change in Present Job Responsibilities**

Individual Directors who experience changes in their employment, careers, affiliations with organizations or other matters, which may affect the Corporation or such Director's ability to serve effectively, have a duty to advise the Chairman of the Board of such changes. The specific circumstances will be assessed to determine if the Director's resignation from the Board should be requested.

**Retirement Age**

Directors shall retire on the date of the annual meeting of shareholders following the date of their 70th birthday.

**Term Limits**

There shall be no term limits for Directors, who may serve until their retirement age.

**Director Contact with the Corporation's Constituencies**

Communications with parties external to the Corporation (including but not limited to shareholders, accountants, the media, attorneys, vendors, service providers, etc.) shall be the responsibility of the Chief Executive Officer or delegated by the Chief Executive Officer to the appropriate officer or area of the Corporation. The Directors may be consulted from time to time for their advice, as the Chief Executive Officer so determines.

**Attendance at Annual Meeting of Shareholders**

Directors are encouraged to attend the annual meeting of KeySpan's shareholders.

**MEETINGS OF THE BOARD OF DIRECTORS**

**Selection of Meeting Agenda Items**

The Chairman and Chief Executive Officer shall establish the agenda for the Board meetings. Any Director may request inclusion of an item on the agenda. The Chairman and Chief Executive Officer may annually distribute to the Board the proposed agenda items, along with the proposed schedule of meetings, for the following year.

**Advance Distribution of Board Meeting Materials**

The Corporate Secretary shall distribute to the Directors all materials necessary to conduct an effective meeting of the Board of Directors prior to the meeting.

**Regular Attendance of Non-Directors at Board Meetings**

At the invitation and approval of the Chairman or the Chief Executive Officer, non-directors, whether or not officers of the Corporation, may attend or give presentations before the Board.

**Strategy Sessions**

At least one meeting of the Board of Directors each year shall be devoted to a review with executive management of the Corporation's strategic plan and its long range goals and direction.

## **Executive Sessions**

### **Sessions of the Board and the Chief Executive Officer**

The Directors and the Chief Executive Officer shall convene in executive session as often as is appropriate, as part of regularly scheduled meetings of the Board of Directors. Executive sessions may be requested by any Director, as well as the Chief Executive Officer.

### **Sessions of the Non-Management Directors**

The non-management Directors of the Board shall meet at least quarterly to discuss any matter or recommend any action as the non-management Directors shall deem advisable consistent with the powers of the full Board. Non-management Directors who are members of the Corporation's Executive Committee shall serve as presiding directors of these meetings on a rotating basis.

## **COMMITTEES OF THE BOARD OF DIRECTORS**

### **Number of Committees**

The Board of Directors shall designate one or more Board committees, as is necessary. There are four standing committees: the Executive Committee, the Audit Committee, the Compensation and Management Development Committee, and the Corporate Governance and Nominating Committee. All members of the Audit Committee, the Compensation and Management Development Committee, and the Corporate Governance and Nominating Committee are required to be independent, as determined in accordance with these guidelines. The current charters of each Committee shall be published on the KeySpan website. The Committee chairpersons shall report on their meetings to the full Board following each meeting of the respective Committee and the minutes of each Committee meeting shall be made available to the Board. Any Committee may, at its discretion, hold a meeting in conjunction with the full Board.

### **Committee Meeting Frequency and Length**

The Committee chairperson, in consultation with Committee members, shall determine the frequency and length of Committee meetings. There will be at least two Compensation and Management Development Committee and Corporate Governance and Nominating Committee meetings, and at least four Audit Committee meetings held annually. The Executive Committee shall only convene on an as-needed basis.

### **Committee Meeting Agendas**

The Chairman and Chief Executive Officer shall issue a schedule of meetings and schedule suggested agenda items, as requested by the Board of Directors or any Committee member.

### **Committee Member Assignments and Rotation**

Committee chairpersons and Committee members shall rotate from time to time, as recommended by the Corporate Governance and Nominating Committee and approved by the Board of Directors. Committee appointments shall be recommended by the Corporate Governance and Nominating Committee and approved by the Board of Directors as soon as practicable following the annual meeting of shareholders.

### **Reporting of Concerns to the Audit Committee**

Anyone, including a KeySpan employee, who has a concern about KeySpan, including, but not limited to, its accounting, internal accounting controls or auditing matters, may communicate that concern directly to the Audit Committee. Such communications may be confidential or anonymous, and may be e-mailed, submitted in writing, or

reported by phone to special addresses and a toll-free phone number as indicated on the Corporation's website. All such concerns will be forwarded to the Chairman of the Audit Committee. The status of all outstanding concerns, if any, addressed to the Audit Committee will be reported to the Directors on a quarterly basis. The Audit Committee may direct special treatment, including the retention of outside advisors or counsel, for any concern addressed to them. The Corporation's Ethics Policy prohibits retaliation or taking any adverse action against an employee for raising or helping to raise an integrity concern.

**Shareholder Communications with the Board**

Shareholders and other interested parties may communicate directly with the Board, any Director, group of Directors or Committee of the Board by writing to: KeySpan Corporation, One MetroTech Center, Brooklyn, NY 11201, Attention Corporate Secretary's Office and specifying to whom the correspondence should be directed. Alternatively, communications can be sent via e-mail to boardofdirectors@keyspanenergy.com. These addresses are posted on the Corporation's website. The Corporate Secretary will review all such correspondence and forward to the Board of Directors, or to a particular Director or Directors, any such correspondence that deals with the functions of the Board or its Committees or that the Corporate Secretary can reasonably determine requires the attention of any Director, group of Directors or Committee of the Board. In addition, at each meeting of the Corporate Governance and Nominating Committee, the Corporate Secretary will report on all such communications received and the response, if any, to such communication. Further, any Director may at any time review a log of all correspondence received by the Corporation that is addressed to the Board, a Director, group of Directors or a Committee of the Board and request copies of any such correspondence.

**Ethics and Conflicts of Interest**

KeySpan expects its Board of Directors, as well as all of its officers and employees, to conduct themselves and the operations and business affairs of the Corporation in a legal, ethical and socially responsible manner. The Board has adopted a Code of Ethics for Senior Financial Officers, as well as an Ethical Business Conduct Policy, both of which can be viewed on the Corporation's governance website.

**Stock Ownership Guidelines**

Directors are required to own shares of KeySpan stock (i.e common stock, deferred stock units and/or common stock equivalents) with a value equal to five times the directors' annual retainer within five years of he/she being elected to the KeySpan Board.

KeySpan's officers are required to own shares of KeySpan stock (i.e common stock, deferred stock units and/or common stock equivalents) with a value equal to a specific multiple of such officer's base salary, generally within five years of being elected to the officer position, as indicated below:

<b><u>Executive Level</u></b>	<b><u>Multiple of Base Salary</u></b>
Chief Executive Officer	5 X
Chief Operating Officer	4 X
Presidents	3 X
Executive Vice Presidents	2 X
Senior Vice Presidents	1.5 X
Vice Presidents	1 X

Officers who do not meet the ownership guidelines may be subject to various remediation measures until such compliance is achieved.

**Access to Independent Advisors**

The Board and its Committees shall have the right at any time to retain independent outside financial, legal or other advisors. In that connection, in the event the Board or any Committee retains any such advisor, the Board or the Committee shall have the sole authority to approve such advisor’s fees and other retention terms.

**Director Orientation and Continuing Education**

The Corporate Secretary shall be responsible for providing an orientation for new Directors, and for periodically providing materials or briefing sessions for all Directors on subjects that would assist them in discharging their duties.

The Corporation recognizes the value of continuing education for its Directors on corporate governance matters, industry specific matters and other matters that are relevant to the Directors’ responsibilities and KeySpan is committed to providing its Directors, whenever possible, with such continuing education opportunities. Such education may be provided in the form of written material, seminars and/or providing in-house training.

**OFFICERS**

**Chairman and Chief Executive Officer Selection**

The Board of Directors shall select an individual or individuals to hold the positions of Chairman and Chief Executive Officer, as stated in the by-laws of the Corporation. The same individual may hold both positions.

**Chief Executive Officer Evaluation**

The Compensation and Management Development Committee shall annually review the performance of the Chief Executive Officer, and establish a specific set of performance objectives for the Chief Executive Officer. These should include concerns of the shareholders, employees and customers. The Compensation and Management Development Committee shall, either as a committee or together with other independent directors (as directed by the Board of Directors), determine the Chief Executive Officer’s compensation level based on this review.

**Management Development and Succession Planning**

The Compensation and Management Development Committee shall review annually the performance of all officers, which shall include an assessment by the Chief Executive Officer of the officers’ performance. This review shall include a discussion of the officers’ future potential with the Board of Directors as part of the Corporation’s management development and succession planning.

**Board Access to Senior Management**

The Directors shall have unfettered access and are free to communicate directly with the Corporation’s management and employees on any matter of concern or questions regarding the Corporation. In order to facilitate such access and communication, it is recommended that a Director contact the Chief Executive Officer who can arrange for the Director to be put in contact with the relevant officer or employee.

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KEYSPAN CORPORATION  
AUDIT COMMITTEE  
OF THE  
BOARD OF DIRECTORS

CHARTER

(Amended and Restated January 26, 2005)

**Purpose and Authority**

The purpose of the Audit Committee is to:

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

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

**Membership**

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

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

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

### **Chairman**

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

### **Independent Auditor**

#### **General**

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

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

The Committee shall inquire regularly of the independent auditor to ascertain that it is receiving the full cooperation of management, that all information desired is provided freely, that there are no material weaknesses in the internal control structure, that no material fraud was uncovered in the course of its work and that management is diligent in conducting its business in accordance with the Corporation’s ethical standards.

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

#### **Fees and Compensation**

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

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

Although it is the intent of the Committee to pre-approve all non-audit services to be provided by the independent auditor, any inadvertent failure to do so will not be deemed a breach of any provision of this Charter if: (i) the

aggregate amount of all such non-audit services provided to the Corporation constitutes not more than five percent of the total amount of revenues paid by the Corporation to its auditor during the fiscal year in which the non-audit services are provided; (ii) such services were not recognized by the Corporation at the time of the engagement to be non-audit services; and (iii) such services are promptly brought to the attention of the Committee and approved by the Committee (or its Chairman pursuant to delegated authority) prior to the completion of the annual audit of the Corporation.

#### Review of Independent Auditor

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

- (a) Obtain and review a report by the Corporation's independent auditor describing: (i) the auditing firm's internal quality-control procedures; (ii) any material issues raised by the most recent internal quality-control review, peer review, or a review by the Public Company Accounting Oversight Board, of the auditing firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the auditing firm, and any steps taken to deal with any such issues; and (iii) to assess the auditor's independence, all relationships between the independent auditor and the Corporation;
- (b) Ensure the rotation of the lead audit partner at least every five years, and consider whether there should be regular rotation of the audit firm itself;
- (c) Confirm with any independent auditor retained to provide audit services for any fiscal year that the lead (or coordinating) audit partner (having primary responsibility for the audit), or the audit partner responsible for reviewing the audit, has not performed audit services for the Corporation in each of the five previous fiscal years of that corporation; and
- (d) Take into account the opinions of management and the Corporation's internal auditors (or other personnel responsible for the internal audit function).

#### Internal Auditing Division

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

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

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

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

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

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

### **Financial Statements and Internal Accounting Control**

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

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

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

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

The Committee shall also perform any functions required to be performed by it or otherwise appropriate under applicable law, rules or regulations, the Corporation's by-laws and the resolutions or directives of the Board, including review of any certification required to be reviewed in accordance with applicable law or regulations of the SEC.

### **Financial Reporting Process**

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

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

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

#### **Other Duties**

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

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

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

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

Periodically, the Committee shall meet separately with management.

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

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

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

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

**Administrative Procedures**

The Committee shall meet as frequently as deemed necessary by the Chairman to fulfill its responsibilities, but no less than four times during the year. A quorum shall consist of a majority of the members. Minutes of the meetings shall be kept. The regular attendance of non-members is permitted at the invitation of the Chairman. The Committee Chairman shall report the Committee's activities to the Board of Directors, including any issues that arise with respect to the quality and integrity of the Corporation's financial statements, the Corporation's compliance with legal or regulatory requirements, the performance and independence of the Corporation's independent auditor or the performance of the internal audit function.

**Limitations of Responsibilities**

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

**Annual Performance Evaluation**

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

**Compensation**

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

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**KEYSPAN CORPORATION  
COMPENSATION AND MANAGEMENT DEVELOPMENT COMMITTEE  
OF THE  
BOARD OF DIRECTORS**

**CHARTER**

(Amended and Restated February 24, 2005)

**Purpose and Authority**

The purpose of the Compensation and Management Development Committee is to:

- establish, maintain and assess the competitiveness of the Corporation's compensation philosophy and programs to ensure they are fair and equitable, designed to attract, develop, motivate and retain directors and officers; and consistent with best practices;
- review and recommend to the Board all officer appointments and promotions;
- annually review the performance of all officers, including the Chief Executive Officer, based on established corporate goals and objectives, and review and recommend to the Board their annual salary, bonus, and other forms of compensation and benefits, direct and indirect, based upon this review;
- annually approve all long term equity based compensation;
- prepare an annual report on executive compensation for inclusion in the Corporation's proxy statement, in accordance with applicable rules and regulations of the New York Stock Exchange, U. S. Securities and Exchange Commission and other applicable regulatory bodies;
- establish and maintain corporate succession plans for the Chief Executive Officer and all other officers;
- review and approve employment agreements, severance agreements, retirement arrangements, change in control agreements and any special or supplemental benefits for the Corporation's officers; and
- annually conduct a review of director compensation and make recommendations to the Board, if appropriate, in director compensation.

The Chief Executive Officer shall meet periodically with the Committee to review corporate performance, major changes in organizational plans and the performance of key officers.

The Committee is designated by the Board of Directors and receives its authority from the Board to which it reports. The Board has vested in the Committee the power and authority to carry out the responsibilities as noted in this Charter, and any other duties which the Committee deems necessary to fulfill its obligations to the Board and the shareholders of the Corporation. The Committee is authorized to select, retain and/ or replace, as needed, compensation and benefit consultants and other outside consultants, advisors, or legal counsel to provide independent advice to the Committee. In that connection, in the event the Committee retains any such consultant,

advisor or legal counsel, the Committee shall have the sole authority to approve such consultant's fees and other retention terms.

**Membership**

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

- All members are required to be determined by the Board of Directors to be "independent" under the rules of the New York Stock Exchange and the Sarbanes-Oxley Act of 2002. Additionally, no director may serve unless he or she ( i) is a " Non- employee Director" for purposes of Rule 16b- 3 under the Securities Exchange Act of 1934, as amended, and ( ii) satisfies the requirements of an " outside director" for purposes of Section 162( m) of the Internal Revenue Code.

**Chairman**

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

**Administrative Procedures**

The Committee shall meet at least twice during the year, or as frequently as deemed necessary by the Committee Chairman to fulfill its responsibilities. The regular attendance of non- Committee members is permitted at the invitation of the Committee Chairman. A quorum shall consist of a majority of the Committee members. The Committee Chairman shall report the Committee's activities and make recommendations to the Board.

**Annual Performance Evaluation**

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

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**KEYSPAN CORPORATION  
CORPORATE GOVERNANCE AND NOMINATING COMMITTEE  
OF THE  
BOARD OF DIRECTORS**

**CHARTER**

(Amended and Restated January 26, 2005)

**Purpose and Authority**

The purpose and authority of the Corporate Governance and Nominating Committee (“Committee”) is to:

- Establish qualifications and other criteria for candidates for a position on the Corporation’s Board of Directors;
- Identify individuals qualified to become directors and recommend to the Board candidates for all directorships to be elected at an annual or special meeting (including those existing directors standing for re-election) and those to be elected by the Board between meetings of shareholders;
- Oversee evaluation of the performance of the Board, with the participation of the full Board of Directors;
- Consider and recommend to the Board the composition and size of all committees of the Board of Directors;
- Develop and recommend to the Board the corporate governance principles applicable to the Corporation and recommend, if necessary, any changes to those principles;
- Consider and recommend to the Board, if appropriate, changes to the Corporation’s certificate of incorporation and by-laws;
- Review environmental matters that impact, or may impact, the Corporation and its assets, and monitor the status of the Corporation’s environmental compliance and remediation programs;
- Establish and review the Corporation’s policies with respect to employee matters, including but not limited to:
  - a) Business Ethics,
  - b) Diversity and Equal Employment Opportunity Initiatives, and
  - c) Work Safety Issues
- Review community affairs programs and the activities and efforts of the Corporation to fulfill its role as a responsible corporate citizen.

The Committee is designated by the Board and receives its authority from the Board to which it reports. The Board has vested in the Committee the power and authority to carry out its purposes and responsibilities as noted in this Charter. The Committee is authorized to select, retain and/or replace, as needed, advisors, consultants and legal counsel to provide independent advice to the Committee. In that connection, in the event the Committee retains any such advisor, consultant, or legal counsel the Committee shall have the sole authority to approve such consultant’s fees and other retention terms. The Committee shall also have the sole authority to retain and to terminate any

search firm to be used to assist it in identifying candidates to serve as directors of the Corporation, including the sole authority to approve the fees payable to such search firm and any other terms of retention.

### **Membership**

The Committee shall be comprised of three or more members of the Board of Directors. Committee members shall be appointed, continued or replaced at the discretion of the Board of Directors. In the event of the absence of any member or members from a meeting, alternate members may be designated by the Committee Chairman. All members, including alternate members, are at all times required to be determined by the Board to be “independent” directors under the then applicable rules of the New York Stock Exchange and the Sarbanes-Oxley Act of 2002 and the regulations promulgated thereunder.

The members of the Committee shall be appointed by the Board of Directors and shall serve until such member’s successor is duly elected and qualified or until such member’s earlier resignation or removal. The members of the Committee may be removed, with or without cause, by a majority vote of the Board.

### **Chairman**

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

### **Administrative Procedures**

The Committee shall meet at least twice during the year, or as frequently as deemed necessary by the Chairman to fulfill its responsibilities. The attendance of non-members is permitted at the invitation of the Committee Chairman. The Committee may also exclude from its meetings any persons it deems appropriate in order to carry out its responsibilities. A quorum shall consist of a majority of the Committee members. The Committee Chairman shall report the Committee’s activities and recommendations to the Board.

### **Board of Director Candidate Criteria and Evaluation**

In identifying and/or reviewing the qualifications of candidates for membership on the Board of Directors, the Committee shall take into account all factors it considers appropriate, which may include (a) ensuring that the Board, as a whole, is diverse and consists of individuals with various and relevant career experience, required and demonstrated technical skills, industry knowledge and experience, financial expertise (including expertise that could qualify a director as a “financial expert,” as that term is defined by the rules of the New York Stock Exchange and/or the Securities and Exchange Commission), local community relationships and (b) required individual qualifications, including personal and professional ethics, integrity and values, strength of character, practical wisdom, mature judgment, familiarity with the Corporation’s business and industry, independence of thought and an ability to work collegially. The Committee also may consider the extent to which the candidate would fill a present need on the Board.

The Committee is authorized to conduct all necessary and appropriate inquiries into the backgrounds and qualifications of potential candidates and to consider issues of independence and possible conflicts of interest of current and prospective members of the Board and executive officers, and whether a candidate represents special interests in a manner that would impair his or her ability to effectively represent the interests of all shareholders.

The Committee is authorized to review and make recommendations, as the Committee deems appropriate, regarding the composition and size of the Board, retirement provisions and/or term or age limits, all in order to ensure the Board has the requisite expertise and its membership consists of persons with sufficiently diverse and independent backgrounds to further the interests of the Corporation and its shareholders.

**Annual Evaluations**

The Committee shall annually oversee evaluation of the performance of the Board, with the participation of the full Board of Directors.

The Committee shall also perform an annual review and evaluation of the performance of the Committee. In addition, the Committee shall perform an annual review and assessment of this Charter.

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