

KeySpan Energy Delivery of Long Island
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	\$ 1,432,485	1	\$ 1,422	\$ 1,433,907	\$ 67,137	\$ 1,501,044
Other Operating Revenue	21,908			21,908		21,908
	<u>1,454,394</u>		<u>1,422</u>	<u>1,455,816</u>	<u>67,137</u>	<u>1,522,952</u>
Operation & Maintenance Expenses	1,176,890	p.2	(7,068)	1,169,821	416	1,170,238
Depreciation	72,452	p.3	(10,877)	61,575		61,575
Amortizations	15,445	p.4	(11,030)	4,415		4,415
Taxes Other Than Income Taxes	117,291		-	117,291		117,291
Total Operating Expenses	<u>1,382,078</u>		<u>(28,975)</u>	<u>1,353,102</u>	<u>416</u>	<u>1,353,519</u>
Operating Income before Income Taxes	<u>72,316</u>		<u>30,397</u>	<u>102,713</u>	<u>66,721</u>	<u>169,434</u>
State Income Tax	913	p.6	2,386	3,299	6,025	9,324
Federal Income Tax	3,219	p.7	8,414	11,633	21,244	32,877
Utility Operating Income	<u>\$ 68,184</u>		<u>\$ 19,597</u>	<u>\$ 87,780</u>	<u>\$ 39,452</u>	<u>\$ 127,233</u>
Rate Base	<u>\$ 1,658,624</u>	p.9	<u>\$ (55,011)</u>	<u>\$ 1,603,613</u>		<u>\$ 1,603,613</u>
Rate of Return	<u>4.11%</u>			<u>5.47%</u>		<u>7.93%</u>

KeySpan Energy Delivery of Long Island

Operations & Maintenance Expenses

Twelve Months Ending March 31, 2008

\$(000)

	Company Rate	Adj.	Staff	Staff Adjusted
	Year Expense	No.	Adjustment	Rate Year
Gas Cost	\$ 1,007,021			\$ 1,007,021
Labor	60,176			60,176
Incentive Programs & Rebates	1,783			1,783
Other Employee Related Exp. & Benefits	4,106			4,106
Health & Hospitalization	7,223			7,223
401k Match	1,075			1,075
Advertising	2,802			2,802
Building Services	2,783			2,783
Collection Agency Fees	528			528
Computer Software Purchases	2,044			2,044
Contract Labor	4,364			4,364
Contributions, Tickets & Sponsorships	-			-
Dues & Memberships	603			603
Fleet Leasing	1,571			1,571
Franchise Requirements	-			-
Insurance	3,404			3,404
Lock Box	346			346
Materials & Supplies	3,306			3,306
New York Facilities	3,152			3,152
OPEB's	13,812			13,812
Other	3,118			3,118
Paving	1,777			1,777
Payroll Taxes	3,070			3,070
Pensions	12,125			12,125
Permits	250			250
Postage	3,283			3,283
PSC Assessment Fees	4,052			4,052
Purchased Services	9,434			9,434
Service Company Asset Recovery Charge	-			-
Telecommunications	1,924			1,924
Transportation	2,199			2,199
Transportation - Liquid Fuels	466			466
Uncollectibles	2,673	2	(35)	2,639
Accounting Change	-			-
Program Changes	12,417	3	(5,250)	7,167
Unbundling Adjustment	-	4	(4,077)	(4,077)
Cost Update/Inflation Adjustment	-	5	3,880	3,880
Labor Productivity Adjustment	-	6	(1,023)	(1,023)
Non-Labor Productivity Adjustment	-	7	(563)	(563)
Total Operation & Maint. Exp.	\$ 1,176,890		\$ (7,068)	\$ 1,169,821

KeySpan Energy Delivery of Long Island

Depreciation

Twelve Months Ending March 31, 2008

\$(000)

	Company Rate	Adj.	Staff	Staff Adjusted
	Year Expense	No.	Adjustment	Rate Year
Depreciation Expense	\$ 48,949			\$ 48,949
Depreciation Expense of Corporate Services Assets	2,668			2,668
Add:				
Depreciation related to Accounting changes proposed by Mr. Aikman based on 12/31/05 Plant Balances	18,933	8	(6,880)	12,053
Depreciation related to Accounting changes proposed by Mr. Aikman on Plant additions (4/1/07 - 3/31/08)	1,902	9	(3,997)	(2,095)
Total	\$ 72,452		\$ (10,877)	\$ 61,575

KeySpan Energy Delivery of Long Island

Amortizations

Twelve Months Ending March 31, 2008

\$(000)

	Company Rate	Adj.	Staff	Staff Adjusted
	Year Expense	No.	Adjustment	Rate Year
Amortization Merger Costs	\$ 1,971			\$ 1,971
Amortization of Property Tax	-			-
Amortization of Pension and OPEBs	6,829	10	(6,829)	-
Amortization Environmental Costs	<u>6,645</u>	11	<u>(4,201)</u>	<u>2,444</u>
Total	<u>\$ 15,445</u>		<u>\$ (11,030)</u>	<u>\$ 4,415</u>

KeySpan Energy Delivery of Long Island

Taxes Other Than Income Taxes

Twelve Months Ending March 31, 2008

\$(000)

	Company Rate	Adj.	Staff	Staff Adjusted
	Year Expense	No.	Adjustment	Rate Year
Local				
Real Estate/Special Franchise	\$ 99,466			\$ 99,466
Municipal Gross Revenue	6,762			6,762
State				
Franchise Gross Income -185a	9,441			9,441
NYS Excise Tax	5			5
MTA Surcharge	7			7
Unemployment Insurance	156			156
Sales and Use	-			-
Other	124			124
Federal				
FICA	1,273			1,273
Unemployment Tax	57			57
Total	\$ 117,291		\$ -	\$ 117,291

KeySpan Energy Delivery of Long Island

State 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	\$ 72,316	p.1	\$ 30,397	\$ 102,713	\$ 66,721	\$ 169,434
Interest Expense	62,214	p.8	3,410	65,623		65,623
Operating Income Before Taxes	10,102		26,988	37,090	66,721	103,810
Flow Thru Items						
Additions						
Non Deductible Meals and Entertainment	8			8		8
Book Depreciation In Excess of Tax Depreciation	-			-		-
	<u>8</u>			<u>8</u>	<u>-</u>	<u>8</u>
Deductions						
Medicare cash proceeds	-	12	560	560		560
Income Subject to Tax	<u>10,110</u>		<u>26,428</u>	<u>36,538</u>	<u>66,721</u>	<u>103,258</u>
Income Tax Provision @ 9.03%	<u>\$ 913</u>		<u>\$ 2,386</u>	<u>\$ 3,299</u>	<u>\$ 6,025</u>	<u>\$ 9,324</u>
Normalized Items						
Additions						
Medicare Income	1,808			1,808		1,808
Gas Cost Deferred	-			-		-
Pension Cost	-			-		-
Bad Debts	-			-		-
Balancing Account	-			-		-
Merger Cost Deferral/Amortization	1,971			1,971		1,971
MTA Amortization	-			-		-
Performance Shares	345			345		345
FAS 106	-			-		-
Premium/Discount - Refinancing	-			-		-
Relocation of Mains	-			-		-
Pensions & OPEBs (Amortizations)	10,279	13	(10,279)	-		-
Deferred Tax Rate	-			-		-
CIAC Deferral	3			3		3
Book Depreciation - Current Rates	51,617			51,617		51,617
Book Depreciation - Proposed Rates	20,835	14	(10,877)	9,958		9,958
Cost of Removal Amortization	887			887		887
Senior Securities Expense Amortization	383			383		383
Property Tax Amortization	-			-		-
Environmental Clean Up Cost Amortization	6,645	15	(4,201)	2,444		2,444
	<u>94,773</u>		<u>(25,357)</u>	<u>69,415</u>	<u>-</u>	<u>69,415</u>
Deductions						
Environmental Clean Up Cost Expenditures	38,069			38,069		38,069
Tax Depreciation	106,682	16	(3,250)	103,432		103,432
Removal Costs Expenditures	6,963			6,963		6,963
Lien Date Property Taxes	3,106			3,106		3,106
	<u>154,820</u>		<u>(3,250)</u>	<u>151,570</u>	<u>-</u>	<u>151,570</u>
Net Timing Differences	<u>(60,048)</u>		<u>(22,107)</u>	<u>(82,155)</u>	<u>-</u>	<u>(82,155)</u>
Taxable Income	(49,937)		4,321	(45,617)	66,721	21,104
Current State Income Tax Expense @ 9.03%	(4,509)		390	(4,119)	6,025	1,906
Adjustment: Ratemaking Excess	-		-	-	-	-
	<u>(4,509)</u>		<u>390</u>	<u>(4,119)</u>	<u>6,025</u>	<u>1,906</u>
Deferred State Income Tax Expense @ 9.03%	(5,422)		(1,996)	(7,419)	-	(7,419)
Total State Income Tax	913		2,386	3,299	6,025	9,324

KeySpan Energy Delivery of Long Island

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	\$ 72,316	p.1	\$ 30,397	\$ 102,713	\$ 66,721	\$ 169,434
Interest Expense	62,214	p.8	3,410	65,623		65,623
Operating Income Before Taxes	10,102		26,988	37,090	66,721	103,810
Flow Thru Items						
Additions						
Non Deductible Meals and Entertainment	8			8		8
Book Depreciation In Excess of Tax Depreciation						
Current Depreciation Rates	-			-		-
Proposed Depreciation Rates	-			-		-
	<u>8</u>		<u>-</u>	<u>8</u>	<u>-</u>	<u>8</u>
Deductions						
New York State Income Tax Provision	913	p.6	2,386	3,299	6,025	9,324
Medicare cash proceeds		12	560	560		560
	<u>913</u>		<u>2,946</u>	<u>3,859</u>	<u>6,025</u>	<u>9,884</u>
Income Subject to Tax	9,197		24,041	33,238	60,696	93,934
Income Tax Provision @ 35%	<u>\$ 3,219</u>		<u>\$ 8,414</u>	<u>\$ 11,633</u>	<u>\$ 21,244</u>	<u>\$ 32,877</u>
Normalized Items						
Additions						
Medicare Income	1,808			1,808		1,808
Merger Cost Deferral/Amortization	1,971			1,971		1,971
Performance Shares	345			345		345
CIAC Deferral	-			-		-
Pensions & OPEBs (Amortizations)	10,279	13	(10,279)	-		-
Book Depreciation - Current Rates	51,617			51,617		51,617
Book Depreciation - Proposed Rates	20,835	14	(10,877)	9,958		9,958
Cost of Removal Amortization	887			887		887
Senior Securities Expense Amortization	383			383		383
Environmental Clean Up Cost Amortization	6,645	15	(4,201)	2,444		2,444
	<u>94,770</u>		<u>(25,357)</u>	<u>69,412</u>	<u>-</u>	<u>69,412</u>
Deductions						
Environmental Clean Up Cost Expenditures	38,069			38,069		38,069
Tax Depreciation	101,156	16	(3,250)	97,906		97,906
Removal Costs Expenditures	6,963			6,963		6,963
Lien Date Property Taxes	3,106			3,106		3,106
Deferred State Tax Provision	(5,422)	p.6	(1,996)	(7,419)		(7,419)
	<u>143,872</u>		<u>(5,246)</u>	<u>138,625</u>	<u>-</u>	<u>138,625</u>
Net Timing Differences	<u>(49,102)</u>		<u>(20,111)</u>	<u>(69,213)</u>	<u>-</u>	<u>(69,213)</u>
Taxable Income	(39,905)		3,930	(35,975)	60,696	24,721
Current Federal Income Tax Expense @ 35%	(13,967)		1,376	(12,591)	21,244	8,652
Deferred Federal Income Tax Expense @ 35%	(17,186)		(7,039)	(24,225)	-	(24,225)
Total Federal Income Tax	\$ 3,219		\$ 8,414	\$ 11,633	\$ 21,244	\$ 32,877

KeySpan Energy Delivery of Long Island

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	\$1,658,624	17	\$ (55,011)	\$1,603,613
Interest Bearing CWIP		18	15,231	15,231
Earnings Base	<u>\$1,658,624</u>		<u>\$ (39,780)</u>	<u>\$1,618,844</u>
Weighted Cost of Debt.	3.75%	19	0.30%	4.05%
Interest Exp.	62,214		3,410	65,623
Add Gain on Required Debt				
Total Interest Deduction	<u>\$ 62,214</u>		<u>\$ 3,410</u>	<u>\$ 65,623</u>

KeySpan Energy Delivery of Long Island

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	\$ 2,272,753	20	\$ (18,845)	\$ 2,253,907
Noninterest Bearing CWIP	12,913			12,913
Reserve for Depreciation	(475,815)	21	3,902	(471,913)
	1,809,851		(14,943)	1,794,907
Gas Plant - charged from Corporate Services	62,415			62,415
Noninterest Bearing CWIP - charged from Corp. Svcs	1,756			1,756
Reserve for Depreciation - charged from Corp. Services	(27,774)			(27,774)
Net Plant	1,846,248		(14,943)	1,831,304
Rate Base Adjustments:				
Deferred Merger Costs to Achieve	2,292	22	(2,292)	0
Deferred SIR Expenditures	60,110	23	(60,110)	0
Unamortized Senior Securities' Expense	263		-	263
Deferred OPEBs/Pension Costs	61,309	24	(61,309)	0
Unamortized Deferred Assets - Other	1,374		-	1,374
Deferred Income Taxes	(351,866)	25-28	52,792	(299,074)
Sub-Total	(226,517)		(70,919)	(297,436)
Excess Earnings Base Capitalization Adj.	(10,290)	p.10	51,383	41,093
Net Rate Base Adjustments	(236,807)		(19,536)	(256,343)
Gas Storage Inventory				
Prepayments	20,094	29	(16,061)	4,033
Materials and Supplies	8,190	30	(350)	7,840
Cash Working Capital Allowance	20,899	p.11	(4,121)	16,778
Total Working Capital	49,183		(20,532)	28,651
Rate Base	\$ 1,658,624		\$ (55,011)	\$ 1,603,613

KeySpan Energy Delivery of Long Island
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	\$ (650,904)			\$ (650,904)
Customer Deposits	(7,573)			(7,573)
Common Equity	(900,909)			(900,909)
Investments in Subsidiaries & Non-Utility Property	1,933			1,933
Intercompany Notes Payable (net of Notes Receivable)	(46,787)			(46,787)
Intercompany Accounts Payable (net of Accounts Receivable)	18,562	31	(8,891)	9,671
Transition and Gas Balancing Accounts	(20,378)			(20,378)
Deferred Regulatory Liabilities - Interest Bearing	(61,241)			(61,241)
Total	\$ (1,667,297)		\$ (8,891)	\$ (1,676,188)
<u>Average Earnings Base</u>				
Property Base	\$ 1,430,891	32,33	(41,620)	\$ 1,389,271
Working Capital	231,465	34	(872)	230,593
Construction Work in Progress - Interest Bearing	15,231			15,231
Total	\$ 1,677,587		\$ (42,492)	\$ 1,635,095
Excess Earning Base over Capitalization	\$ 10,290		\$ (51,383)	\$ (41,093)

KeySpan Energy Delivery of Long Island

Computation of Cash Working Capital Allowance

Twelve Months Ending March 31, 2008

\$(000)

	Company Filed Rate Year	Adj. No.	Staff Adjustment	Staff Adjusted Rate Year
Operation and Maintenance Expenses	\$ 1,176,890	p.2	\$ (7,068)	\$ 1,169,821
Less:				
Purchased Gas	1,007,021		-	1,007,021
Uncollectible Losses Allowance	2,673	p.2	(35)	2,639
Pension	-	35	12,125	12,125
OPEBs	-	36	13,812	13,812
	<u>1,009,695</u>		<u>25,902</u>	<u>1,035,597</u>
Net	<u>167,195</u>		<u>(32,971)</u>	<u>134,224</u>
Cash Allowance at 1/8 of Net O&M	20,899		(4,121)	16,778
Plus				
Purchased Gas Cash Allowance at 31.82/365*				-
Cash Working Capital	<u>\$ 20,899</u>		<u>\$ (4,121)</u>	<u>\$ 16,778</u>

* KeySpan proposes to move this to the GAC

KeySpan Energy Delivery of Long Island**Company Proposed Capital Structure**

Twelve Months Ending March 31, 2008

\$(000)

	PRINCIPAL	RATIO	COST RATE	WEIGHTED COST
Long Term Debt	\$ 850,904	49.54%	7.54%	3.74%
Customer Deposits	8,017	0.47%	3.00%	0.01%
Total Debt	858,921	50.01%		3.75%
Common Equity	858,701	49.99%	11.00%	5.50%
Total Capitalization	\$ 1,717,623	100.00%		9.25%

KeySpan Energy Delivery of Long Island**Staff Proposed Capital Structure**

Twelve Months Ending March 31, 2008

\$(000)

	PRINCIPAL	RATIO	COST RATE	WEIGHTED COST
Long Term Debt	\$ 887,839	51.69%	7.37%	3.81%
Short Term Debt	72,999	4.25%	5.35%	0.23%
Customer Deposits	7,901	0.46%	3.65%	0.02%
Total Debt	968,739	56.40%		4.05%
Common Equity	748,883	43.60%	8.90%	3.88%
Total Capitalization	\$ 1,717,623	100.00%		7.93%

KeySpan Energy Delivery of Long Island

Computation of Recommended Additional Revenue Requirement

Twelve Months Ending March 31, 2008

\$(000)

Average Rate Base	\$	1,603,613
Rate Of Return		<u>7.93%</u>
Total Return Required		127,233
Less Earned Return		<u>87,780</u>
Deficiency in Required Return		39,452
Retention Factor*		<u>58.76%</u>
Authorized Revenue Increase	\$	<u><u>67,137</u></u>

* Based upon the following:

	PROOF	Base Rates
Sales Revenues	100.00%	\$ 67,137
Less: Uncollectibles	<u>0.62%</u>	<u>416</u>
Subtotal	99.38%	66,721
Less:		
State Income Taxes	8.97%	6,025
Federal Income Tax At 35.00%	<u>31.64%</u>	<u>21,244</u>
Retention Factor	<u>58.76%</u>	<u>\$ 39,452</u>