

SECURITIES AND EXCHANGE COMMISSION

(Release No. 35-28020)

Filings Under the Public Utility Holding Company Act of 1935, as amended (“Act”)

August 26, 2005

Notice is hereby given that the following filing(s) has/have been made with the Commission pursuant to provisions of the Act and rules promulgated under the Act. All interested persons are referred to the application(s) and/or declaration(s) for complete statements of the proposed transaction(s) summarized below. The application(s) and/or declaration(s) and any amendment(s) is/are available for public inspection through the Commission's Branch of Public Reference.

Interested persons wishing to comment or request a hearing on the application(s) and/or declaration(s) should submit their views in writing by **September 27, 2005**, to the Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-9303, and serve a copy on the relevant applicant(s) and/or declarant(s) at the address(es) specified below. Proof of service (by affidavit or, in the case of an attorney at law, by certificate) should be filed with the request. Any request for hearing should identify specifically the issues of facts or law that are disputed. A person who so requests will be notified of any hearing, if ordered, and will receive a copy of any notice or order issued in the matter. After **September 27, 2005**, the application(s) and/or declaration(s), as filed or as amended, may be granted and/or permitted to become effective.

KeySpan Corporation, et al. (70-09957)

KeySpan Corporation (“KeySpan”) and its wholly owned captive insurance company subsidiary, KeySpan Insurance Company (“KIC”), One MetroTech Center

Brooklyn, New York 11201 have filed a post-effective amendment (“Application”) with the Commission under sections 6(a), 7, 12(b) and 13(b) of the Act and rules 45, 54, 90 and 91 under the Act.

By order dated April 24, 2003, HCAR No. 27669 (“First Captive Order”), the Commission authorized KeySpan to organize a subsidiary to engage in activities associated with a captive insurance company. In accordance with the First Captive Order, KeySpan formed KIC, which is authorized to provide certain insurance services to KeySpan and its subsidiaries (“KeySpan System” and/or “System Companies”). By order dated February 3, 2004, HCAR No. 27795 (“Second Captive Order”), the Commission authorized KeySpan to expand the authority granted to the Applicants under the First Captive Order in order to allow KIC to provide additional insurance services covering property, boiler and machinery “all-risk” insurance services. KeySpan and KIC now seek an expansion of the authorization granted to KeySpan under the First Captive Order and the Second Captive Order (collectively referred to herein as the “Captive Orders”).

Under the Captive Orders, KIC is authorized to provide several major types of coverage to the KeySpan System, including automobile liability, workers’ compensation, general liability, property, and boiler and machinery “all-risk” insurance. In addition, KIC is authorized to provide general liability and workers’ compensation insurance to its principal contractors under an Owner’s Controlled Insurance Program (“OCIP”). The contractors provide scheduled gas main construction and maintenance to the KeySpan System. Except for the general liability and workers’ compensation insurance provided to the principal contractor under OCIP, KIC will not extend or provide to any non-

affiliated company any insurance services, unless otherwise expressly authorized by the Commission.

KIC assumes the risk of the more predictable loss layer from the commercial insurers for automobile and general liability losses, workers' compensation, property, boiler and machinery "all-risk" insurance. Commercial insurance will continue to be purchased for "unpredictable" losses above the predictable loss layers from various commercial insurance companies, as was done under the program prior to the formation of KIC. To the extent that KIC procures insurance at a lower cost than that which could be obtained through traditional insurers, the savings in the premiums flow through ratably to the KeySpan System companies through the operation of the allocation methodology used to establish premiums.

Applicants now propose that KIC would offer the following additional insurance services to the KeySpan System:

- Excess Liability – A reduction of costs could be realized by all system companies, in an amount equal to the percentage of coverage taken on by KIC, if KIC were to take a position in the upper layers of the Excess General Liability insurance purchased from the commercial market. Specifically, the KIC would take a specific percentage of the Company's \$265 million excess of \$35 million excess liability program, not to exceed 25%. Applicants assert that this limitation of 25% would serve to mitigate any potentially adverse event while saving the System Companies a potential 20% when compared to current market pricing.
- Service/Maintenance Contracts Insurance – KIC could be used to underwrite the risks posed to the service companies through warranty contracts. Currently the home

energy service companies are being asked by state regulatory agencies to evidence financial backing of these contracts which does not exist at this time. Applicants assert that a savings of approximately 20% could be realized by using KIC versus utilizing the commercial insurance market.

- Subsidiary Deductible Buy-Down Options – KIC can be used to offer separate deductibles to operating entities according to their individual appetite for risk.

Applicants assert that this would assist the operating entities, especially the smaller ones, in maintaining fiscal responsibility and would place their deductibles more in-line with their business operational risk.

- Weather Insurance – KeySpan currently uses the commercial market to hedge against adverse weather fluctuations in New England. Savings on the profit and administration paid to insurance companies would benefit the System Companies.

Applicants state that System Companies would save approximately 15% by using KIC.

- Certified Terrorism Coverage – If the Terrorism Risk Insurance Act of 2002 (“TRIA”) is extended beyond December 31, 2005, KIC can offer this line of coverage because of its status as a licensed insurance company in the State of Vermont. This would save approximately 10 - 15% in current costs paid to the commercial market. In the event of a certified terrorism loss, KIC would have access to TRIA and would be able to recoup the loss associated with the event, subject to applicable deductible and co-insurance provisions.

- Joint Venture Opportunities – KIC can be a vehicle for insuring predictable risks associated with joint ventures, partnerships or other business combinations.

KeySpan currently insures excess liability, weather insurance, and certified terrorism coverage through the traditional commercial insurance market. It has various deductibles ranging from \$1 million to \$3 million. It purchases limits up to \$2.5 billion from the commercial insurance market. KeySpan does not presently purchase service/maintenance contracts insurance, subsidiary deductible buy-down options, or joint venture opportunities insurance from the commercial insurance market but intends to provide coverage in these areas ranging from \$5 million to \$15 million through KIC.

Applicants state that KIC can be used as a vehicle to lower costs to the KeySpan System companies by acting as a buffer layer between current commercial market deductibles and planned increases in such deductibles. KeySpan could engage the commercial market at higher deductibles than currently possible because KIC would insure the increased risk associated with higher deductibles. Increasing the commercial market deductibles would allow the KeySpan System to reduce commercial market premiums. The premium charged by KIC for this buffer layer would be calculated based on expected losses, utilizing the same method as used by commercial insurance companies. Applicants state that, the premium charged by KIC would not include an additional charge for profit or administration and would therefore provide further savings to the KeySpan System companies.

Applicants state that, to the extent that KIC can provide insurance at a lower cost than that which could be obtained through traditional insurers, the savings would continue to flow through ratably to the KeySpan System companies through the allocation methodology used to establish premiums, as described above. Moreover, there would be no additional staffing requirements for KeySpan System companies. KIC would not be operated to generate profits beyond what is necessary to maintain adequate reserves.

For the Commission by the Division of Investment Management, pursuant to delegated authority.

Margaret H. McFarland
Deputy Secretary