



**K**eySpan Energy has made significant strides in our efforts to become a Premier Energy Company. In this edition of our Analyst's Report, we provide updated information on three recent activities:

- Ravenswood Acquisition
- Gas Marketing Strategy and Targets
- First Quarter Earnings

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

Sincerely,

A handwritten signature in black ink, appearing to read "Mike".

Michael J. Taunton  
Vice President  
Investor Relations

# KeySpan Energy Acquires Ravenswood

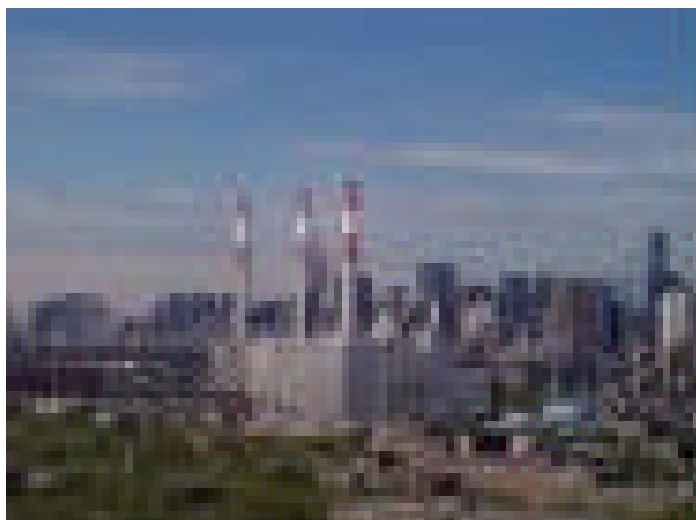
On January 28th, KeySpan Energy announced that it had won the bid to purchase Con Edison's Ravenswood electric generating plant. The deal will close in June. Con Edison was required to divest this plant as a result of electric deregulation. Con Edison broke up their generation into 3 bundles-- Arthur Kill bundle in Staten Island, Astoria bundle in Queens, and Ravenswood. All bidders were allowed to bid on all 3 bundles, however, due to market power issues, no bidder could be awarded more than one bundle.

## Competitive Purchase Price

The plant, which consists of 2,168 Megawatts of generating capability, will be purchased for \$597 million -- \$275 per Kilowatt. This purchase price is very favorable compared to the 'in-city' range of \$252-\$397 per Kilowatt (see chart below), paid by other companies.

## 2,168 Megawatts Total Generating Capacity

The Ravenswood Plant consists of three steam turbines totaling 1,742 megawatts, and 15 combustion turbines totaling 426 Megawatts. The generators were built between 1963 and 1970 and are in excellent condition. Virtually all of the generators are dual-fueled, capable of burning gas or oil, but will primarily burn gas. The plant is located on 32 acres in Long Island City, North of the Queensboro Bridge, directly across from Roosevelt Island (Insert Picture). KeySpan will own 28 of the acres and has the potential to build another 250 Megawatts of generation on site.



### In City Capacity

#### *Generation Capacity*

(MW)

<b>Ravenswood Bundle</b>	<b>2,168*</b>
Arthur Kill Bundle	1,433
Astoria Bundle	1,855
Other	2,431
<b>Total</b>	<b>7,887</b>
Forecasted In-City Load	10,090
In-City Requirement (80%)	8,072
<b>1999 In-City Shortfall</b>	<b>(185)</b>

\* 27% of In-City Generation

## Value Components

The Ravenswood acquisition is valuable to KeySpan for a number of reasons. The primary driver of the acquisition was the capacity. New York City is a 'load pocket,' which means that there must be 'in city' generation to support the load. The Public Service Commission mandates that 80% of the capacity in New York must come from 'in city' generation. For this summer, the forecast shows demand of more than 8,000 Megawatts must come from in-city generation.

Right now, there is a capacity shortfall since there is only 7,887 Megawatts of 'in city' capacity. Ravenswood's 2,168 Megawatts represent 27% of the New York capacity, and as previously mentioned, we have the ability to build an additional 250 Megawatts.

## Solid Financial Returns

Based on an expected capacity price of \$105 per Kilowatt, KeySpan should realize returns in excess of 20% in the early years

of this investment. Over time, as the capacity market gets more competitive and prices come down, we are anticipating returns in the 12% range. We have established a financing facility with Merrill Lynch and are looking to finance 65% of the plant with debt. By closing the deal this summer, we are anticipating an earnings contribution of at least 20 cents per share, and should more than double the contribution in the year 2000. Our goal is to add this plant without increasing our internal expense levels.

### **Future Opportunities**

This acquisition increases KeySpan electric generating capability by 50% to more than 6,000 Megawatts and makes us the largest generator in New York State. We are looking to build another 250 Megawatts at Ravenswood, with plans for a similar amount in Long Island within the next few years. We are also looking at other Northeast plants.

### **Recent Generating Asset Sales**

Company <i>(Buyer)</i>	Assets <i>(Seller)</i>	Purchased <i>(MW)</i>	Capacity <i>Price \$/kW</i>
Sithe Energies	Boston Edison Co.	2,000	268
Southern Energy	Eastern Utilities Assoc.	280	268
US Generating	NEES	4,009	397
Wisvest Corp.	United Illuminating Co.	1,078	252
Orion	Con Ed Astoria	1,855	296
NRG	Con Ed Arthur Kill	1,433	347
KeySpan Energy	Con Ed Ravenswood	2,168	275

## **An Interview with Robert Fani,** *Senior Vice President, Gas Marketing & Sales*

### **What is KeySpan's Marketing Strategy?**

Our growth strategy for the gas utility is based upon becoming a world class provider. Prior to the merger, both Brooklyn Union and The Long Island Lighting Company were known for their service levels. KeySpan's goal is to build upon our service record and achieve 90% customer satisfaction.

Historically, the aggregate growth rate of the two companies has been between 2% and 3%. However, with our new initiatives, we are looking at an initial 4% growth rate and have expectations of doubling the historic growth rate to 6% in the near future.

The challenge is to translate our efforts into profits. Based on the results so far, we are certain we can quickly grow our earnings. We have experienced tremendous success since the merger was completed last May. For the 7-month stub period in 1998, we achieved an 8% increase in residential leads in New York and a dramatic 66% increase in Long Island leads. We have begun to reap the benefits of these leads through increased sales. We realized a 10% increase in Gross Profit Margin in New York City and double the increase -- 21%-- in Long Island.

### **What is the Growth Potential on Long Island? In New York City?**

Brooklyn Union now provides gas service to Long Island, in addition to 3 of the boroughs in New York City. This expands our territory from a densely populated 187 square miles to a vast 1,400 square mile island ripe for expansion. We still have the potential for \$147 million of additional gross profit margin in Brooklyn Union of New York. In Long Island, the potential is much greater - more than \$408 million of additional gross profit margin. The total potential of \$555 million represents a 60% increase from our current level of profit margin. Additionally, there are dozens of new developments that will add to this potential, and virtually all will use natural gas

### **What are the Economic Benefits to the Company?**

There are more than 670,000 potential customers in Long Island. In fact, there are 160,000 customers in Long Island who have gas in their homes for cooking or hot water, but are NOT presently heating with gas. These conversions require little or no cost to the Company. We are focusing our efforts on this very attractive market and hope to double the number of conversions in 1999. Over 70% of our anticipated 1999 Long Island conversions fall into this category. In these cases we have a pay back of 1 year, including incentives, and a return of over 200%.

Twenty five percent of our 1999 residential conversions will be customers who have access to a main but have no current service. Our return is a healthy 17% with a 4 year pay back. Only 5% of our 1999 Long Island conversions are those with no main and no service. With these parameters we would be selective in our incentives and try to hook up other customers to the same main to maximize returns.

Let's not forget the great potential in the commercial sector. Using a commercial warehouse (needing service only) as an example, we have a pay back of less than 3 years and a healthy return of 27% on our investment.



To support this anticipated growth, we have already begun to reinforce and build our gas infrastructure. We are in the process of putting in 68 miles of new mains and more than 9,000 new services. It is important to note that the incremental cost of this program is only \$8 million.

We anticipate overall returns in excess of 20% for customers who are near a main, and will invest the profits in strategic areas where gas is not readily available. The key here is to manage the growth in each of these segments to insure we meet our overall profitability targets.

<i>New York</i>		
	Saturation	Remaining Potential
<b>Residential</b>	80%	110,000
<b>Multifamily</b>	52%	10,000
<b>Commercial</b>	73%	26,000
		<b>146,000</b>

<i>Long Island</i>		
	Saturation	Remaining Potential
<b>Residential</b>	28%	640,000
<b>Multifamily</b>	28%	1,800
<b>Commercial</b>	56%	26,000
		<b>670,800</b>

**What Marketing efforts have taken place since the merger?**

We have implemented an aggressive, targeted advertising and incentive campaign, especially on Long Island. Our theme is 'Lifetime Energy,' which highlights the fact that once we get a customer, we keep them for life. An aggressive direct mail program complements our advertisements. These programs have resulted in a dramatic increase in leads.

We are offering numerous incentives to attract new customers. Our free boiler program, in the commercial market, has been a huge success. And we offer other incentives such as 0% financing, cash rebates and low introductory gas rates.

Our sales force is equipped with technological tools to help them manage the sales process. Each Sales Representative is empowered to make profitability decisions on the spot. Every team member is supported by an advanced database model on their laptop computer, and has access to our ONYX marketing database.

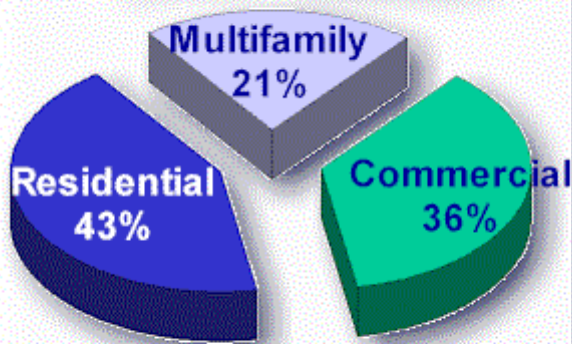
Lastly, we have also developed new alliances with the trade -- plumbers and HVAC contractors have become an extension of our sales force in the residential market.

For 1999, we have set an aggressive goal of more than \$30 million in Gross Profit margin, approximately half coming from each of our 2 gas utilities. This is a 25% increase from our pre-merger levels in 1997, and a healthy increase of 15% from our 1998 levels.

To achieve this goal, we have tied our employee's compensation to our financial targets. Our employee focus will be on Profit Margin, NOT Sales.



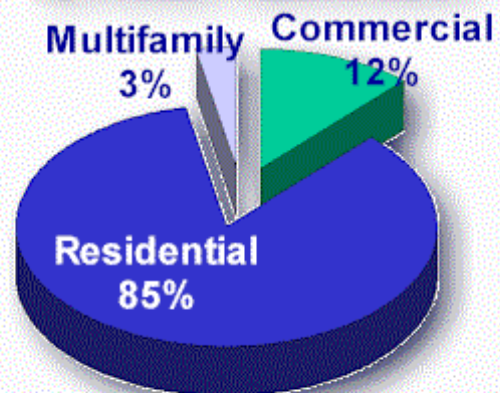
## New York \$147 Million



Gross Profit  
Margin  
Potential

We are confident that we will achieve our targets. The Long Island economy is thriving, and the population is growing. There has been significant job growth, a dramatic increase in construction, and Long Islanders have the highest household income in the country. In New York City, job growth has been 10% over the past 5 years, taxes have been reduced, and major construction projects have been implemented. These demographics point to a service territory with significant growth potential.

## Long Island \$408 Million





## High Marks in Electric Reliability

A major milestone in electric reliability on Long Island has been achieved thanks to KeySpan's Transmission and Distribution (T&D) employees.

For the first time since electric reliability data has been tracked by the PSC. Among utilities, LIPA's electric customers experienced the best service in the state in terms of the average frequency (15.5 months) between outages and average duration (76 minutes) of sustained customer outages during 1998. The next best in the state were Rochester Gas and Electric for frequency (14.4 months) and Orange and Rockland for duration (95 minutes).

This is an accomplishment in which all of KeySpan Energy takes great pride. Bob Catell, Chairman and CEO said of the achievement, "This is a sure sign that our proactive electric reliability improvement programs are working. The skill, hard work and dedication of our employees in the T&D area gives me a feeling that there are even greater things to come as we meet the challenges ahead of us."

The good news also translates into money. Under the terms of KeySpan's Management Services Agreement with LIPA, KeySpan received an incentive bonus of \$1.72 million in 1998 (prorated by 7/12 from \$2.95 million due to the June-December calendar year)

# KeySpan Reports Earnings For First Quarter 1999



On April 29, 1999 KeySpan Energy (NYSE:KSE) reported earnings of \$134.5 million, or \$.94 per share, for the first quarter of 1999 (all per share amounts are on a diluted basis).

"Our earnings met our expectations," said Robert B. Catell, Chairman and CEO of KeySpan Energy. "We had solid performances from our gas-distribution and

electric-service operations. The gas-distribution business contributed \$.84 per share, clearly reflecting sales growth of 4% on a weather-normalized basis. Our electric-service business earned \$.12 per share. Both businesses have realized the initial benefits of our synergy-savings efforts."

Earnings from gas-distribution and electric-services operations were \$137.3 million, or \$.96 per share. Earnings for the comparable quarter a year ago were \$103.0 million, or \$.85 per share. In accordance with purchase-accounting rules, last year's results included only the gas and electric operations conducted by Long Island Lighting Company (LILCO), with which KeySpan merged in May 1998.

Other business segments essentially broke even, reflecting the effect of extremely low gas prices on gas-exploration and production operations and the start-up nature of international energy investments and energy-services operations. "We believe that The Houston Exploration Company is particularly well-positioned for revenue growth," Catell said, "especially if the recent increase in gas prices is sustained." The Houston Exploration Company (NYSE:THX) has natural-gas reserves of approximately

480 BCFe, primarily in the Gulf of Mexico.

"Overall, results for the first quarter indicate that KeySpan has made good progress towards meeting its earnings goals for 1999," said Catell. "We look forward to significant earnings from our investment in Ravenswood later this year." As previously announced, in January 1999, KeySpan agreed to purchase the 2,168 MW Ravenswood electric generating facility, located in Long Island City, Queens, from Con Edison for \$597 million. The plant's capacity is vital to meeting New York City's energy needs. The purchase is expected to be completed this summer.

In other news, on March 31, 1999, KeySpan's Board of Directors declared a quarterly cash dividend of \$.445 per share on the outstanding common stock payable May 1, 1999, to shareholders of record on April 14, 1999. Further, as previously reported, the Board of Directors has authorized the use of \$1 billion to repurchase common stock.

1999 First Quarter Results	
Consolidated	
(\$ in Millions Except for Per Share Amounts)	
Revenues	955.5
Operating Income	239.5
Net Income	143.2
Earnings for Common	134.5
Shares Outstanding (000)	142,891
EPS	\$0.94
Dividend Declared	\$0.445

# Quarterly Segmented Highlights

Three Months Ended March 31, 1999

(In Thousands of Dollars)

	Gas Distribution	Electric Services	Gas Exploration & Production	Energy Related Investments	Energy Related Services	Other	Total
Revenue	715,830	172,098	26,520	-	41,432	-	955,880
Cost of Gas	311,254	-	-	-	-	-	311,254
Operations & Maintenance	99,081	92,167	5,959	1,089	43,228	1,558	243,082
Depreciation	23,871	9,928	17,057	332	769	5,845	57,802
Amortization	384	-	-	-	-	-	384
Operating Taxes	72,453	28,991	33	7	3	2,406	103,893
Intercompany Expense (Profit)	3,049	10,645	-	-	-	(13,694)	-
Total Expense	510,092	141,731	23,049	1,428	44,000	-3,885	716,415
Operating Income	205,738	30,367	3,471	(1,428)	(2,568)	3,885	239,465
Earnings for Common Stock	120,690	16,585	478	302	-1,440	-2,083	134,532
EPS	\$0.84	\$0.12	\$0.00	\$0.00	(\$0.01)	(\$0.01)	\$0.94

Three Months Ended March 31, 1998

(Combined Basis\*)

(In Thousands of Dollars)

	Gas Distribution	Electric Services	Gas Exploration & Production	Energy Related Investments	Energy Related Services	Other	Total
Revenue	759,967	555,682	32,884	309	14,791	-	1,363,633
Cost of Gas & Fuel	331,716	166,024	-	-	-	-	497,740
Operations & Maintenance	121,935	100,083	6,498	1,372	20,213	(206)	249,895
Depreciation	21,087	33,504	19,314	-	287	-	74,192
Amortization	3,626	(39,870)	-	-	-	-	(36,244)
Operating Taxes	73,368	92,403	64	13	-	494	166,342
Total Expense	551,732	352,144	25,876	1,385	20,500	288	951,925
Operating Income	208,235	203,538	7,008	-1,076	-5,709	-288	411,708
Earnings for Common Stock	120,261	63,449	4,333	-666	-3,657	-382	183,338

\* Combined Results: Keyspan Energy was formed by the merger of Brooklyn Union Gas and The Long Island Lighting Company on May 28, 1998. Combined results for the quarter ended 3/31/98 are given on a proforma basis.



## ***Year 2000 Readiness***

**T**he New York State Public Service Commission (PSC) has directed that all New York State utilities be Y2K compliant by July 1999. At KeySpan Energy, a Corporate Program Office has been set up to manage the company's efforts toward compliance and KeySpan Energy expects to meet the PSC compliance date.

The Corporate Program Office has identified 18 processes that are critical to the successful continuation of the company's business. Mission critical processes have been defined as any process that, if interrupted could impact operations, threaten public safety or result in financial exposure.

"We are about 70% complete in fixing and testing all of our systems." Said Rick Siegel, Vice President of Technology Operation and Corporate Year 2000 Officer. "We anticipate that there will be very few gas or electric service interruptions, and we expect to continue providing service to our customers. However, in the event of an unexpected Y2K glitch, any disruption will be temporary and contingency plans will be in place in all areas."

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