

KeySpan Energy Delivery of New York

Statement of Operating Income, Rate Base, and Rate of Return

Twelve Months Ending March 31, 2008

\$(000)

	Company Filed Rate Year	Adj. No.	Staff Adjustment	Staff Adjusted Rate Year	Proposed Rate Year	Adjusted Rate Year
Operating Revenues						
Gas Sales	\$ 2,339,023	1	\$ 20,970	\$ 2,359,993	\$ 8,729	\$ 2,368,722
Other Operating Revenue	18,589			18,589		18,589
	2,357,612		20,970	2,378,582	8,729	2,387,311
Operation & Maintenance Expenses	1,955,784	p.2	(39,406)	1,916,378	131	1,916,509
Depreciation	110,074	p.3	(27,885)	82,189		82,189
Amortizations	24,478	p.4	(12,122)	12,356		12,356
Taxes Other Than Income Taxes	195,738		-	195,738		195,738
Total Operating Expenses	2,286,074		(79,413)	2,206,661	131	2,206,792
Operating Income before Income Taxes	71,538		100,383	171,921	8,598	180,519
State Income Tax	838	p.6	9,491	10,328	776	11,105
Federal Income Tax	5,154	p.7	33,464	38,618	2,738	41,356
Utility Operating Income	\$ 65,545		\$ 57,429	\$ 122,974	\$ 5,084	\$ 128,058
Rate Base	\$ 1,974,005	p.9	\$ (123,718)	\$ 1,850,288		\$ 1,850,288
Rate of Return	3.32%			6.65%		6.92%

KeySpan Energy Delivery of New York

Operations & Maintenance Expenses
 Twelve Months Ending March 31, 2008
 \$(000)

	Company Rate	Adj.	Staff	Staff Adjusted
	Year Expense	No.	Adjustment	Rate Year
Gas Costs	\$ 1,607,526			\$ 1,607,526
Labor	117,802	2	(1,850)	115,952
Incentive Programs & Rebates	2,656			2,656
Other Employee Related Exp. & Benefits	2,973			2,973
Health & Hospitalization	14,143			14,143
401k Match	2,811			2,811
Advertising	2,634			2,634
Building Services	9,942			9,942
Collection Agency Fees	2,509			2,509
Computer Software Purchases	3,428			3,428
Contract Labor	9,433			9,433
Contributions, Tickets & Sponsorships	-			-
Dues & Memberships	960			960
Fleet Leasing	2,934			2,934
Franchise Requirements	2,152			2,152
Insurance	6,414			6,414
Lock Box	463			463
Materials & Supplies	5,812			5,812
New York Facilities	8,307			8,307
OPEB's	21,926			21,926
Other	13,694			13,694
Paving	3,723			3,723
Payroll Taxes	4,929			4,929
Pensions	17,898			17,898
Permits	1,439			1,439
Postage	5,808			5,808
PSC Assessment Fees	7,105			7,105
Purchased Services	23,912			23,912
Service Company Asset Recovery Charge	-			-
Telecommunications	3,633			3,633
Transportation	5,004			5,004
Transportation - Liquid Fuels	1,263			1,263
Uncollectibles	9,982	3	(272)	9,710
Accounting Change	(2,821)			(2,821)
Program Changes	35,389	4.5	(5,366)	30,023
Unbundling Adjustment	-	6	(13,505)	(13,505)
Cost Update/Inflation Adjustment	-	7	(15,530)	(15,530)
Labor Productivity Adjustment	-	8	(1,724)	(1,724)
Non-Labor Productivity Adjustment	-	9	(1,159)	(1,159)
Total Operation & Maint. Exp.	\$ 1,955,784		\$ (39,406)	\$ 1,916,378

KeySpan Energy Delivery of New York
Depreciation
Twelve Months Ending March 31, 2008
\$(000)

	Company Rate	Adj.	Staff	Staff Adjusted
	Year Expense	No.	Adjustment	Rate Year
Depreciation Expense	\$ 87,062			\$ 87,062
Depreciation Expense of Corporate Services Assets	3,205			3,205
Add:				
Depreciation related to Accounting changes proposed by Mr. Aikman based on 12/31/05 Plant Balances	18,555	10	(22,006)	(3,451)
Depreciation related to Accounting changes proposed by Mr. Aikman on Plant additions (4/1/07 - 3/31/08)	1,252	11	(5,879)	(4,627)
Total	\$ 110,074		\$ (27,885)	\$ 82,189

KeySpan Energy Delivery of New York

Amortizations

Twelve Months Ending March 31, 2008

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	Company Rate Year Expense	Adj. No.	Staff Adjustment	Staff Adjusted Rate Year
Amortization Merger Costs	\$ 9,569			\$ 9,569
Amortization Property Taxes	5,542	12	(5,542)	-
Amortization Environmental Costs	<u>9,367</u>	13	<u>(6,580)</u>	<u>2,787</u>
Total	<u>\$ 24,478</u>		<u>\$ (12,122)</u>	<u>\$ 12,356</u>

KeySpan Energy Delivery of New York

Taxes Other Than Income Taxes
 Twelve Months Ending March 31, 2008
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	Company Rate	Adj.	Staff	Staff Adjusted
	Year Expense	No.	Adjustment	Rate Year
Local				
Real Estate/Special Franchise	\$ 16,100			\$ 16,100
Special Franchise	90,664			90,664
Municipal Gross Revenue	68,174			68,174
State				-
Franchise Gross Income -185a	14,411			14,411
NYS Excise Tax	23			23
MTA Surcharge	2,004			2,004
Unemployment Insurance	318			318
Sales and Use	117			117
Other	88			88
Federal				-
FICA	3,722			3,722
Unemployment Tax	117			117
Total	\$ 195,738		\$ -	\$ 195,738

KeySpan Energy Delivery of New York

State Income Taxes

Twelve Months Ending March 31, 2008

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	Company Rate Year Expense	Adj. No.	Staff Adj.	Staff Adjusted Rate Year	Proposed Rate Increase	Adjusted Rate Year
Taxable Net Income	\$ 71,538	p.1	\$ 100,383	\$ 171,921	\$ 8,598	\$ 180,519
Interest Expense	62,261	p.8	(5,638)	56,622		56,622
Operating Income Before Taxes	9,277		106,021	115,298	8,598	123,896
Flow-Thru Items						
Additions						
Non Deductible Meals and Entertainment	1			1		1
Book Depreciation In Excess of Tax Depreciation	-			-		-
	<u>1</u>			<u>1</u>		<u>1</u>
Deductions						
Medicare cash proceeds	-	14	920	934		934
Income Subject to Tax	<u>9,278</u>		<u>105,101</u>	<u>114,365</u>	<u>8,598</u>	<u>122,963</u>
Income Tax Provision @ 9.03%	<u>\$ 838</u>		<u>\$ 9,491</u>	<u>\$ 10,327</u>	<u>\$ 776</u>	<u>\$ 11,104</u>
Normalized Items						
Additions						
Medicare Income	\$ 1,804			1,804		1,804
Gas Cost Deferred	-			-		-
Pension Cost	-			-		-
Bad Debts	-			-		-
Balancing Account	-			-		-
Merger Cost Deferral/Amortization	9,569			9,569		9,569
MTA Amortization	-			-		-
Performance Shares	592			592		592
FAS 106	-			-		-
Premium/Discount - Refinancing	1,565			1,565		1,565
Relocation of Mains	-			-		-
Environmental Clean Up Cost Expenditures	-			-		-
Deferred Tax Rate	-			-		-
CIAC Deferral	3			3		3
Book Depreciation - Current Rates	90,267			90,267		90,267
Book Depreciation - Proposed Rates	19,807	15	(27,885)	(8,078)		(8,078)
Cost of Removal Amortization	751			751		751
Senior Securities Expense Amortization	1,565			1,565		1,565
Property Tax Amortization	5,542	16	(5,542)	-		-
Environmental Clean Up Cost Amortization	9,367	17	(6,580)	2,787		2,787
	<u>140,832</u>		<u>(40,007)</u>	<u>100,825</u>		<u>100,825</u>
Deductions						
Environmental Clean Up Cost Expenditures	58,104			58,104		58,104
Tax Depreciation	114,537	18	(628)	113,909		113,909
Removal Costs Expenditures	9,658			9,658		9,658
Lien Date Property Taxes	415			415		415
	<u>182,714</u>		<u>(628)</u>	<u>182,086</u>		<u>182,086</u>
Net Timing Differences	(41,882)		(39,379)	(81,261)		(81,261)
Taxable Income	(32,604)		65,722	33,104	8,598	41,702
Current State Income Tax Expense @ 9.03%	(2,944)		5,935	2,989	776	3,766
Adjustment: Ratemaking Excess	-		-	-	-	-
	(2,944)		5,935	2,989	776	3,766
Deferred State Income Tax Expense @ 9.03%	(3,782)		(3,556)	(7,338)		(7,338)
Total State Income Tax	838		9,491	10,327	776	11,104

KeySpan Energy Delivery of New York

Federal Income Taxes

Twelve Months Ending March 31, 2008

\$(000)

	Company Rate Year Expense	Adj. No.	Staff Adj.	Staff Adjusted Rate Year	Proposed Rate Increase	Adjusted Rate Year
Taxable Net Income	\$ 71,538	p.1	\$ 100,383	\$ 171,921	\$ 8,598	\$ 180,519
Interest Expense	62,261	p.8	(5,638)	56,622		56,622
Operating Income Before Taxes	9,277		106,021	115,298	8,598	123,896
<u>Flow-Thru Items</u>						
<u>Additions</u>						
Non Deductible Meals and Entertainment	1			1		1
Book Depreciation In Excess of Tax Depreciation				-		
Current Depreciation Rates	4,375			4,375		4,375
Proposed Depreciation Rates	1,912			1,912		1,912
	6,288		-	6,288	-	6,288
<u>Deductions</u>						
Medicare cash proceeds		14	920	920		920
New York State Income Tax Provision	838	p.6	9,491	10,328	776	11,105
	838		10,411	11,248	776	12,025
Income Subject to Tax	14,727		95,611	110,338	7,822	118,160
Income Tax Provision @ 35%	\$ 5,154		\$ 33,464	\$ 38,618	\$ 2,738	\$ 41,356
<u>Normalized Items</u>						
<u>Additions</u>						
Medicare Income	1,804			1,804		1,804
Merger Cost Deferral/Amortization	9,569			9,569		9,569
Performance Shares	592			592		592
CIAC Deferral	3			3		3
Book Depreciation - Current Rates	90,267			90,267		90,267
Book Depreciation - Proposed Rates	19,807	15	(27,885)	(8,078)		(8,078)
Cost of Removal Amortization	751			751		751
Senior Securities Expense Amortization	1,565			1,565		1,565
Property Tax Amortization	5,542	16	(5,542)	-		-
Environmental Clean Up Cost Amortization	9,367	17	(6,580)	2,787		2,787
	139,267		(40,007)	99,260	-	99,260
<u>Deductions</u>						
Environmental Clean Up Cost Expenditures	58,104			58,104		58,104
Tax Depreciation	107,264	18	(628)	106,636		106,636
Removal Costs Expenditures	9,658			9,658		9,658
Lien Date Property Taxes	415			415		415
Deferred State Tax Provision	(3,782)	p.6	(3,556)	(7,338)		(7,338)
	171,659		(4,184)	167,475	-	167,475
Net Timing Differences	(32,392)		(35,823)	(68,215)	-	(68,215)
Taxable Income	(17,665)		59,788	42,123	7,822	49,944
Current Federal Income Tax Expense @ 35%	(6,183)		20,926	14,743	2,738	17,481
Deferred Federal Income Tax Expense @ 35%	(11,337)		(12,538)	(23,875)	-	(23,875)
Total Federal Income Tax	\$ 5,154		\$ 33,464	\$ 38,618	\$ 2,738	\$ 41,356

KeySpan Energy Delivery of New York

Calculation of Interest Expense

Twelve Months Ending March 31, 2008

\$(000)

	Company Filed Rate Year	Adj. No.	Staff Adj.	Staff Adjusted Rate Year
Rate Base	\$1,974,005	19	\$ (123,718)	\$1,850,288
Interest Bearing CWIP		20	11,923	11,923
Earnings Base	<u>\$1,974,005</u>		<u>\$ (111,795)</u>	<u>\$1,862,211</u>
Weighted Cost of Debt.	3.15%	21	-0.11%	3.04%
Interest Exp.	62,261		(5,638)	56,622
Add Gain on Required Debt				
Total Interest Deduction	<u>\$ 62,261</u>		<u>\$ (5,638)</u>	<u>\$ 56,622</u>

KeySpan Energy Delivery of New York

Calculation of Average Rate Base
Twelve Months Ending March 31, 2008
\$(000)

	Company Filed Rate Year	Adj. No.	Staff Adjustment	Staff Adjusted Rate Year
Utility Plant-Gas:				
Gas Plant	\$ 2,908,556	22	\$ (9,831)	\$ 2,898,725
Noninterest Bearing CWIP	14,621			14,621
Reserve for Depreciation	(984,842)	23	12,368	(972,474)
	1,938,335		2,537	1,940,872
Gas Plant - charged from Corporate Services	74,957			74,957
Noninterest Bearing CWIP - charged from Corp. Svcs	2,240			2,240
Reserve for Depreciation - charged from Corp. Services	(33,355)			(33,355)
Net Plant	1,982,177		2,537	1,984,714
Rate Base Adjustments:				
Deferred Merger Costs to Achieve	4,634	24	(4,634)	-
Deferred SIR Expenditures	90,669	25	(90,669)	-
Unamortized Senior Securities' Expense	19,942			19,942
Unamortized Property Tax Costs	36,025	26	(36,025)	-
Unamortized Deferred Assets - Other	38,496			38,496
Deferred Income Taxes	(353,013)	27-30	51,811	(301,202)
Sub-Total	(163,247)		(79,517)	(242,764)
Excess Earnings Base Capitalization Adj.	(9,491)	p.10	52,707	43,216
Net Rate Base Adjustments	(172,738)		(26,811)	(199,549)
Gas Storage Inventory				
Prepayments	112,714	31	(88,974)	23,740
Materials and Supplies	9,568	32	(600)	8,968
Cash Working Capital Allowance	42,284	p.11	(9,870)	32,415
Total Working Capital	164,566		(99,444)	65,123
Rate Base	\$ 1,974,005		\$ (123,718)	\$ 1,850,288

KeySpan Energy Delivery of New York
 Historic Earning Base / Capitalization Comparison
 Twelve Months Ending December 31, 2005
 \$(000)

	Company Filed Historic Year	Adj. No.	Staff Adjustment	Staff Adjusted Rate Year
<u>Average Capitalization</u>				
Long-Term Debt	\$ (651,917)			\$ (651,917)
Customer Deposits	(31,155)			(31,155)
Common Equity	(1,021,291)	33	30,000	(991,291)
Investments in Subsidiaries & Non-Utility Property	54,135			54,135
Intercompany Notes Payable (net of Notes Receivable)	(308,512)			(308,512)
Intercompany Accounts Payable (net of Accounts Receivable)	(47,805)	34	10,131	(37,674)
Transition and Gas Balancing Accounts	(17,893)			(17,893)
Deferred Regulatory Liabilities - Interest Bearing	(30,171)			(30,171)
Total	<u>\$ (2,054,609)</u>		<u>\$ 40,131</u>	<u>\$ (2,014,478)</u>
<u>Average Earnings Base</u>				
Property Base	\$ 1,501,246	35	(88,974)	\$ 1,412,272
Working Capital	550,931	36	(3,864)	547,067
Construction Work in Progress - Interest Bearing	11,923			11,923
Total	<u>\$ 2,064,100</u>		<u>\$ (92,838)</u>	<u>\$ 1,971,262</u>
Excess Earning Base over Capitalization	<u>\$ 9,491</u>		<u>\$ (52,707)</u>	<u>\$ (43,216)</u>

KeySpan Energy Delivery of New York

Computation of Cash Working Capital Allowance

Twelve Months Ending March 31, 2008

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	Company Filed Rate Year	Adj. No.	Staff Adjustment	Staff Adjusted Rate Year
Operation and Maintenance Expenses	\$ 1,955,784		\$ (39,406)	\$ 1,916,378
Less:				
Purchased Gas	1,607,526		-	1,607,526
Uncollectible Losses Allowance	9,982	p.2	(272)	9,710
Pension	-	37	17,898	17,898
OPEBs	-	38	21,926	21,926
	<u>1,617,509</u>		<u>39,552</u>	<u>1,657,060</u>
Net	<u>338,276</u>		<u>(78,958)</u>	<u>259,318</u>
Cash Allowance at 1/8 of Net O&M	42,284		(9,870)	32,415
Plus				
Purchased Gas Cash Allowance at 31.82/365*	-		-	-
Cash Working Capital	<u>\$ 42,284</u>		<u>\$ (9,870)</u>	<u>\$ 32,415</u>

* KeySpan proposes to move this to the GAC

KeySpan Energy Delivery of New York**Company Proposed Capital Structure**

Twelve Months Ending March 31, 2008

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	PRINCIPAL	RATIO	COST RATE	WEIGHTED COST
Long-Term Debt	\$ 1,040,500	48.70%	6.39%	3.11%
Customer Deposits	28,173	1.32%	3.00%	0.04%
Total Debt	1,068,673	50.02%		3.15%
Common Equity	1,067,794	49.98%	11.00%	5.50%
Total Capitalization	\$ 2,136,467	100.00%		8.65%

KeySpan Energy Delivery of New York**Staff Proposed Capital Structure**

Twelve Months Ending March 31, 2008

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	PRINCIPAL	RATIO	COST RATE	WEIGHTED COST
Long-Term Debt	\$ 1,104,340	51.69%	5.41%	2.80%
Short-Term Debt	90,800	4.25%	5.35%	0.23%
Customer Deposits	9,828	0.46%	3.65%	0.02%
Total Debt	1,204,967	56.40%		3.04%
Common Equity	931,500	43.60%	8.90%	3.88%
Total Capitalization	\$ 2,136,467	100.00%		6.92%

KeySpan Energy Delivery of New York

Computation of Recommended Additional Revenue Requirement

Twelve Months Ending March 31, 2008

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Average Rate Base	\$ 1,850,288
Rate Of Return	<u>6.92%</u>
Total Return Required	128,058
Less Earned Return	<u>122,974</u>
Deficiency in Required Return	5,084
Retention Factor*	<u>58.24%</u>
Authorized Revenue Increase	<u><u>\$ 8,729</u></u>

* Based upon the following:

	<u>PROOF</u>	<u>Base Rates</u>
Sales Revenues	100.00%	\$ 8,729
Less: Uncollectibles	<u>1.50%</u>	<u>131</u>
Subtotal	98.50%	8,598
Less:		
State Income Taxes	8.89%	776
Federal Income Tax At 35.00%	<u>31.36%</u>	<u>2,738</u>
Retention Factor	<u>58.24%</u>	<u>\$ 5,084</u>