KEYSPAN GAS EAST CORPORATION d/b/a
KEYSPAN ENERGY DELIVERY LONG ISLAND
FINANCIAL STATEMENTS
FOR THE PERIOD JANUARY 1, 2007
THROUGH MARCH 31, 2008
AND INDEPENDENT AUDITORS' REPORT

KEYSPAN ENERGY DELIVERY LONG ISLAND

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KEYSPAN ENERGY DELIVERY LONG ISLAND

STATEMENT OF INCOME

(In Thousands of Dollars)	**Successor For the Period August 25, 2007 - March 31, 2008**	**Predecessor For the Period January 1, 2007 - August 24, 2007**	**Predecessor For theTwelve Months Ended December 31, 2006**
Operating Revenues	$ 1,076,526	$ 964,456	$ 1,319,435
Operating Expenses			
Purchased gas for resale	676,807	622,773	864,376
Operations and maintenance	101,961	108,172	144,195
Depreciation and amortization	58,589	59,860	77,519
Operating taxes	55,088	43,510	65,136
Total Operating Expenses	892,445	834,315	1,151,226
Gain on sale of assets	65	-	61
Operating Income	184,146	130,141	168,270
Interest Charges	(38,664)	(44,292)	(54,459)
Other Income and (Deductions)	5,089	5,623	2,336
Earnings Before Income Taxes	150,571	91,472	116,147
Income Taxes			
Current tax expense (benefit)	85,867	247,414	(28,212)
Deferred tax expense (benefit)	(23,831)	(212,373)	70,400
Total Income Tax Expense	62,036	35,041	42,188
Net Income	$ 88,535	$ 56,431	$ 73,959

The accompanying notes are an integral part of these financial statements.

KEYSPAN ENERGY DELIVERY LONG ISLAND

BALANCE SHEET

(In Thousands of Dollars)	**Successor March 31, 2008**	**Predecessor December 31, 2006**
ASSETS		
Current Assets		
Cash and temporary cash investments	$ 170,494	$ 34,722
Restricted cash, margin accounts	100	908
Accounts receivable	292,112	180,293
Unbilled revenue	83,863	86,371
Allowance for uncollectible accounts	(14,507)	(4,770)
Gas in storage, at average cost	79,263	186,128
Materials and supplies, at average cost	6,385	7,038
Prepayments and Other Assets	15,435	32,431
Derivative contracts	32,502	1,173
Regulatory assets	64,501	-
	730,148	524,294
Property, Plant and Equipment		
Gas	2,322,948	2,196,717
Accumulated depreciation	(438,571)	(390,147)
	1,884,377	1,806,570
Deferred Charges		
Regulatory assets-miscellaneous	516,741	426,160
Regulatory assets-derivative contracts	25,879	55,033
Goodwill, net of amortization	1,019,920	-
Derivative contracts	16,566	24,842
Other	2,626	3,076
	1,581,732	509,111
Total Assets	$ 4,196,257	$ 2,839,975

The accompanying notes are an integral part of these financial statements.

KEYSPAN ENERGY DELIVERY LONG ISLAND

BALANCE SHEET

(In Thousands of Dollars)	Successor March 31, 2008	Predecessor December 31, 2006
LIABILITIES AND CAPITALIZATION		
Current Liabilities		
Accounts payable and other	$ 154,672	$ 116,371
Customer deposits	9,535	8,451
Interest accrued	20,507	17,809
Accounts payable, affiliates, net	655,449	190,127
Derivative contracts	1,880	47,629
Regulatory liabilities	48,902	0
	890,945	380,387
Deferred Credits and Other Liabilities		
Regulatory liabilities:		
Miscellaneous liabilities	134,902	73,501
Derivative contracts	15,464	26,046
Removal costs recovered	49,200	44,600
Asset retirement obligations	10,876	10,005
Deferred income tax	109,019	397,060
Environmental and other reserves	229,707	151,345
Other-derivative contracts	27,108	8,728
Other	43	601
	576,319	711,886
Capitalization		
Common stock, $0.01 per share 100 shares issued stated at	-	-
Additional paid in capital	2,014,878	582,862
Retained earnings	88,535	414,798
Accumulated other comprehensive loss	(324)	(862)
Total common shareholders' equity	2,103,089	996,798
Long-term debt	500,000	625,000
Total Capitalization	2,603,089	1,621,798
Advance from KeySpan	125,904	125,904
Total Capitalization and Advance from KeySpan	2,728,993	1,747,702
Total Liabilities and Capitalization	$ 4,196,257	$ 2,839,975

The accompanying notes are an integral part of these financial statements.

KEYSPAN ENERGY DELIVERY LONG ISLAND

STATEMENT OF CASH FLOWS

(In Thousands of Dollars)	Successor For the Period August 25, 2007 - March 31, 2008	Predecessor For the Period January 1, 2007 - August 24, 2007	Predecessor For the Twelve Months Ended December 31, 2006
Operating Activities			
Net Income	$ 88,535	$ 56,431	$ 73,959
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation and amortization	58,588	59,860	77,519
Deferred income tax	(23,831)	(212,373)	70,400
Gain on sale of assets	(65)	-	(61)
Changes in assets and liabilities			
Accounts receivable	(210,306)	67,586	8,187
Materials and supplies, and gas in storage	135,434	(17,102)	(8,467)
Accounts payable and accrued expenses	46,088	17,864	(144,387)
Environmental payments	(30,989)	(12,776)	(10,752)
Property tax payments	(12,635)	(27,820)	(32,662)
Other	11,306	8,954	15,144
Net Cash Provided by Operating Activities	62,125	(59,376)	48,880
Investing Activities			
Capital expenditures	(57,813)	(57,582)	(89,100)
Cost of removal	(5,106)	(4,972)	(7,676)
Derivative margin calls	-	15,200	(15,200)
Net Cash Used in Investing Activities	(62,919)	(47,354)	(111,976)
Financing Activities			
Issuance of long term debt	-	-	100,000
Repayment of debt	(125,000)	-	-
Accounts payable affiliates, net	131,968	236,328	(5,177)
Other	-	-	(531)
Net Cash Provided by Financing Activities	6,968	236,328	94,292
Net Increase (Decrease) in Cash and Cash Equivalents	6,174	129,598	31,196
Cash and Cash Equivalents at Beginning of period	164,320	34,722	3,526
Cash and Cash Equivalents at End of period	$ 170,494	$ 164,320	$ 34,722
Interest paid	$ 27,427	$ 47,489	$ 49,260
Taxes paid	$ 1,591	$ -	$ 4,515

The accompanying notes are an integral part of these financial statements.

KEYSPAN ENERGY DELIVERY LONG ISLAND
STATEMENT OF RETAINED EARNINGS

(In Thousands of Dollars)	Successor For the Period August 25, 2007 - March 31, 2008	Predecessor For the Period January 1, 2007 - August 24, 2007	Predecessor For the Twelve Months Ended December 31, 2006
Balance at beginning of period	$ 471,229	$ 414,798	$ 340,839
Net income for period	88,535	56,431	73,959
Purchase accounting adjustment	(471,229)	-	-
Balance at end of period	$ 88,535	$ 471,229	$ 414,798

STATEMENT OF COMPREHENSIVE INCOME

(In Thoudsands of Dollars)	Successor For the Period August 25, 2007 - March 31, 2008	Predecessor For the Period January 1, 2007 - August 24, 2007	Predecessor For the Twelve Months Ended December 31, 2006
Net income	$ 88,535	$ 56,431	$ 73,959
Other comprehensive income, net of tax			
Unrealized losses on derivative financial instruments	-	538	(862)
Reduction of accrued unfunded pension obligation	-	-	16,013
Other comprehensive income, net of tax	-	538	15,151
Comprehensive Income	$ 88,535	$ 56,969	$ 89,110
Related tax expense			
Unrealized losses on derivative financial instruments	-	290	(464)
Reduction of accrued unfunded pension obligation	-	-	8,622
Total Tax Expense	$ -	$ 290	$ 8,158

The accompanying notes are an integral part of these financial statements.

KEYSPAN ENERGY DELIVERY LONG ISLAND
STATEMENT OF CAPITALIZATION

(In Thousands of Dollars)		Successor March 31, 2008		Predecessor December 31, 2006
Common Shareholders' Equity				
Common Stock, $0.01 per share				
100 shares issued stated at	$	-	$	-
Additional paid in capital		2,014,878		582,862
Retained earnings		88,535		414,798
Accumulated other comprehensive loss		(324)		(862)
Total Common Stockholder's Equity		2,103,089		996,798
Long-Term Debt				
Notes:				
6.90% Medium-term notes due January 18, 2008		-		125,000
7.875% Medium-term notes due February 1, 2010		400,000		400,000
5.6% Senior Unsecured note due November 29, 2016		100,000		100,000
Total Long-Term Debt		500,000		625,000
Advance from KeySpan Corporation		125,904		125,904
Total Capitalization and Advance from KeySpan	$	2,728,993	$	1,747,702

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Organization of the Company

KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island ("KEDLI") is a wholly owned subsidiary of KeySpan Corporation d/b/a KeySpan Energy ("KeySpan"), the successor to Long Island Lighting Company ("LILCO"), as a result of a transaction with the Long Island Power Authority ("LIPA") (the "LIPA Transaction"). KEDLI was formed on May 7, 1998 and on May 28, 1998 KeySpan acquired and transferred to KEDLI substantially all of the assets related to the gas distribution business of LILCO immediately prior to the LIPA Transaction. KEDLI provides gas distribution services to customers in Nassau and Suffolk Counties in Long Island, New York and the Rockaway Peninsula in Queens, New York. KeySpan Energy Delivery Long Island will be referred to in these notes to the Financial Statements as "KEDLI", " the Company","we", "us", or "our".

On August 24, 2007, KeySpan completed its merger (the "Merger") with National Grid plc, a public limited company incorporated under the laws of England and Wales as contemplated by the Agreement and Plan of Merger dated February 25, 2006 (the "Merger Agreement"). The aggregate consideration paid by National Grid plc was approximately $7.6 billion. Pursuant to the Merger Agreement, each outstanding share of common stock of KeySpan was converted into the right to receive $42.00 per share in cash, without interest. As a result of the Merger, KeySpan ceased to be publicly traded and accordingly is no longer listed on the New York Stock Exchange ("NYSE"). Additionally, KeySpan and KEDLI have changed their fiscal years from a fiscal year ending December to a fiscal year ending March. KEDLI continues to operate its utility business as a wholly-owned subsidiary of KeySpan and as an indirectly-owned subsidiary of National Grid plc.

B. Basis of Presentation

Due to the acquisition of KeySpan by National Grid plc and the change in KeySpan's fiscal year, KEDLI's Statement of Income and its Statement of Cash Flows are presented for the following periods: (i) the successor period August 25, 2007 – March 31, 2008; (ii) the predecessor period January 1, 2007 – August 24, 2007; and (iii) the predecessor period twelve months ended December 31, 2006. The Consolidated Balance Sheet is presented at March 31, 2008 as the successor company and December 31, 2006 as the predecessor company.

The preparation of financial statements in conformity with Generally Accepted Accounting Principles in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

C. Seasonal Aspect

The gas distribution business is influenced by seasonal weather conditions. Annual revenues are principally realized during the heating season (November through April) as a result of the large proportion of heating sales in these months. Accordingly, results of operations are most favorable in the first calendar quarter of the Company's fiscal year, followed by the fourth calendar quarter. Losses are generally incurred in the second and third calendar quarters.

D. Accounting for the Effects of Rate Regulation

The accounting records are maintained in accordance with the Uniform System of Accounts prescribed by the New York State Public Service Commission ("NYPSC"). The accounting policies of KEDLI conform to GAAP and reflect the effects of the rate-making process in accordance with Statement of Financial Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation". This statement recognizes the ability of regulators, through the ratemaking process, to create future economic benefits and obligations affecting rate-regulated companies. Accordingly, KEDLI records these future economic benefits and obligations as regulatory assets and regulatory liabilities on the balance sheet.

In the event that the Company no longer meets the criteria for following SFAS 71, the accounting impact would be an extraordinary, non-cash charge to operations. Criteria that gives rise to the discontinuance of SFAS 71 include (1) increasing competition that restricts our ability to establish prices to recover specific costs or (2) a significant change in the manner in which rates are set by regulators. We have reviewed these criteria and believe that the continued application of SFAS 71 is appropriate.

The following table presents KEDLI's regulatory assets and regulatory liabilities at March 31, 2008 and December 31, 2006:

(In Thousands of Dollars)	March 31, 2008 Current	March 31, 2008 Non-Current	December 31, 2006 Non-Current
Regulatory Assets			
Regulatory tax asset	$ -	$ 7,824	$ 7,332
Property taxes	41,279	2,700	56,873
Environmental costs	2,444	335,099	215,861
Postretirement benefits	17,516	145,829	133,027
Derivative contracts	1,881	25,879	55,033
Other	1,381	25,289	13,067
Total Regulatory Assets	$ 64,501	$ 542,620	$ 481,193
Regulatory Liabilities			
Property tax refund	$ (12,400)	$ (46,500)	$ -
Miscellaneous liabilities	(4,000)	(88,402)	(73,501)
Derivative liabilities	(32,502)	(15,464)	(26,046)
Total Regulatory Liabilities	$ (48,902)	$ (150,366)	$ (99,547)
Net Regulatory Assets	15,599	392,254	381,646
Removal Costs Recovered	-	(49,200)	(44,600)
	15,599	343,054	337,046

The regulatory assets above are not included in rate base. However, KEDLI records carrying charges on deferred property taxes and costs associated with KeySpan/LILCO merger deferrals. We also record carrying charges on the regulatory liabilities. The remaining regulatory assets represent costs for which cash expenditures have not yet been made, and therefore, carrying charges are not recorded. KEDLI anticipates recovering these costs in its gas rates concurrently with future cash expenditures. If recovery is not concurrent with the cash expenditures, KEDLI will record the appropriate level of carrying charges. Deferred gas costs of approximately $5.3 million are reflected in accounts receivable on the Consolidated Balance Sheet.

E. Revenues

Utility gas customers generally are billed monthly or bimonthly. Revenues include unbilled amounts related to the estimated gas usage that occurred from the most recent meter reading to the end of each month.

The cost of gas used is recovered when billed to firm customers through the operation of a Gas Adjustment Clause (“GAC”), included in the utility tariff. The GAC provision requires an annual reconciliation of recoverable gas costs and GAC revenues. Any difference is deferred pending recovery from or refund to firm customers.

KEDLI’s tariff contains a weather normalization adjustment that provides for recovery from or refund to firm customers of material shortfalls or excesses of firm net revenues (revenues less applicable gas costs and revenue taxes) during a heating season due to variations from normal weather.

F. Gas Property and Depreciation

Utility gas property is stated at original cost of construction, which includes allocations of overheads and taxes, asset retirement cost and an allowance for funds used during construction. The rate at which the Company capitalized interest at March 31, 2008 was 3.1%. Capitalized interest for the period January 1, 2007 through March 31, 2008 and for the year ended December 31, 2006 was approximately $0.4 million and $ 0.1 million respectively and is reflected as a reduction to interest expense. At March 31, 2008, KEDLI had $2.3 billion of utility plant and $39.9 million of construction work in progress on the balance sheet.

Depreciation is provided on a straight-line basis in amounts equivalent to composite rates on average depreciable property of 2.13 % at March 31, 2008. The cost of property retired, and the cost of removal less salvage, is charged to accumulated depreciation. KEDLI recovers asset retirement costs through rates charged to customers as a portion of depreciation expense. For the period January 1, 2007 through March 31, 2008 and for the year ended December 31, 2007, KEDNY had costs recovered in excess of costs incurred totaling $49.2 million and $44.6 million. These amounts are reflected as a regulatory liability. The cost of repair and minor replacement and renewal of property is charged to maintenance expense.

Provisions for depreciation of all other non-utility property are computed on a straight-line basis over their respective useful lives.

G. Hedging and Derivative Financial Instruments

From time to time KEDLI employs derivative instruments to hedge a portion of the exposure to commodity price and interest rate risk. Whenever hedge positions are in effect, KEDLI is exposed to credit risk in the event of nonperformance by counter-parties to derivative contracts, as well as nonperformance by the counter-parties of the transactions against which they are hedged. KEDLI believes that the credit risk related to the derivative instruments is no greater than that associated with the primary commodity contracts which they hedge.

Firm Gas Sales Derivative Instruments: We use derivative financial instruments to reduce the cash flow variability associated with the purchase price for a portion of future natural gas purchases. Our strategy is to minimize fluctuations in firm gas sales prices to our regulated firm gas sales customers in our service territory. Since these derivative instruments are employed to reduce the variability of the purchase price of natural gas to be sold to regulated firm gas sales customers, the accounting for these derivative instruments is subject to SFAS 71. Therefore, changes in the market value of these derivatives have been recorded as a regulatory asset or regulatory liability on the Balance Sheet. Gains or losses on the settlement of these contracts are initially deferred and then refunded to or collected from our firm gas sales customers during the appropriate winter heating season consistent with regulatory requirements.

Physically-Settled Commodity Derivative Instruments: Certain of our contracts for the physical purchase of natural gas are derivatives as defined by current accounting literature. As such, these contracts are recorded on the Balance Sheet at fair market value. However, since such contracts were executed for the purchases of natural gas that is sold to regulated firm gas sales customers, and pursuant to the requirements of SFAS 71, changes in the fair market value of these contracts are recorded as a regulatory asset or regulatory liability on the Balance Sheet.

Other Financially-Settled Commodity Derivative Instruments: From time to time, we also employ a limited number of derivative financial instruments that are accounted for pursuant to the requirements of SFAS 133 "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS 149, "Amendment of Statement 133 Derivative Instruments and Hedging Activities" (collectively, "SFAS 133"). With respect to those commodity derivative instruments that are designated and accounted for as cash flow hedges, the effective portion of periodic changes in the fair market value of cash flow hedges is recorded as accumulated other comprehensive income (loss) on the Balance Sheet, while the ineffective portion of such changes in fair value is recognized in earnings. Unrealized gains and losses (on such cash flow hedges) that are recorded as accumulated other comprehensive income (loss) are subsequently reclassified into earnings concurrent when hedged transactions impact earnings. With respect to those commodity derivative instruments that are not designated as hedging instruments, such derivatives are accounted for on the Balance Sheet at fair value, with all changes in fair value reported in earnings.

Interest Rate Derivative Instruments. We continually assess the cost relationship between fixed and variable rate debt. Consistent with our objective to minimize our cost of capital, we periodically enter into hedging transactions that effectively convert the terms of underlying debt obligations from fixed to variable or variable to fixed. Payments made or received on these derivative contracts are recognized as an adjustment to interest expense as incurred. Hedging transactions that effectively convert the terms of underlying debt obligations from fixed to variable are designated and accounted for as fair-value hedges pursuant to the requirements of SFAS 133. Hedging transactions that effectively convert the terms of underlying debt obligations from variable to fixed are considered cash flow hedges. Currently, there are no interest rate derivative instruments outstanding.

H. Income and Excise Tax

Upon implementation of SFAS 109, "Accounting for Income Taxes," the Company recorded a regulatory asset and a net deferred tax liability for the cumulative effect of providing deferred income taxes on certain differences between the financial statement carrying amounts of assets and liabilities, and their respective tax bases. This regulatory asset continues to be amortized over the lives of the individual assets and liabilities to which it relates. Additionally, investment tax credits which were available prior to the Tax Reform Act of 1986 were deferred and generally amortized as a reduction of income tax over the estimated lives of the related property.

We report our collections and payments of excise taxes on a gross basis. Gas distribution revenues include the collection of excise taxes, while operating taxes include the related expense. Excise taxes collected and paid for the period January 1, 2007 through March 31, 2008 and for the year ended December 31, 2006 were $16.2 million and $10.1 million.

I. Recent Accounting Pronouncements

In March 2008, the Financial Accounting Standards Board ("FASB") issued SFAS 161 "Disclosures about Derivative Instruments and Hedging Activities." This Statement amends and expands the disclosure requirements of SFAS 133 with the intent to provide users of financial statements with an enhanced understanding of (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for; and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. This Statement requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses of derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. This Statement shall be effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. This Statement will have no impact on results of operations, financial position or cash flows.

In December 2007, the FASB issued SFAS 160 "Noncontrolling Interests in Consolidated Financial Statements – an amendment of Accounting Research Bulletin 51 "Consolidated Financial Statements." The objective of SFAS 160 is to improve the relevance, comparability and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 shall be effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008. Currently, KEDLI does not have any subsidiaries.

In February 2007, the FASB issued SFAS 159 "The Fair Value Option for Financial Assets and Financial Liabilities." This Statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement requires a business entity to report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. An entity may decide whether to elect the fair value option for each eligible item on its election date, subject to certain requirements described in the Statement. This Statement shall be effective as of the beginning of each reporting entity's first fiscal year that begins after November 15, 2007. KEDLI has not elected the fair value method.

In September 2006, the FASB issued SFAS 157 "Fair Value Measurements." This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value. SFAS 157 expands the disclosures about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. The disclosures focus on the inputs used to measure fair value, the recurring fair value measurements using significant unobservable inputs and the effect of the measurement on earnings (or changes in net assets) for the period. The guidance in SFAS 157 also applies for derivatives and other financial instruments measured at fair value under Statement 133 at initial recognition and in all subsequent periods. This Statement is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. KEDLI has not elected the fair value method.

In July 2006, the FASB issued Interpretation No. 48 "Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes" and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. KeySpan adopted the provisions of FIN 48 on January 1, 2007 and there were was no impact to KEDLI's results of operations, financial position or cash flows.

J. Accumulated Other Comprehensive Income

As required by SFAS 130, "Reporting Comprehensive Income," accumulated other comprehensive income as of March 31, 2008 is comprised of unrealized losses on derivative financial instruments of $324 thousand.

K. Cash and Temporary Cash Investments

Temporary cash investments are short-term marketable securities with maturities of generally three months or less.

Note 2. Income Taxes

KEDLI is a subsidiary of KeySpan Corporation. KeySpan Corporation files a consolidated income tax return with the Internal Revenue Service. For state income tax purposes, KEDLI files a stand-alone tax return. A tax sharing agreement between KEDLI and KeySpan provides for the allocation of a realized tax liability or asset based upon the separate return contributions of each company in the consolidated group to the total taxable income of KeySpan Corporation's income tax returns.

Income tax expense is reflected as follows in the Statement of Income:

(In Thousands of Dollars)	**For the Period August 25, 2007 - March 31, 2008**	**For the Period January 1, 2007 - August 24, 2007**	**For the Twelve Months Ended December 31, 2006**
Income Taxes			
State and Local Current	$ 17,848	$ 53,281	$ (11,419)
Federal Current	68,019	194,133	(16,793)
Total Current	85,867	247,414	(28,212)
State and Local Deferred	(4,058)	(47,155)	17,035
Federal Deferred	(19,773)	(165,218)	53,365
Total Deferred	(23,831)	(212,373)	70,400
Total Income Tax	$ 62,036	$ 35,041	$ 42,188

The income tax amounts included in the Statement of Income differ from the amounts that result from applying the statutory federal income tax rate to income before income tax.

The following is a reconciliation between reported income tax and tax computed at the statutory rate of 35%:

(In Thousands of Dollars)	For the Period August 25, 2007 - March 31, 2008		For the Period January 1, 2007 - August 24, 2007		For the Twelve Months Ended December 31, 2006	
Book Income	$	150,572	$	91,472	$	116,147
Computed at the statutory rate	$	52,700	$	32,015		40,651
Adjustments related to:						
States taxes, net of federal benefits		9,233		3,394		3,650
Other items-net		103		(368)		(2,113)
Total income tax	$	62,036	$	35,041	$	42,188
Effective income tax		41.20%		38.31%		36.32%

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

For income tax purposes, we use accelerated depreciation and shorter depreciation lives, as permitted by the Internal Revenue Code. Deferred federal and state taxes are provided for the tax effects of all temporary differences between financial reporting and tax bases. Significant items making up deferred tax assets and liabilities at March 31, 2008 are as follows:

(In Thousands of Dollars)	**March 31, 2008**		**December 31, 2006**	
State income taxes	$	(37,259)	$	12,981
Property related differences		231,350		290,289
Property taxes		12,289		42,187
Reserves not currently deducted		(10,760)		(1,014)
Employee benefits compensation		(22,160)		18,519
Other items-net		(64,441)		34,098
Net deferred tax liability	$	109,019	$	397,060

In 2008 the Company performed a comprehensive analysis and reconciliation of its income tax accounts which included a reconciliation of its book accounts to tax returns. The reconciliation resulted in a $1.4 million adjustment to income tax expense related to 2006 and prior periods which is recorded in the period January 1, 2007 to August 24, 2007 and offsetting adjustments to deferred income tax and accrued taxes.

In July 2006, the Financial Accounting Standards Board ("FASB") issued Financial Interpretation ("FIN") 48, "Accounting for Uncertainty in Income Taxes," which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with Statement of Financial Accounting Standards ("SFAS") 109, "Accounting for Income Taxes." FIN 48 provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, assuming the taxing authority has full knowledge of all relevant information and that any dispute with a taxing authority is resolved by the court of last resort. Income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. Recognized tax benefits are measured as the largest amount of tax benefit that is more likely than not to be realized upon settlement with the taxing authority, assuming the taxing authority has full knowledge of all relevant information. This interpretation also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The Company adopted the provisions of FIN 48 on January 1, 2007. The Company recorded no change to the liability for unrecognized tax benefits or retained earnings as a result of the implementation of FIN 48.

The following is a tabular reconciliation of the total amounts of unrecognized tax benefits for the period:

(In Thousands of Dollars)		
Unrecognized Tax Benefit - January 1, 2007	$	91,923
Gross increases - tax positions in prior period		-
Gross decreases - tax positions in prior period		-
Gross increases - tax positions in current period		2,433
Gross decreases - tax positions in current period		-
Settlements		-
Lapse of statute of limitations		-
Unrecognized Tax Benefit - March 31, 2008	$	94,356

Included in the balance of unrecognized tax benefits at March 31, 2008 are tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred income tax accounting, other than for interest and penalties, the disallowance of the shorter deductibility period would not affect the effective income tax rate but would accelerate the payment of cash to the taxing authority to an earlier period. Included in the balance of unrecognized tax benefits at March 31, 2008, are $13.2 million of tax benefits that, if recognized, would affect the effective tax rate.

The Company recognizes interest and penalties related to unrecognized tax benefits within the interest expense line and other expense line, respectively, in the accompanying consolidated statement of operations for the periods ended August 24, 2007 and March 31, 2008. Accrued interest and penalties are included within the related liability lines in the consolidated balance sheet as of March 31, 2008. The Company has accrued no penalties related to the unrecognized tax benefits noted above. The Company accrued interest of $4.5 million and $5.0 million during the periods ended August 24, 2007 and March 31, 2008, respectively. In total, the Company has recognized a liability for interest of $11.8 million as of March 31, 2008.

The Company believes that it is not reasonably possible that the tax liability for unrecognized tax benefits will significantly increase or decrease by March 31, 2009.

The Company is subject to taxation in the US and New York. The Company's federal tax returns for tax years 2000 forward and New York tax returns for tax years 2003 forward are subject to examination by the federal and state tax authorities.

Note 3. Postretirement Benefits

Pension Plans: KEDLI employees, as well as other former employees of LILCO, are members of a consolidated defined benefit pension plan under KeySpan. Benefits are based on years of service and compensation. Pension costs are allocated to KEDLI; related pension obligations and assets are commingled and are not allocated to the individual sponsors. At March 31, 2008 the KeySpan defined benefit pension plan has a net underfunded obligation of $288.4 million. Certain current year changes in the funded status of the KeySpan plan are allocated to KEDLI through an intercompany payable account. KEDLI is subject to certain deferral accounting requirements mandated by the NYPSC for pension and other postretirement benefit costs. Gross pension expense allocated to KEDLI for the period January 1, 2007 through March 31, 2008 was approximately $12.0 million. Pension expense included in operations and maintenance expense on the Statement of Income, after deferrals, and capital allocation was $4.7 million. Funding for pensions is in accordance with requirements of federal law and regulations.

Other Postretirement Benefits: KEDLI employees as well as other former employees of LILCO are members of a consolidated defined benefit plan under which is provided certain health care and life insurance benefits for all former LILCO retired employees. KeySpan has been funding a portion of future benefits over employees' active service lives through Voluntary Employee Beneficiary Association (VEBA) trusts. Contributions to VEBA trusts are tax deductible, subject to limitations contained in the Internal Revenue Code.

Other postretirement costs are allocated to KEDLI; related other postretirement obligations and assets are commingled and are not allocated to the individual sponsors. At March 31, 2008 the KeySpan defined benefit plan has a net underfunded obligation of $878.4 million. Certain current year changes in the funded status of the KeySpan plan are allocated to KEDLI through an intercompany payable account. Gross other postretirement costs allocated to KEDLI for the period January 1, 2007 through March 31, 2008 was $25.5 million. Other postretirement costs included in operations and maintenance expense on the Statement of Income, after deferrals, was $8.8 million.

Note 4. Long-Term Debt

5.6% Senior Unsecured Notes: On November 29, 2006, KEDLI issued $100 million of Senior Unsecured Notes at 5.60% due November 29, 2016. Interest is payable on a semi-annual basis – May and November.

7.875% Medium-Term Notes: On February 1, 2000, KEDLI issued $400 million of 7.875% Medium Term Notes due February 1, 2010. The net proceeds were used to reimburse KeySpan for the retirement of Promissory Notes issued to LIPA for debt incurred by LILCO and assumed by LIPA in the LIPA Transaction.

KeySpan has issued financial guarantees on behalf of KEDLI to third party creditors for the debts above.

6.9% Medium-Term Notes: In January 2008, KEDLI repaid $ 125 million of 6.9%Medium Term Notes due at maturity.

Debt to KeySpan: At March 31, 2008, KEDLI has $125.9 million of Notes residing on its Balance Sheet as part of its long term debt. These notes were previously allocated to KEDLI from KeySpan and bear interest at 7.25%.

Debt Maturity Schedule: The following table reflects the maturity schedule for our debt repayment requirement at March 31, 2008:

(In Thousands of Dollars)	**Long-Term Debt**
Repayments:	
Year 1	$ -
Year 2	400,000
Year 3	-
Year 4	-
Year 5	-
Thereafter	100,000
	$ 500,000

Note 5. Commitments and Contingencies

Lease Obligations: Substantially all leases are the obligations of KeySpan. KEDLI records as intercompany expenses, costs incurred for the use of leased equipment such as buildings, office equipment, vehicles, and powered operated equipment. These intercompany expenses are reflected in operation and maintenance expense on the Statement of Income.

Fixed Charges Under Firm Contracts: KEDLI has entered into various contracts for gas delivery, storage and supply services. Certain of these contracts require payment of annual demand charges in the aggregate amount of approximately $154.2 million. KEDLI is liable for these payments regardless of the level of service it requires from third parties. Such charges are currently recovered from utility customers as gas costs.

***Asset Retirement Obligations*:** KEDLI has various asset retirement obligations associated with its gas distribution activities. These obligations have remained substantially unchanged from December 31, 2006, except for normal accretion adjustments and costs incurred.

At March 31, 2008 and December 31, 2006, the following asset retirement obligations were recorded on the Balance Sheet at their estimated present values:

(In Thousands of Dollars)					
			March 31, 2008		**December 31, 2006**
Asset Retirement Obligations:					
Tanks removal and cleaning	(i)	$	23	$	22
Main -cutting, purging and capping	(ii)		10,853		9,983
Total Asset Retirement Obligations		$	10,876	$	10,005

(i) The Company has numerous storage tanks that contain among other things waste oil, fuel oil, diesel fuel, multi chemicals, lube oil, kerosene, ammonia, and other waste contaminants. All of these tanks are subject to cleaning and removal requirements prior to demolition and retirement if so specified by law or regulation.

(ii) The Company has a legal requirement to cut (disconnect from the gas distribution system), purge (clean of natural gas and PCB contaminants) and cap gas mains within its gas distribution and transmission system when mains are retired in place. Gas mains are generally abandoned in place when retired, unless the main and other equipment needs to be removed due to sewer or water system rerouting or other roadblock work. When such mains and equipment are removed, certain PCB test procedures must be employed.

The Company recorded $0.8 million of asset retirement obligation accretion expense for the period January 1, 2007 through March 31, 2008 and $0.6 million for the year ended December 31, 2006.

Legal Matters: From time to time we are subject to various legal proceedings arising out of the ordinary course of our business. Except as described below, we do not consider any of such proceedings to be material to our business or likely to result in a material adverse effect on our results of operations, financial condition or cash flows.

Since July 12, 2006, eight lawsuits have been filed which allege damages resulting from contamination associated with the historic operations of former manufactured gas plants located in Bay Shore. KeySpan has been conducting site investigations and remediations at these locations pursuant to Administrative Orders on Consent ("ACO") with the New York State Department of Environmental Conservation ("DEC"). One of these lawsuits was settled on May 15, 2008 by purchasing a residential property. KeySpan intends to contest each of the remaining proceedings vigorously.

Environmental Matters - Manufactured Gas Plant Sites: As part of KeySpan's merger with National Grid plc and the associated purchase accounting fair value measurement of assets and liabilities, KeySpan undertook an extensive review of all current and former properties that are subject to environmental remediation. Also, in order to align the accounting policies of KeySpan with those of National Grid plc, KeySpan adjusted the approach used to measure these environmental liabilities. KeySpan's former policy was to use the "75th Probable" method. The 75th Probable method results in the recognition of 100% of expenditures that are considered more than 75% probable of being incurred, with no recognition of potential expenditures below this probability. Consistent with the methodology employed by National Grid plc, KeySpan used the "Expected Value" method for the recent environmental review. The Expected Value method applies a weighting to potential future expenditures based on the probability of these costs being incurred. A liability is recognized for all potential costs based on this probability. Costs considered to be 100% probable of being incurred are recognized in full, with costs below a 100% probability recognized in proportion to their probability.

As a result of this study, KEDLI increased the reserve for estimated manufactured gas plant ("MGP") related environmental activities by $113.2 million. As allowed for under SFAS 141 "Business Combinations" fair value measurement of assets, liabilities and intangible assets can be adjusted during the allocation period. Such period can not exceed on year. Accordingly, this estimate is subject to change. Through various rate orders issued by the NYPSC costs related to MGP environmental cleanup activities are recovered in rates charged to gas distribution customers. As a result, this reserve adjustment has been reflected as a component of regulatory assets on the Consolidated Balance Sheet.

Within the State of New York we have identified 15 historical MGP sites and related facilities, which were owned or operated by us or our predecessors. These former sites, some of which are no longer owned by us, have been identified to the NYPSC and the Department of Environmental Conservation ("DEC") for inclusion on appropriate site inventories. Administrative Orders on Consent ("ACO") or Voluntary Cleanup Agreements ("VCA") have been executed with the DEC to address the investigation and remediation activities associated with certain sites. In February 2007, KEDLI entered into an ACO for five of these sites and continues to evaluate how to proceed with respect to participation in the DEC's remediation programs for the other sites.

One of the sites noted above has been fully investigated and requires no further action. The remaining sites will be investigated and, if necessary, remediated under the conditions of ACOs, VCAs or BCAs. Expenditures incurred to date by us with respect to KEDLI MGP-related activities total $106.3 million.

We presently estimate the remaining cost of our environmental remediation activities will be $228.7 million, which amount has been accrued by us as a reasonable estimate of probable cost for known sites however, remediation costs for each site may be materially higher than noted, depending upon changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered.

With respect to remediation costs, the KEDLI rate plan provides for the recovery of investigation and remediation cost. A regulatory asset of $337.5 million for MGP sites is reflected at March 31, 2008.

Insurance Reimbursement of MGP Response Costs: KeySpan and KEDLI have instituted lawsuits in New York against numerous insurance carriers for reimbursement of costs incurred for the investigation and remediation of these MGP sites. In January 1998, KEDLI filed complaints for the recovery of its remediation costs in the New York State Supreme Court against the various insurance companies that issued general comprehensive liability policies to the Company. The outcome of these proceedings cannot yet be determined.

Note 6. Hedging, Derivative Financial Instruments, and Fair Value

Firm Gas Sales Derivative Instruments: KEDLI uses derivative financial instruments to reduce the cash flow variability associated with the purchase price for a portion of future natural gas purchases. Our strategy is to minimize fluctuations in firm gas sales prices to our regulated firm gas sales customers in our service territories. The accounting for these derivative instruments is subject to SFAS 71. Therefore, changes in the market value of these derivatives have been recorded as a regulatory asset or regulatory liability on the Balance Sheet. Gains or losses on the settlement of these contracts are initially deferred and then refunded to or collected from our firm gas sales customers during the appropriate winter heating season consistent with regulatory requirements. At March 31, 2008, these derivatives had a fair value of $28.2 million.

Physically-Settled Commodity Derivative Instruments: SFAS 133 establishes criteria that must be satisfied in order for option contracts, forward contracts with optionally features or contracts that combine a forward contract and a purchased option contract to be exempted as normal purchase and sales. Based upon a continuing review of our physical commodity contracts, we determined that certain contracts are derivatives as defined by current accounting literature. At March 31, 2008, the fair value of these contracts was a liability of $9.0 million.

Other Financially-Settled Commodity Derivative Instruments: Certain derivative instruments employed by our gas operations are not subject to SFAS 71 and thus are not subject to deferral accounting treatment. KEDLI uses OTC natural gas swaps to hedge the cash-flow variability of gas purchases associated with certain large-volume gas sales customers. These gas swaps are accounted for as cash-flow hedges. KEDLI uses market quoted forward prices to value these swap positions. The maximum length of time over which we have hedged such cash flow variability is through December 31, 2008. The fair value of these derivative instruments at March 31, 2008 was $0.9 million.

Interest Rate Derivative Instruments: In the fourth quarter of 2006, KeySpan issued $100 million Senior Unsecured Notes at KEDLI. KeySpan utilized a $125 million treasury lock, at 4.77%, to hedge the 5-year US Treasury component of the underlying notes and a $125 million treasury lock, at 4.82%, to hedge the 10-year US Treasury component of the underlying notes. The settlement of this derivative had no impact on KEDLI's results of operations, financial position or cash flows.

Credit and Collateral: Derivative contracts are primarily used to manage exposure to market risk arising from changes in commodity prices and interest rates. In the event of non-performance by a counterparty to a derivative contract, the desired impact may not be achieved. The risk of counterparty non-performance is generally considered a credit risk and is actively managed by assessing each counterparty credit profile and negotiating appropriate levels of collateral and credit support. In instances where the counterparties' credit quality has declined, or credit exposure exceeds certain levels, we may limit our credit exposure by restricting new transactions with counterparties, requiring additional collateral or credit support and negotiating the early termination of certain agreements. At March 31, 2008, KEDLI has received $0.1 million from its counterparties as collateral associated with outstanding derivative contracts. This amount has been recorded as restricted cash, with an offsetting position in current liabilities on the Balance Sheet.

Fair Value of Financial Instruments: The following table reflects the carrying and fair values of

KEDLI’s fixed long-term debt as of March 31, 2008.

(In Thousands of Dollars)	Carrying Value	Fair Value
5.60% Senior Unsecured Notes due November 2016	$ 100,000	$ 101,154
7.875% Medium-Term Notes due February 2010	400,000	428,623
	$ 500,000	$ 529,777

All other financial instruments on the balance sheet such as cash, accounts receivable and accounts payable are stated at amounts that approximate fair value.

Note 7. Rate Matters

On August 22, 2007, the New York State Public Service Commission (“NYPSC”) unanimously voted to approve the Merger of KeySpan and National Grid plc. The NYPSC issued an abbreviated order and a long-form order on August 23, 2007 and September 17, 2007, respectively, authorizing the Merger subject to conditions and setting partial revenue requirements for KEDLI (“the Order”). In addition, KEDLI reached an agreement in principle with the Staff of the NYPSC and other parties related to gas rates for KEDLI and on October 10, 2007 the Gas Rates Joint Proposal (“the Rates JP”) was filed with the NYPSC for approval. The Rates JP was approved at the NYPSC session on December 21, 2007. Below is a discussion of the more significant aspects of the Order and the Rates JP.

The Order

The Order sets out conditions for the Merger, upon which the NYPSC’s approval was based. These conditions, relate to, among other things, financial protections for customers and potential revenue adjustments that are based on safety, reliability and customer service performance measures.

The Order includes the following restrictions and/or requirements that KEDLI must adhere to.

1. Goodwill, or the amount National Grid plc pays for KeySpan (together with transaction costs) in excess of the book value of the assets and liabilities of the latter and its subsidiaries, will not be reflected on the regulatory books of or in the determination of KEDLI’s rates and the calculation of their earned returns.

2. KEDLI will be able to pay dividends in any year, provided at least two nationally and internationally recognized rating agencies give it an investment grade credit rating. The maximum dividend in any year would be (a) income available for dividends in that year, plus (b) cumulative retained earnings, plus (c) certain paid in capital.

3. KEDLI will be barred from paying dividends when (a) its least secure form of debt is at the lowest investment grade and one or more rating agencies have outstanding negative watch or review downgrade notices, or (b) National Grid plc’s least secure form of debt is rated below investment grade by one or more rating agencies.

4. If KEDLI's bond rating falls below A- or A3, as determined by two nationally recognized credit rating agencies, then any long-term debt issued by the relevant company during the period of such reduced credit rating will be priced as if it had been issued by an A-/A3 utility at the same issue date, and any difference will be credited to KEDLI's customers. KEDLI's earnings sharing reports will then reflect the actual debt rates outstanding for the companies.

5. KEDLI's debt ratio for any 12-month period ending at the end of a fiscal quarter will not exceed 58%. If this limit is exceeded, KEDLI would have a nine month period to reduce the debt limit accordingly, during which the dividends paid out as a percentage of total equity may not be increased. If the stated debt ratio is not met by the end of the nine month cure period, KEDLI may not pay any dividends until the debt limit is met.

6. No debt associated with the Merger will be reflected as an obligation of KEDLI.

7. There will be a regulated money pool in which KEDLI may participate as borrower and lender. The regulated money pool will prohibit its utility participants from directly or indirectly loaning or transferring funds borrowed from the regulated money pool to any unregulated affiliate.

8. There will be no cross-default provisions for any affiliate of National Grid plc that affect KEDLI.

9. KEDLI will establish "golden shares" to prevent a bankruptcy of any National Grid plc affiliate from triggering a bankruptcy of KEDLI. The holder(s) of the golden shares will be determined by the NYPSC.

In addition to the above, KEDLI is subject to maintaining certain service quality and reliability performance standards. These standards focus on safety, reliability and customer service. KEDLI's failure to meet the stated performance targets for calendar years 2008 through 2012 may result in downward revenue adjustments. The safety and reliability performance measures focus primarily on (i) minimum requirements for main and service replacement; (ii) response time for gas leak investigations; and (iii) reduction in the number of hazardous gas leaks. Failure to meet the safety and reliability performance measures can result in downward revenue adjustments of up to $6.2 million for KEDLI. The customer services performance measures focus primarily on (i) reducing the number of customer complaints and customer bill adjustments; (ii) customer survey satisfaction ratings; and (iii) response time associated with customer telephone inquires. Failure to meet the customer service performance measures can result in downward revenue adjustments of up to $9.9 million for KEDLI.

The Gas Rates Joint Proposal

As noted, KEDLI reached an agreement with the Staff of the NYPSC and other parties related to gas rates for KEDLI. The discussion that follows summarizes some of the more significant aspects to the Rate JP.

Under the Rates JP, KEDLI's base delivery rates will be increased by $60 million on January 1, 2008. In rate years two through five, base delivery rates for KEDLI will be increased $ 10 million. However, the increase in KEDLI's delivery rates in years two through five will be deferred and used to offset future increases in Special Franchise taxes and environmental investigation and remediation costs. In addition, certain gas related costs currently being recovered in base delivery rates will be transferred out of base delivery rates on January 1, 2008 and recovered through the gas adjustment clause thereafter. The calculation of the revenue requirement reflects a 50% - 50% sharing of net synergy savings (synergy savings less costs to achieve those synergy savings) that are estimated to be generated as a result of the Merger.

The Rates JP also allows KEDLI to continue to true-up 90% of the difference between actual property and special franchise taxes to the estimated amounts established in the Rates JP. However, KEDLI was required to record a $62 million regulatory liability associated with a Nassau County property tax litigation matter. This amount was recorded as a direct charge to equity and the regulatory liability will be amortized over five years. Additionally, KEDLI is permitted to continue to true-up 100% of the difference between actual environmental site and investigation costs to the estimated amounts established in the Rates JP.

The revenue requirement provides for a sharing of earnings above 10.5% calculated using an equity component of 45%, with earnings above that amount shared with gas sales customers in the following manner. Earnings between 10.5% - 12.5% are shared 50% - 50% between gas sales customers and KEDLI. Earnings between 12.5% - 13.5% are shared 65% to gas sales customers and the remaining 35% to KEDLI. Earnings in excess of 13.5% are refunded to gas sales customers.

Additionally, certain "exogenous costs" that are outside the control of KEDLI, may be deferred for future recovery from or refund to gas sales customers. Exogenous costs are incremental effects on KEDLI's revenue requirements due to any of the following: (i) externally imposed accounting changes; (ii) any change in Federal, state or local taxes; and (iii) any legislative, court or regulatory change

Note 8. Related Party Transactions

KEDLI is engaged in various transactions with KeySpan and its affiliates. For the most part, the various affiliates of KeySpan do not maintain separate cash balances. Financing for KEDLI working capital is obtained through the participation in a money pool. In addition, all cash generated from billings is collected and held by KeySpan's corporate and administrative subsidiary, KeySpan Corporate Services LLC ("KCS"). Further, all payments to third parties for KEDLI payables, including labor, are made by KCS on our behalf. KEDLI is also obligated to reimburse KeySpan for its allocated share of interest on the Allocated Notes.

The money pool is funded by commercial paper issuances by KeySpan and operating funds of KeySpan affiliates. The various KeySpan affiliates can either borrow from or lend to the money pool. Interest expense is charged to "borrowers", while "lenders" can earn interest income. At March 31, 2008, KEDLI had outstanding money pool receivable position of $ 3.4 million. Interest rates associated with the money pool are generally the same as KeySpan's short-term borrowing rate, plus a proportional share of the administrative costs incurred in obtaining the required funds.

KeySpan and its affiliates also provide us with various services, including executive and administrative, customer services, financial (including accounting, auditing, risk management, tax, treasury/finance), human resources, information technology, legal, and strategic planning. The costs of these services are charged to us via inter-company billings and generally settled through the money pool on a monthly basis. At March 31, 2008, we had a $184.4 million liability for these amounts. In addition, we had a $182.9 million liability to KeySpan for allocated pension and other post retirement benefit costs and an intercompany tax payable of $ 291.6 million. Therefore, at March 31, 2008 KEDLI had a money pool receivable of $ 3.4 million and an intercompany payable of $ 658.9 million, for a total net intercompany payable position of $ 655.5 million.

Note 9. Acquisition of Keyspan

On August 24, 2007 National Grid plc purchased all the outstanding stock of KeySpan Corporation for $42.00 per share in cash. The transaction has been accounted for using the purchase method of accounting for business combinations in accordance with SFAS 141 “Business Combination.” As a result of the acquisition, KeySpan ceased to be publicly traded. The purchase price of $7.6 billion was allocated to KeySpan’s net assets based upon their fair value. The historical cost basis of KeySpan’s assets and liabilities associated with its gas distribution businesses, including property, plant and equipment and debt with minor exceptions, was determined to represent fair value due to the existence of regulatory-approved rate plans based upon the recovery of historical costs and a fair return thereon.

Upon acquisition, KeySpan adjusted certain assumptions underlying the calculations for its environmental reserve to align those assumptions with National Grid plc’s environmental reserve assumptions where appropriate. This alignment increased KeySpan’s environmental reserve approximately $343 million - of this amount approximately $113.2 million relates to KEDLI. Since KEDLI is subject to certain deferral accounting requirements mandated by the NYPSC the entire amount of the increase was recorded as a regulatory asset as well. See Footnote 5 “Commitments and Contingencies – Environmental Matters” for additional information on KEDLI’s environmental reserve balances.

Additionally, KeySpan made certain adjustments to its pension and other postretirement reserve balances. KeySpan adjusted certain assumptions underlying the calculations for its pension and other postretirement reserves to align those assumptions with National Grid plc’s pension and postretirement reserve assumptions where appropriate. This alignment reduced KeySpan’s pension and other postretirement reserves approximately $180 million. KEDLI’s applicable share of this reduction was $27.9 million and was recorded to its intercompany accounts payable. Since KEDLI is subject to certain deferral accounting requirements mandated by the NYPSC for pension costs and other postretirement benefit costs all of this decrease was recoded as an “offset” to regulatory assets.

As required by SFAS 141, KeySpan “pushed-down” goodwill associated with the acquisition of KeySpan by National Grid plc to all of its subsidiaries and “realigned” the equity of each subsidiary. As a result of the push-down of goodwill and the resulting realignment of its equity, KEDLI’s goodwill is now $1.0 billion.

As allowed for under SFAS 141, the fair value measurement of assets, liabilities and intangible assets, and the resulting impact on goodwill, can be adjusted during the allocation period. However such period is not to exceed one year. The fair value measurements discussed above are subject to change as a result of the following:(i) finalization and measurement of the financial implications associated with the more significant aspects of the Gas Rates Joint Proposal as discussed in Note 7, "Rate Matters;" (ii) continued measurement and identification of intangible assets; (iii) continued assessment of the deferred tax implications associated with the above adjustments and (iv) continued review of contingent liabilities. The preceding list is not intended to be all inclusive and the final determination of goodwill and intangible assets may be impacted by other fair value measurement adjustments.

Workforce Reduction Program

In connection with the acquisition of KeySpan, National Grid plc and KeySpan offered 673 non-union employees a voluntary early retirement offer ("VERO") in an effort to reduce the workforce. Eligible employees must have been working in a targeted area as of April 13, 2007 and be at least 52 years of age with seven or more years of service as of September 30, 2007. For eligible employees who have elected to accept the VERO offer, National Grid plc and KeySpan have the right to retain that employee for up to three years before VERO payments are made. An employee who accepts the VERO offer but elects to terminate employment with National Grid plc or KeySpan prior to the three year period, without consent of National Grid plc or KeySpan, forfeits all rights to VERO payments. The cost of the VERO offer to KEDLI is estimated to be approximately $11.9 million, which will be deferred for recovery from gas sales customers as part of the synergy savings and cost to achieve calculations. This amount will be accrued over a three year period or over the remaining service period which ever is shorter. Through March 31, 2008, KEDLI has accrued approximately $3.9 million of VERO costs.