CONSOLIDATED EDISON INC
Form 10-Q
August 02, 2007
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FORM 10-Q

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

x Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended JUNE 30, 2007

OR

¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number	Exact name of registrant as specified in its charter and principal office address and telephone number	State of Incorporation	I.R.S. Employer ID. Number
1-14514	**Consolidated Edison, Inc.**		
	4 Irving Place, New York, New York 10003		
	(212) 460-4600	New York	13-3965100
1-1217	**Consolidated Edison Company of New York, Inc.**		
	4 Irving Place, New York, New York 10003		
	(212) 460-4600	New York	13-5009340

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Con Edison
Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Con Edison of New York

Large accelerated filer ¨	Accelerated filer ¨	Non-accelerated filer x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Con Edison	Yes ¨ No x
Con Edison of New York	Yes ¨ No x

As of the close of business on July 31, 2007, Con Edison had outstanding 270,975,263 Common Shares ($.10 par value). All of the outstanding common equity of Con Edison of New York is held by Con Edison.

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Filing Format

This Quarterly Report on Form 10-Q is a combined report being filed separately by two different registrants: Consolidated Edison, Inc. (Con Edison) and Consolidated Edison Company of New York, Inc. (Con Edison of New York). Con Edison of New York is a subsidiary of Con Edison and, as such, the information in this report about Con Edison of New York also applies to Con Edison. As used in this report, the term the Companies refers to Con Edison and Con Edison of New York. However, Con Edison of New York makes no representation as to the information contained in this report relating to Con Edison or the subsidiaries of Con Edison other than itself.

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Glossary of Terms

The following is a glossary of frequently used abbreviations or acronyms that are found in the Companies SEC reports:

Con Edison Companies	
Con Edison	Consolidated Edison, Inc.
Con Edison Communications	Con Edison Communications, LLC
Con Edison Development	Consolidated Edison Development, Inc.
Con Edison Energy	Consolidated Edison Energy, Inc.
Con Edison of New York	Consolidated Edison Company of New York, Inc.
Con Edison Solutions	Consolidated Edison Solutions, Inc.
O&R	Orange and Rockland Utilities, Inc.
Pike	Pike County Light & Power Company
RECO	Rockland Electric Company
The Companies	Con Edison and Con Edison of New York
The Utilities	Con Edison of New York and O&R
Regulatory and State Agencies	
DEC	New York State Department of Environmental Conservation
EPA	Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
IRS	Internal Revenue Service
ISO-NE	ISO New England
NJBPU	New Jersey Board of Public Utilities
NJDEP	New Jersey Department of Environmental Protection
NYAG	New York Attorney General
NYISO	New York Independent System Operator
NYPA	New York Power Authority
NYSERDA	New York State Energy Research and Development Authority
NYSRC	New York State Reliability Council
PJM	PJM Interconnection
PSC	New York State Public Service Commission
PPUC	Pennsylvania Public Utility Commission
SEC	Securities and Exchange Commission
Other	
ABO	Accumulated Benefit Obligation
APB	Accounting Principles Board
AFDC	Allowance for funds used during construction
CO_2	Carbon dioxide
COSO	Committee of Sponsoring Organizations of the Treadway Commission
DIG	Derivatives Implementation Group
District Court	The United States District Court for the Southern District of New York
dths	Dekatherms
EITF	Emerging Issues Task Force
EMF	Electric and magnetic fields

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Other

ERRP	East River Repowering Project
FASB	Financial Accounting Standards Board
FIN	FASB Interpretation No.
First Quarter Form 10-Q	The Companies combined Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2007
Fitch	Fitch Ratings
Form 10-K	The Companies combined Annual Report on Form 10-K for the year ended December 31, 2006
FSP	FASB Staff Position
GHG	Greenhouse gases
kV	Kilovolts
kWh	Kilowatt-hour
LILO	Lease In/Lease Out
LTIP	Long Term Incentive Plan
MD&A	Management s Discussion and Analysis of Financial Condition and Results of Operations
mdths	Thousand dekatherms
MGP Sites	Manufactured gas plant sites
mmlbs	Million pounds
Moody s	Moody s Investors Service
MVA	Megavolt amperes
MW	Megawatts or thousand kilowatts
MWH	Megawatt hour
NUGs	Non-utility generators
OCI	Other Comprehensive Income
PCBs	Polychlorinated biphenyls
PPA	Power purchase agreement
PRP	Potentially responsible party
S&P	Standard & Poor s Rating Services
SFAS	Statement of Financial Accounting Standards
SO_2	Sulfur dioxide
SSCM	Simplified service cost method
Second Quarter Form 10-Q	The Companies combined Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2007
Superfund	Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 and similar state statutes
VaR	Value-at-Risk
VIE	Variable interest entity

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Consolidated Edison, Inc.

CONSOLIDATED BALANCE SHEET

(UNAUDITED)

	June 30, 2007	*December 31, 2006*
	(Millions of Dollars)	
ASSETS		
UTILITY PLANT, AT ORIGINAL COST		
Electric	$ 15,417	$ 14,775
Gas	3,307	3,233
Steam	1,717	1,691
General	1,675	1,635
TOTAL	22,116	21,334
Less: Accumulated depreciation	4,684	4,583
Net	17,432	16,751
Construction work in progress	858	872
NET UTILITY PLANT	18,290	17,623
NON-UTILITY PLANT		
Generating assets, less accumulated depreciation of $140 and $127 in 2007 and 2006, respectively	773	785
Non-utility property, less accumulated depreciation of $39 and $36 in 2007 and 2006, respectively	31	34
Construction work in progress	3	3
NET PLANT	19,097	18,445
CURRENT ASSETS		
Cash and temporary cash investments	186	94
Restricted cash	17	18
Accounts receivable - customers, less allowance for uncollectible accounts of $45 in 2007 and 2006	867	825
Accrued unbilled revenue	138	122
Other receivables, less allowance for uncollectible accounts of $6 and $4 in 2007 and 2006, respectively	446	522
Fuel oil, at average cost	52	56
Gas in storage, at average cost	188	253
Materials and supplies, at average cost	141	157
Prepayments	125	157
Fair value of derivative assets	52	122
Recoverable energy costs	206	235
Deferred derivative losses	177	237
Other current assets	56	139
TOTAL CURRENT ASSETS	2,651	2,937
INVESTMENTS	381	366
DEFERRED CHARGES, REGULATORY ASSETS AND NONCURRENT ASSETS		
Goodwill	408	406
Intangible assets, less accumulated amortization of $39 and $34 in 2007 and 2006, respectively	75	80
Regulatory assets	4,110	4,179
Other deferred charges and noncurrent assets	428	286
TOTAL DEFERRED CHARGES, REGULATORY ASSETS AND NONCURRENT ASSETS	5,021	4,951
TOTAL ASSETS	$ 27,150	$ 26,699

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

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Consolidated Edison, Inc.

CONSOLIDATED BALANCE SHEET

(UNAUDITED)

	June 30, 2007	December 31, 2006
	(Millions of Dollars)	
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION		
Common shareholders equity (See Statement of Common Shareholders Equity)	$ 8,806	$ 8,004
Preferred stock of subsidiary	213	213
Long-term debt	7,778	8,298
TOTAL CAPITALIZATION	16,797	16,515
MINORITY INTERESTS	42	41
NONCURRENT LIABILITIES		
Obligations under capital leases	24	26
Provision for injuries and damages	156	155
Pension and retiree benefits	857	737
Superfund and other environmental costs	330	292
Uncertain income taxes	147	
Asset retirement obligations	99	97
Fair value of derivative liabilities	57	97
Other noncurrent liabilities	92	93
TOTAL NONCURRENT LIABILITIES	1,762	1,497
CURRENT LIABILITIES		
Long-term debt due within one year	536	374
Notes payable	315	117
Accounts payable	1,119	1,126
Customer deposits	240	228
Accrued taxes	51	36
Accrued interest	136	139
Accrued wages	87	79
Fair value of derivative liabilities	185	395
Deferred derivative gains	9	6
Deferred income taxes - recoverable energy costs	84	96
Other current liabilities	252	276
TOTAL CURRENT LIABILITIES	3,014	2,872
DEFERRED CREDITS AND REGULATORY LIABILITIES		
Deferred income taxes and investment tax credits	4,104	4,095
Regulatory liabilities	1,411	1,657
Other deferred credits	20	22
TOTAL DEFERRED CREDITS AND REGULATORY LIABILITIES	5,535	5,774
TOTAL CAPITALIZATION AND LIABILITIES	$ 27,150	$ 26,699

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

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Consolidated Edison, Inc.

CONSOLIDATED INCOME STATEMENT

(UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2007	2006	2007	2006
	(Millions of Dollars/Except Share Data)			
OPERATING REVENUES				
Electric	$ 1,896	$ 1,666	$ 3,683	$ 3,425
Gas	422	349	1,271	1,192
Steam	128	106	422	381
Non-utility	583	434	1,071	874
TOTAL OPERATING REVENUES	3,029	2,555	6,447	5,872
OPERATING EXPENSES				
Purchased power	1,251	1,019	2,361	2,203
Fuel	181	145	450	400
Gas purchased for resale	250	189	764	745
Other operations and maintenance	504	437	1,002	877
Depreciation and amortization	167	153	331	305
Taxes, other than income taxes	318	299	647	617
Income taxes	78	65	229	172
TOTAL OPERATING EXPENSES	2,749	2,307	5,784	5,319
OPERATING INCOME	280	248	663	553
OTHER INCOME (DEDUCTIONS)				
Investment and other income	21	8	36	20
Allowance for equity funds used during construction	2	1	3	2
Preferred stock dividend requirements of subsidiary	(3)	(3)	(6)	(6)
Other deductions	(13)	(4)	(18)	(9)
Income taxes	5	6	10	1
TOTAL OTHER INCOME (DEDUCTIONS)	12	8	25	8
INTEREST EXPENSE				
Interest on long-term debt	126	119	254	232
Other interest	14	12	29	25
Allowance for borrowed funds used during construction	(2)	(1)	(5)	(2)
NET INTEREST EXPENSE	138	130	278	255
INCOME FROM CONTINUING OPERATIONS	154	126	410	306
INCOME FROM DISCONTINUED OPERATIONS (NET OF INCOME TAXES)		(2)		(1)
NET INCOME	$ 154	$ 124	$ 410	$ 305
EARNINGS PER COMMON SHARE - BASIC				
Continuing operations	$ 0.58	$ 0.51	$ 1.57	$ 1.24
Discontinued operations		(0.01)		
Net income	$ 0.58	$ 0.50	$ 1.57	$ 1.24
EARNINGS PER COMMON SHARE - DILUTED				
Continuing operations	$ 0.58	$ 0.51	$ 1.56	$ 1.24
Discontinued operations		(0.01)		
Net income	$ 0.58	$ 0.50	$ 1.56	$ 1.24
DIVIDENDS DECLARED PER SHARE OF COMMON STOCK	$ 0.580	$ 0.575	$ 1.160	$ 1.150
AVERAGE NUMBER OF SHARES OUTSTANDING - BASIC (IN MILLIONS)	264.9	245.9	261.9	245.7
AVERAGE NUMBER OF SHARES OUTSTANDING - DILUTED (IN MILLIONS)	266.2	246.7	263.1	246.7

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

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Consolidated Edison, Inc.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(UNAUDITED)

	For the Three Months Ended June 30,		*For the Six Months Ended June 30,*	
	2007	*2006*	*2007*	*2006*
	(Millions of Dollars)			
NET INCOME	$ 154	$ 124	$ 410	$ 305
OTHER COMPREHENSIVE INCOME/(LOSS), NET OF TAXES				
Pension plan liability adjustments, net of $1, $0, $2 and $(3) taxes in 2007 and 2006, respectively	2		3	(4)
Unrealized gains/(losses) on derivatives qualified as cash flow hedges, net of $(11), $(8), $3 and $(40) taxes in 2007 and 2006, respectively	(19)	(11)	4	(57)
Less: Reclassification adjustment for losses included in net income, net of $(5), $(10), $(14) and $(28) taxes in 2007 and 2006, respectively	(8)	(14)	(20)	(40)
TOTAL OTHER COMPREHENSIVE INCOME/(LOSS), NET OF TAXES	(9)	3	27	(21)
COMPREHENSIVE INCOME	$ 145	$ 127	$ 437	$ 284

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

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Consolidated Edison, Inc.

CONSOLIDATED STATEMENT OF COMMON SHAREHOLDERS EQUITY

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2007 AND 2006

(UNAUDITED)

	Common Stock		*Additional Paid-*	*Retained*	*Treasury Stock*		*Capital*	*Accumulated Other*	
	Shares	*Amount*	*In Capital*	*Earnings*	*Shares*	*Amount*	*Stock Expense*	*Comprehensive Loss*	*Total*
				(Millions of Dollars/Except Share Data)					
BALANCE AS OF DECEMBER 31, 2005	245,286,058	$ 27	$ 2,768	$ 5,605	23,210,700	$ (1,001)	$ (55)	$ (34)	$ 7,310
Net income				181					181
Common stock dividends				(141)					(141)
Issuance of common shares dividend reinvestment and employee stock plans	456,347		24						24
Stock options			(23)	35					12
Other comprehensive loss								(24)	(24)
BALANCE AS OF MARCH 31, 2006	245,742,405	$ 27	$ 2,769	$ 5,680	23,210,700	$ (1,001)	$ (55)	$ (58)	$ 7,362
Net income				124					124
Common stock dividends				(142)					(142)
Issuance of common shares dividend reinvestment and employee stock plans	491,822		28						28
Other comprehensive income								3	3
BALANCE AS OF JUNE 30, 2006	246,234,227	$ 27	$ 2,797	$ 5,662	23,210,700	$ (1,001)	$ (55)	$ (55)	$ 7,375
BALANCE AS OF DECEMBER 31, 2006	257,456,303	$ 28	$ 3,314	$ 5,804	23,210,700	$ (1,001)	$ (58)	$ (83)	$ 8,004
Net income				256					256
Common stock dividends				(150)					(150)
Issuance of common shares dividend reinvestment and employee stock plans	1,327,669		61						61
Other comprehensive income								36	36
BALANCE AS OF MARCH 31, 2007	258,783,972	$ 28	$ 3,375	$ 5,910	23,210,700	$ (1,001)	$ (58)	$ (47)	$ 8,207
Net income				154					154
Common stock dividends				(156)					(156)
Issuance of common shares public offering	11,000,000	1	559				(2)		558
Issuance of common shares dividend reinvestment and employee stock plans	1,089,068		52						52
Other comprehensive loss								(9)	(9)
BALANCE AS OF JUNE 30, 2007	270,873,040	$ 29	$ 3,986	$ 5,908	23,210,700	$ (1,001)	$ (60)	$ (56)	$ 8,806

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

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Consolidated Edison, Inc.

CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

	For the Six Months Ended June 30,	
	2007	2006
	(Millions of Dollars)	
OPERATING ACTIVITIES		
Net Income	$ 410	$ 305
PRINCIPAL NON-CASH CHARGES/(CREDITS) TO INCOME		
Depreciation and amortization	331	305
Deferred income taxes	89	11
Rate case amortization and accruals	(254)	(137)
Common equity component of allowance for funds used during construction	(3)	(2)
Prepaid pension costs (net of capitalized amounts)	71	15
Other non-cash items (net)	(55)	122
CHANGES IN ASSETS AND LIABILITIES		
Accounts receivable - customers, less allowance for uncollectibles	(42)	347
Materials and supplies, including fuel oil and gas in storage	85	22
Other receivables and other current assets	143	(104)
Prepayments	32	286
Recoverable energy costs	74	89
Accounts payable	(7)	(273)
Pensions and retiree benefits	13	61
Accrued taxes	22	(63)
Accrued interest	(3)	23
Deferred charges, noncurrent assets and other regulatory assets	(257)	(125)
Deferred credits and other regulatory liabilities	146	(9)
Other assets	(10)	8
Other liabilities	36	(78)
NET CASH FLOWS FROM OPERATING ACTIVITIES	821	803
INVESTING ACTIVITIES		
Utility construction expenditures (excluding capitalized support costs of $(30) and $(22) in 2007 and 2006, respectively)	(891)	(872)
Cost of removal less salvage	(73)	(83)
Non-utility construction expenditures	(3)	(2)
Common equity component of allowance for funds used during construction	3	2
Restricted cash	1	(3)
Proceeds from sale of properties	30	60
Proceeds from sale of Con Edison Communications		39
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(933)	(859)
FINANCING ACTIVITIES		
Net proceeds from/(payments of) short-term debt	198	(403)
Retirement of long-term debt	(359)	(109)
Issuance of long-term debt		800

Issuance of common stock	651	20
Debt issuance costs		(7)
Common stock dividends	(286)	(263)
NET CASH FLOWS FROM FINANCING ACTIVITIES	204	38
CASH AND TEMPORARY CASH INVESTMENTS:		
NET CHANGE FOR THE PERIOD	92	(18)
BALANCE AT BEGINNING OF PERIOD	94	81
BALANCE AT END OF PERIOD	$ 186	$ 63
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	$ 226	$ 212
Income taxes	$ 75	$ 171

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

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Consolidated Edison Company of New York, Inc.

Consolidated Balance Sheet

(Unaudited)

	June 30, 2007	December 31, 2006
	(Millions of Dollars)	
Assets		
Utility plant, at original cost		
Electric	$ 14,479	$ 13,872
Gas	2,915	2,848
Steam	1,717	1,691
General	1,546	1,510
Total	20,657	19,921
Less: Accumulated depreciation	4,267	4,173
Net	16,390	15,748
Construction work in progress	833	832
Net utility plant	17,223	16,580
Non-utility property		
Non-utility property, less accumulated depreciation of $17 in 2007 and 2006	13	15
Net plant	17,236	16,595
Current assets		
Cash and temporary cash investments	60	47
Accounts receivable - customers, less allowance for uncollectible accounts of $41 and $40 in 2007 and 2006, respectively	719	716
Other receivables, less allowance for uncollectible accounts of $5 and $3 in 2007 and 2006, respectively	333	365
Accounts receivable from affiliated companies	104	138
Fuel oil, at average cost	45	47
Gas in storage, at average cost	149	193
Materials and supplies, at average cost	127	126
Prepayments	77	84
Fair value of derivative assets	3	
Recoverable energy costs	185	213
Deferred derivative losses	167	213
Other current assets	3	14
Total current assets	1,972	2,156
Investments	101	91
Deferred charges, regulatory assets and noncurrent assets		
Regulatory assets	3,710	3,764
Other deferred charges and noncurrent assets	340	210
Total deferred charges, regulatory assets and noncurrent assets	4,050	3,974
Total assets	$ 23,359	$ 22,816

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

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Consolidated Edison Company of New York, Inc.

CONSOLIDATED BALANCE SHEET

(UNAUDITED)

	June 30, 2007	December 31, 2006
	(Millions of Dollars)	
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION		
Common shareholder s equity (See Statement of Common Shareholder s Equity)	$ 7,761	$ 7,132
Preferred stock	213	213
Long-term debt	6,743	6,925
TOTAL CAPITALIZATION	14,717	14,270
NONCURRENT LIABILITIES		
Obligations under capital leases	24	26
Provision for injuries and damages	150	148
Pensions and retiree benefits	553	449
Superfund and other environmental costs	282	243
Uncertain income taxes	134	
Asset retirement obligations	99	96
Fair value of derivative liabilities	21	35
Other noncurrent liabilities	76	72
TOTAL NONCURRENT LIABILITIES	1,339	1,069
CURRENT LIABILITIES		
Long-term debt due within one year	510	330
Accounts payable	852	866
Accounts payable to affiliated companies	15	14
Customer deposits	225	214
Accrued taxes	147	118
Accrued interest	122	121
Accrued wages	81	71
Fair value of derivative liabilities	83	193
Deferred derivative gains	7	5
Deferred income taxes - recoverable energy costs	75	87
Other current liabilities	215	233
TOTAL CURRENT LIABILITIES	2,332	2,252
DEFERRED CREDITS AND REGULATORY LIABILITIES		
Deferred income taxes and investment tax credits	3,680	3,682
Regulatory liabilities	1,274	1,524
Other deferred credits	17	19
TOTAL DEFERRED CREDITS AND REGULATORY LIABILITIES	4,971	5,225
TOTAL CAPITALIZATION AND LIABILITIES	$ 23,359	$ 22,816

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

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Consolidated Edison Company of New York, Inc.

CONSOLIDATED INCOME STATEMENT

(UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2007	2006	2007	2006
	(Millions of Dollars)			
OPERATING REVENUES				
Electric	$ 1,731	$ 1,543	$ 3,374	$ 3,176
Gas	377	316	1,113	1,052
Steam	128	106	422	381
TOTAL OPERATING REVENUES	2,236	1,965	4,909	4,609
OPERATING EXPENSES				
Purchased power	713	642	1,369	1,417
Fuel	123	100	335	293
Gas purchased for resale	216	169	650	628
Other operations and maintenance	431	364	863	739
Depreciation and amortization	147	135	292	268
Taxes, other than income taxes	303	282	615	581
Income taxes	61	55	197	168
TOTAL OPERATING EXPENSES	1,994	1,747	4,321	4,094
OPERATING INCOME	242	218	588	515
OTHER INCOME (DEDUCTIONS)				
Investment and other income	15	5	25	15
Allowance for equity funds used during construction	2	1	3	2
Other deductions	(3)	(3)	(7)	(7)
Income taxes	(2)	3		2
TOTAL OTHER INCOME (DEDUCTIONS)	12	6	21	12
INTEREST EXPENSE				
Interest on long-term debt	105	96	209	185
Other interest	9	10	23	20
Allowance for borrowed funds used during construction	(2)	(1)	(4)	(2)
NET INTEREST EXPENSE	112	105	228	203
NET INCOME	142	119	381	324
PREFERRED STOCK DIVIDEND REQUIREMENTS	3	3	6	6
NET INCOME FOR COMMON STOCK	$ 139	$ 116	$ 375	$ 318

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

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Consolidated Edison Company of New York, Inc.

Consolidated Statement of Comprehensive Income

(Unaudited)

	For the Three Months Ended June 30,		*For the Six Months Ended June 30,*	
	2007	*2006*	*2007*	*2006*
	(Millions of Dollars)			
Net income	$ 142	$ 119	$ 381	$ 324
Other comprehensive loss, net of taxes				
Pension plan liability adjustments, net of $0, $0, $0 and $(3) taxes in 2007 and 2006, respectively				(4)
Unrealized losses on derivatives qualified as cash flow hedges				(1)
Total other comprehensive loss, net of taxes				(5)
Comprehensive income	$ 142	$ 119	$ 381	$ 319

The accompanying notes are an integral part of these financial statements. 15

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Consolidated Edison Company of New York, Inc.

CONSOLIDATED STATEMENT OF COMMON SHAREHOLDER S EQUITY

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2007 AND 2006

(UNAUDITED)

	Common Stock		*Additional Paid- In*	*Retained*	*Repurchased Con Edison*	*Capital Stock*	*Accumulated Other Comprehensive*	
	Shares	*Amount*	*Capital*	*Earnings*	*Stock*	*Expense*	*Loss*	*Total*
				(Millions of Dollars/Except Share Data)				
BALANCE AS OF DECEMBER 31, 2005	235,488,094	$ 589	$ 1,802	$ 5,074	$ (962)	$ (55)	$ (11)	$ 6,437
Net income				205				205
Common stock dividend to parent				(113)				(113)
Cumulative preferred dividends				(3)				(3)
Other comprehensive loss							(5)	(5)
BALANCE AS OF MARCH 31, 2006	235,488,094	$ 589	$ 1,802	$ 5,163	$ (962)	$ (55)	$ (16)	$ 6,521
Net income				119				119
Common stock dividend to parent				(115)				(115)
Cumulative preferred dividends				(3)				(3)
BALANCE AS OF JUNE 30, 2006	235,488,094	$ 589	$ 1,802	$ 5,164	$ (962)	$ (55)	$ (16)	$ 6,522
BALANCE AS OF DECEMBER 31, 2006	235,488,094	$ 589	$ 2,252	$ 5,320	$ (962)	$ (58)	$ (9)	$ 7,132
Net income				239				239
Common stock dividend to parent				(131)				(131)
Cumulative preferred dividends				(3)				(3)
BALANCE AS OF MARCH 31, 2007	235,488,094	$ 589	$ 2,252	$ 5,425	$ (962)	$ (58)	$ (9)	$ 7,237
Net income				142				142
Common stock dividend to parent				(131)				(131)
Capital contribution by parent			518			(2)		516
Cumulative preferred dividends				(3)				(3)
BALANCE AS OF JUNE 30, 2007	235,488,094	$ 589	$ 2,770	$ 5,433	$ (962)	$ (60)	$ (9)	$ 7,761

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

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Consolidated Edison Company of New York, Inc.

CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

	For the Six Months Ended June 30,	
	2007	2006
	(Millions of Dollars)	
OPERATING ACTIVITIES		
Net income	$ 381	$ 324
PRINCIPAL NON-CASH CHARGES/(CREDITS) TO INCOME		
Depreciation and amortization	292	268
Deferred income taxes	86	31
Rate case amortization and accruals	(254)	(137)
Common equity component of allowance for funds used during construction	(3)	(2)
Prepaid pension costs (net of capitalized amounts)	12	15
Other non-cash items (net)	(32)	(1)
CHANGES IN ASSETS AND LIABILITIES		
Accounts receivable - customers, less allowance for uncollectibles	(3)	308
Materials and supplies, including fuel oil and gas in storage	45	4
Other receivables and other current assets	89	(39)
Prepayments	7	350
Recoverable energy costs	69	85
Accounts payable	(18)	(289)
Pensions and retiree benefits	(7)	35
Accrued taxes	35	(94)
Accrued interest	1	23
Deferred charges, noncurrent assets and other regulatory assets	(248)	(125)
Deferred credits and other regulatory liabilities	156	(4)
Other assets	(1)	
Other liabilities	48	(67)
NET CASH FLOWS FROM OPERATING ACTIVITIES	655	685
INVESTING ACTIVITIES		
Utility construction expenditures (excluding capitalized support costs of $(30) and $(22) in 2007 and 2006, respectively)	(852)	(823)
Cost of removal less salvage	(71)	(82)
Common equity component of allowance for funds used during construction	3	2
Proceeds from sale of properties	30	60
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(890)	(843)
FINANCING ACTIVITIES		
Net payments of short-term debt		(323)
Retirement of long-term debt		(100)
Issuance of long-term debt		800
Debt issuance costs		(7)
Capital contribution by parent	516	
Dividend to parent	(262)	(228)
Preferred stock dividends	(6)	(6)
NET CASH FLOWS FROM FINANCING ACTIVITIES	248	136
CASH AND TEMPORARY CASH INVESTMENTS:		
NET CHANGE FOR THE PERIOD	13	(22)

Balance at beginning of period	47	61
Balance at end of period	$ 60	$ 39
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest	$ 203	$ 161
Income taxes	$ 102	$ 183

The accompanying notes are an integral part of these financial statements. 17

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NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

General

These combined notes accompany and form an integral part of the separate consolidated financial statements of each of the two separate registrants: Consolidated Edison, Inc. and its subsidiaries (Con Edison) and Consolidated Edison Company of New York, Inc. and its subsidiaries (Con Edison of New York). Con Edison of New York is a subsidiary of Con Edison and as such its financial condition and results of operations and cash flows, which are presented separately in the Con Edison of New York consolidated financial statements, are also consolidated, along with those of Con Edison s other utility subsidiary, Orange and Rockland Utilities, Inc. (O&R), and Con Edison s competitive energy businesses (discussed below) in Con Edison s consolidated financial statements. The term Utilities is used in these notes to refer to Con Edison of New York and O&R.

As used in these notes, the term Companies refers to Con Edison and Con Edison of New York and, except as otherwise noted, the information in these combined notes relates to each of the Companies. However, Con Edison of New York makes no representation as to information relating to Con Edison or the subsidiaries of Con Edison other than itself.

The separate interim consolidated financial statements of each of the Companies are unaudited but, in the opinion of their respective managements, reflect all adjustments (which include only normally recurring adjustments) necessary for a fair presentation of the results for the interim periods presented. The Companies separate interim consolidated financial statements should be read together with their separate audited financial statements (including the combined notes thereto) included in Item 8 of their combined Annual Report on Form 10-K for the year ended December 31, 2006 (the Form 10-K) and their separate unaudited financial statements (including the combined notes thereto) included in Part I, Item 1 of their combined Quarterly Report Form 10-Q for the quarterly period ended March 31, 2007 (the First Quarter Form 10-Q). Information in the notes to the consolidated financial statements in the Form 10-K and the First Quarter Form 10-Q referred to in these notes is incorporated by reference herein. The use of terms such as see or refer to shall be deemed to incorporate by reference into this discussion and analysis the information to which reference is made. Certain prior period amounts have been reclassified to conform to the current period presentation. Results for interim periods are not necessarily indicative of results for the entire fiscal year.

Con Edison has two regulated utility subsidiaries: Con Edison of New York and O&R. Con Edison of New York provides electric service and gas service in New York City and Westchester County. The company also provides steam service in parts of Manhattan. O&R, along with its regulated utility subsidiaries, provides electric service in southeastern New York and adjacent areas of northern New Jersey and eastern Pennsylvania and gas service in southeastern New York and adjacent areas of eastern Pennsylvania. Con Edison has the following competitive energy businesses: Consolidated Edison

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NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

Solutions, Inc. (Con Edison Solutions), a retail energy services company that sells electricity and also offers energy-related services; Consolidated Edison Energy, Inc. (Con Edison Energy), a wholesale energy supply company; and Consolidated Edison Development, Inc. (Con Edison Development), a company that owns, leases or operates generating plants and participates in other infrastructure projects.

Note A - Earnings Per Common Share

Reference is made to Earnings Per Common Share in Note A to the financial statements included in Item 8 of the Form 10-K. For the three and six months ended June 30, 2007 and 2006, Con Edison s basic and diluted EPS are calculated as follows:

	For the Three Months Ended June 30,		*For the Six Months Ended June 30,*	
(Millions of Dollars, except per share amounts/Shares in Millions)	*2007*	*2006*	*2007*	*2006*
Income from continuing operations	$ 154	$ 126	$ 410	$ 306
Income from discontinued operations, net of tax		(2)		(1)
Net income	$ 154	$ 124	$ 410	$ 305
Weighted average common shares outstanding - Basic	264.9	245.9	261.8	245.7
Add: Incremental shares attributable to effect of potentially dilutive securities	1.3	0.8	1.3	1.0
Adjusted weighted average common shares outstanding - Diluted	266.2	246.7	263.1	246.7
EARNINGS PER COMMON SHARE - BASIC				
Continuing operations	$ 0.58	$ 0.51	$ 1.57	$ 1.24
Discontinued operations		(0.01)		
Net income	$ 0.58	$ 0.50	$ 1.57	$ 1.24
EARNINGS PER COMMON SHARE - DILUTED				
Continuing operations	$ 0.58	$ 0.51	$ 1.56	$ 1.24
Discontinued operations		(0.01)		
Net income	$ 0.58	$ 0.50	$ 1.56	$ 1.24

Note B - Regulatory Matters

Reference is made to Accounting Policies in Note A and Rate Agreements in Note B to the financial statements included in Item 8 of the Form 10-K and Note B to the financial statements in Part I, Item 1 of the First Quarter Form 10-Q.

Rate Agreements

O&R - Electric

In March 2007, the PSC ordered that O&R s rates be made temporary, the effect of which is that amounts collected by O&R for electric service rendered in New York State after March 1, 2007 will be subject to refund pending the conclusion of a proceeding, which is now ongoing, to set new rates

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NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

effective July 1, 2007. In the order, the PSC confirmed that no issues had been raised regarding the company s service adequacy or operations. In June 2007, O&R commenced an action in New York State Supreme Court seeking to have the order annulled.

Con Edison of New York - Gas

On June 1, 2007, Con Edison of New York entered into a Joint Proposal with the staff of the PSC and other parties with respect to the rates the company can charge its customers for gas service. The Joint Proposal is subject to PSC approval.

The Joint Proposal covers the three-year period from October 1, 2007 through September 30, 2010, and provides for rate increases of $67.4 million, $32.7 million and $42.7 million, effective October 1, 2007, 2008 and 2009, respectively. In addition, under the Joint Proposal revenues will increase $17.1 million starting in the first rate year because certain costs that are currently recovered in rates will instead be recovered under the provisions pursuant to which the company recovers its gas supply-related costs.

Additional provisions of the Joint Proposal include:

earnings in excess of a 10.9 percent return on equity for the first rate year and a 10.7 percent return on equity for the second and third rate years (based upon the actual average equity ratio, subject to a maximum equity ratio of 50 percent of capitalization) would be shared equally with customers, with 20 basis points of the first rate year s earnings sharing threshold predicated on achieving certain energy efficiency goals and the earnings subject to sharing for each rate year being determined after reflecting in earnings the effects of any reduction in expense deferrals (discussed below);

a revenue decoupling mechanism for the first rate year (which may be continued or modified for the second or third rate years) under which the company s revenues from most firm customer classifications would be determined by multiplying the forecasted delivery revenue per customer reflected in gas rates times the actual number of customers and a regulatory asset for recovery from customers would be recorded if actual delivery revenues billed to customers are less than the forecasted amount or a regulatory liability for future customer benefit would be recorded if the actual revenues are more than the forecasted amount;

opportunities to retain for shareholders annual gas net revenues from non-firm customer transactions: 20 percent of any net revenues between $35 million and $50 million and 25 percent of any net revenues above $50 million;

continuation of provisions for the recovery from customers on a current basis of the cost of purchased gas and supply-related costs;

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NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

annual reconciliation of the difference between the actual annual average amount of gas utility plant (excluding plant additions resulting from moving facilities to avoid interfering with government projects), net of depreciation, up to a maximum annual average amount, and the annual average amounts reflected in gas rates, with the revenue requirement impact of the difference recorded as a regulatory asset or a regulatory liability, as the case may be, and a separate reconciliation of interference plant additions that would not be subject to a maximum annual average amount;

annual reconciliations of the differences between the actual amounts of pension and other post-retirement benefit expenses, environmental remediation expenses, property taxes and non-capital expenses resulting from the moving of facilities to avoid interfering with government projects and the amounts reflected for such expenses in gas rates, with the differences (or in the case of property taxes and interference expenses, 90 percent of the differences) deferred as a regulatory asset or accrued as a regulatory liability, as the case may be; provided that earnings above the earnings sharing threshold (discussed above) would reduce the deferral as a regulatory asset of the differences in pension and other post-employment benefit expenses, property taxes and interference expenses by up to 50 percent (but not to the extent the reduction would cause the resulting earnings to decrease below the threshold); and

potential penalties of up to $7.5 million for each rate year if the company does not meet certain standards for leak management, emergency response, prevention of damage to facilities, gas main replacement and customer satisfaction.

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NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

Regulatory Assets and Liabilities

Regulatory assets and liabilities at June 30, 2007 and December 31, 2006 were comprised of the following items:

	Con Edison		*Con Edison of New York*	
(Millions of Dollars)	*2007*	*2006*	*2007*	*2006*
Regulatory assets				
Unrecognized pension and other postretirement costs	$ 1,935	$ 1,929	$ 1,799	$ 1,776
Future federal income tax	1,034	995	978	941
Environmental remediation costs	367	318	304	255
World Trade Center restoration costs	148	147	148	147
Pension and other postretirement benefits deferrals	118	157	54	98
Revenue taxes	71	68	70	67
O&R transition bond charges	65	67		
Net T&D reconciliation	53	94	53	94
Electric rate increase accrual	45	44	45	44
Unbilled gas revenue	44	44	44	44
Workers compensation	43	42	43	42
Other retirement program costs	18	20	18	20
Recoverable energy costs	14	55	14	55
Asbestos-related costs	10	10	10	10
Deferred derivative losses - long-term	5	18	4	15
Other	140	171	126	156
Regulatory assets	4,110	4,179	3,710	3,764
Deferred derivative losses - current	177	237	167	213
Recoverable energy costs - current	206	235	185	213
Total Regulatory Assets	$ 4,493	$ 4,651	$ 4,062	$ 4,190
Regulatory liabilities				
Allowance for cost of removal less salvage	$ 473	$ 492	$ 412	$ 432
Gain on sale of First Avenue properties	144	144	144	144
Net electric deferrals	139	164	139	164
Prior year deferred tax amortization	81	81	81	81
2004 electric, gas and steam one-time rate agreement charges	53	85	53	85
NYS tax law changes	53	38	43	28
Interest on federal income tax refund	41	41	41	41
Net steam deferrals	35	48	35	48
O&R refundable energy costs	34	40		
Gain on sale of W. 24th St. property	32	46	32	46
Transmission congestion contracts	19	96	19	96
Deferred derivative gains - long-term	16	2	6	1
Property tax reconciliation	15	39	15	39
EPA SO_2 allowance proceeds - electric and steam	12	106	12	106
DC service incentive	11	13	11	13
Gas interruptible sales credits	10	8	10	8
Other	243	214	221	192
Regulatory liabilities	1,411	1,657	1,274	1,524
Deferred derivative gains - current	9	6	7	5
Total Regulatory Liabilities	$ 1,420	$ 1,663	$ 1,281	$ 1,529

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NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

In March 2007, in accordance with the 2005 Electric Rate Agreement, the company offset $265 million of regulatory liabilities against an equal amount of regulatory assets. The regulatory liabilities settled related primarily to proceeds from the sale of sulfur dioxide allowances, prior year s transmission congestion contracts auction proceeds, gains from the sale of properties, penalties related to customer outages, and the cost reconciliations for property taxes and interference costs. The regulatory assets recovered related primarily to the Net T&D reconciliation and cost reconciliations for pension and other postretirement benefit costs.

Power Outage Proceedings

During a July 2006 heat wave, electric service was interrupted to a number of Con Edison of New York s customers, predominantly in the company s Long Island City distribution network in Queens, New York. Also, a number of the company s customers in Westchester County, New York, experienced weather-related outages in 2006.

In April 2007, the PSC expanded its ongoing proceeding investigating the Queens outage to also consider the prudence of the company s conduct with respect to the outage. The investigation has been reviewing the circumstances surrounding the outage, the company s response, communication and restoration efforts, the need for changes to the company s practices and procedures and the costs incurred by the company related to the outage. The PSC indicated that the prudence examination should consider and address, among other things: (i) the reasonableness of the company s response to the outage, its monitoring of its distribution system, its use of available information, its procedures for determining whether to shut down the Long Island City network (and the prudence of its decision not to do so) and its operation and maintenance of equipment in the Long Island City network; and (ii) whether and to what extent, the expenses and capital expenditures associated with the outage that the company has incurred, or may incur, should be borne by the company s customers. In February 2007, the PSC staff issued a report on the outage which, among other things, includes the PSC staff s (i) finding that the overriding cause of the outage was the company s failure to adequately operate, maintain and oversee the Long Island City network, (ii) conclusion that the company should have, but failed to, shut down the Long Island City network to minimize the impact of the outage to customers, and (iii) recommendation that the PSC initiate a proceeding to consider the prudence of the company s actions or inactions during the outage.

The PSC is also reviewing the Westchester outages, and has ordered the company to show cause why it should not be liable for certain food spoilage claims in connection with the September 2006 outage in Westchester resulting from Tropical Storm Ernesto.

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NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

The PSC has engaged an independent third party consultant to audit the company s performance in response to outage emergencies and planning for restoration of service.

As of June 30, 2007, Con Edison of New York had paid $14 million, $5 million of which was reimbursed by insurers, to compensate customers for spoilage of food and other perishables resulting from the Queens outage, incurred estimated operating costs of $39 million, net of $1 million of insurance reimbursement, invested $48 million in capital assets and retirements in the Long Island City network after the Queens outage, and accrued penalties under its 2005 electric rate agreement of $18 million relating to customer outages.

In July 2007, the PSC issued a notice requesting comments on the tariff provisions pursuant to which the company is required to reimburse its electric customers for losses resulting from service interruptions in certain circumstances. The current provisions provide for reimbursement to affected residential and commercial customers for food spoilage of up to $450 and $9,000, respectively, with a maximum aggregate of $15 million for an outage. The Company is not required to provide reimbursement for outages caused by certain events such as storms, provided the company makes reasonable efforts to restore service as soon as practicable.

The Companies are unable to predict whether the outages and any related proceedings will have any further material adverse effect on their results of operations or have a material adverse effect on their financial position or liquidity.

Note C - Short-Term Borrowing and Credit Agreements

Reference is made to Note D to the financial statements in Item 8 of the Form 10-K and Note C to the financial statements in Part I, Item 1 of the First Quarter Form 10-Q.

In June 2007, the Companies credit agreement, which was to expire in June 2011, was extended for an additional year, with a maximum of $2.2 billion available to Con Edison of New York and $1 billion available to Con Edison in the additional year.

At June 30, 2007, Con Edison had $314 million of commercial paper outstanding at a weighted average interest rate of 5.5 percent, none of which was outstanding under Con Edison of New York s program. At June 30, 2006, Con Edison had $352 million of commercial paper outstanding of which $197 million was outstanding under Con Edison of New York s program. The weighted average interest rate at June 30, 2006 was 5.4 percent and 5.3 percent for Con Edison and Con Edison of New York, respectively. At June 30, 2007 and 2006, no loans were outstanding under the Companies credit agreements and $47 million and $15 million of letters of credit were outstanding, respectively.

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NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

Note D - Pension Benefits

Reference is made to Note E to the financial statements in Item 8 of the Form 10-K and Note D to the financial statements in Part I, Item 1 of the First Quarter Form 10-Q.

Net Periodic Benefit Cost

The components of the Companies net periodic benefit costs for the three and six months ended June 30, 2007 and 2006 were as follows:

	For the Three Months Ended June 30,			
	Con Edison		*Con Edison of New York*	
(Millions of Dollars)	*2007*	*2006*	*2007*	*2006*
Service cost - including administrative expenses	$ 33	$ 33	$ 31	$ 31
Interest cost on projected benefit obligation	123	115	115	108
Expected return on plan assets	(162)	(155)	(155)	(149)
Amortization of net actuarial loss	40	32	34	26
Amortization of prior service costs	3	4	3	3
NET PERIODIC BENEFIT COST	$ 37	$ 29	$ 28	$ 19
Amortization of regulatory asset*	1	1	1	1
TOTAL PERIODIC BENEFIT COST	$ 38	$ 30	$ 29	$ 20
Cost capitalized	(11)	(9)	(8)	(7)
Cost deferred	(20)	(28)	(18)	(24)
Cost charged/(credited) to operating expenses	$ 7	$ (7)	$ 3	$ (11)

* Relates to increases in Con Edison of New York s pension obligations of $33 million from a 1993 special retirement program and $45 million from a 1999 special retirement program.

	For the Six Months Ended June 30,			
	Con Edison		*Con Edison of New York*	
(Millions of Dollars)	*2007*	*2006*	*2007*	*2006*
Service cost - including administrative expenses	$ 66	$ 67	$ 61	$ 62
Interest cost on projected benefit obligation	246	229	230	215
Expected return on plan assets	(323)	(310)	(309)	(298)
Amortization of net actuarial loss	80	63	69	52
Amortization of prior service costs	5	7	5	6
NET PERIODIC BENEFIT COST	$ 74	$ 56	$ 56	$ 37
Amortization of regulatory asset*	2	2	2	2
TOTAL PERIODIC BENEFIT COST	$ 76	$ 58	$ 58	$ 39
Cost capitalized	(23)	(17)	(18)	(13)
Cost deferred	(49)	(58)	(45)	(51)
Cost charged/(credited) to operating expenses	$ 4	$ (17)	$ (5)	$ (25)

* Relates to increases in Con Edison of New York s pension obligations of $33 million from a 1993 special retirement program and $45 million from a 1999 special retirement program.

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NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

Note E - Other Postretirement Benefits

Reference is made to Note F to the financial statements in Item 8 of the Form 10-K and Note E to the financial statements in Part I, Item 1 of the First Quarter Form 10-Q.

Net Periodic Benefit Cost

The components of the Companies net periodic postretirement benefit costs for the three and six months ended June 30, 2007 and 2006 were as follows:

	For the Three Months Ended June 30,			
	Con Edison		*Con Edison of New York*	
(Millions of Dollars)	*2007*	*2006*	*2007*	*2006*
Service cost	$ 5	$ 5	$ 4	$ 4
Interest cost on accumulated other postretirement benefit obligation	23	22	21	19
Expected return on plan assets	(20)	(20)	(19)	(18)
Amortization of net actuarial loss	16	15	14	12
Amortization of prior service cost	(3)	(4)	(3)	(4)
Amortization of transition obligation	1	1	1	1
NET PERIODIC POSTRETIREMENT BENEFIT COST	$ 22	$ 19	$ 18	$ 14
Cost capitalized	(8)	(5)	(6)	(4)
Cost deferred	(9)	(9)	(9)	(7)
Cost charged to operating expenses	$ 5	$ 5	$ 3	$ 3

	For the Six Months Ended June 30,			
	Con Edison		*Con Edison of New York*	
(Millions of Dollars)	*2007*	*2006*	*2007*	*2006*
Service cost	$ 9	$ 9	$ 7	$ 7
Interest cost on accumulated other postretirement benefit obligation	46	43	41	38
Expected return on plan assets	(40)	(39)	(37)	(36)
Amortization of net actuarial loss	33	29	29	24
Amortization of prior service cost	(7)	(7)	(7)	(7)
Amortization of transition obligation	2	2	2	2
NET PERIODIC POSTRETIREMENT BENEFIT COST	$ 43	$ 37	$ 35	$ 28
Cost capitalized	(15)	(11)	(12)	(9)
Cost deferred	(20)	(15)	(18)	(12)
Cost charged to operating expenses	$ 8	$ 11	$ 5	$ 7

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NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

Note F - Environmental Matters

Superfund Sites

Hazardous substances, such as asbestos, polychlorinated biphenyls (PCBs) and coal tar, have been used or generated in the course of operations of the Utilities and their predecessors and are present at sites and in facilities and equipment they currently or previously owned, including sites at which gas was manufactured or stored.

The Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 and similar state statutes (Superfund) impose joint and several liability, regardless of fault, upon generators of hazardous substances for investigation and remediation costs (which include costs of demolition, removal, disposal, storage, replacement, containment, and monitoring) and environmental damages. Liability under these laws can be material and may be imposed for contamination from past acts, even though such past acts may have been lawful at the time they occurred. The sites at which the Utilities have been asserted to have liability under these laws, including their manufactured gas plant sites, are referred to herein as Superfund Sites.

For Superfund Sites where there are other potentially responsible parties and the Utilities are not managing the site investigation and remediation, the accrued liability represents an estimate in 2006 dollars of the amount the Utilities will need to pay to discharge their related obligations. For Superfund Sites (including the manufactured gas plant sites) for which one of the Utilities is managing the investigation and remediation, the accrued liability represents an estimate in 2006 dollars of the company s share of undiscounted cost to investigate the sites and, for sites that have been investigated in whole or in part, the cost to remediate the sites. Remediation costs are estimated in light of the information available, applicable remediation standards, and experience with similar sites.

The accrued liabilities and regulatory assets related to Superfund Sites at June 30, 2007 and December 31, 2006 were as follows:

	Con Edison		*Con Edison of New York*	
(Millions of Dollars)	*2007*	*2006*	*2007*	*2006*
Accrued Liabilities:				
Manufactured gas plant sites	$ 268	$ 228	$ 221	$ 180
Other Superfund Sites	62	64	61	63
Total	$ 330	$ 292	$ 282	$ 243
Regulatory assets	$ 367	$ 318	$ 304	$ 255

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NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

Most of the accrued Superfund Site liability relates to sites that have been investigated, in whole or in part. As investigations progress on these and other sites, the Utilities expect that additional liability will be accrued, the amount of which is not presently determinable but may be material. Under their current rate agreements, the Utilities are permitted to recover or defer as regulatory assets (for subsequent recovery through rates) certain site investigation and remediation costs.

Environmental remediation payments and insurance recoveries received related to Superfund Sites for the three and six months ended June 30, 2007 and 2006 were as follows:

	For the Three Months Ended June 30,			
	Con Edison		*Con Edison of New York*	
(Millions of Dollars)	*2007*	*2006*	*2007*	*2006*
Remediation payments	$ 9	$ 17	$ 7	$ 13
Insurance recoveries received	1	3	1	3

	For the Six Months Ended June 30,			
	Con Edison		*Con Edison of New York*	
(Millions of Dollars)	*2007*	*2006*	*2007*	*2006*
Remediation payments	$ 18	$ 29	$ 16	$ 24
Insurance recoveries received	1	3	1	3

In 2006, Con Edison of New York estimated that for its manufactured gas plant sites, its aggregate undiscounted potential liability for the investigation and remediation of coal tar and/or other manufactured gas plant-related environmental contaminants could range up to $1.1 billion. In 2006, O&R estimated that for its manufactured gas plant sites, each of which has been investigated, the aggregate undiscounted potential liability for the remediation of such contaminants could range up to $96 million. These estimates were based on the assumption that there is contamination at the sites that have not yet been investigated and additional assumptions about these and the other sites regarding the extent of contamination and the type and extent of remediation that may be required. Actual experience may be materially different.

Asbestos Proceedings

Suits have been brought in New York State and federal courts against the Utilities and many other defendants, wherein a large number of plaintiffs sought large amounts of compensatory and punitive damages for deaths and injuries allegedly caused by exposure to asbestos at various premises of the Utilities. The suits that have been resolved, which are many, have been resolved without any payment

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NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) CONTINUED

by the Utilities, or for amounts that were not, in the aggregate, material to them. The amounts specified in all the remaining thousands of suits total billions of dollars; however, the Utilities believe that these amounts are greatly exaggerated, based on the disposition of previous claims. In 2006, Con Edison of New York estimated that its aggregate undiscounted potential liability for these suits and additional suits that may be brought over the next 15 years is $10 million. The estimate was based upon a combination of modeling, historical data analysis and risk factor assessment. Actual experience may be materially different. In addition, certain current and former employees have claimed or are claiming workers compensation benefits based on alleged disability from exposure to asbestos. Under its current rate agreements, Con Edison of New York is permitted to defer as regulatory assets (for subsequent recovery through rates) costs incurred for its asbestos lawsuits and workers compensation claims. The accrued liability for asbestos suits and workers compensation proceedings (including those related to asbestos exposure) and the amounts deferred as regulatory assets for the Companies at June 30, 2007 and December 31, 2006 were as follows:

	Con Edison		*Con Edison of New York*	
(Millions of Dollars)	*2007*	*2006*	*2007*	*2006*
Accrued liability - asbestos suits	$ 10	$ 10	$ 10	$ 10
Regulatory assets - asbestos suits	$ 10	$ 10	$ 10	$ 10
Accrued liability - workers compensation	$ 119	$ 117	$ 114	$ 112
Regulatory assets - workers compensation	$ 43	$ 42	$ 43	$ 42

Note G - Other Material Contingencies

Manhattan Steam Main Rupture

In July 2007, a Con Edison of New York steam main located in midtown Manhattan ruptured for reasons that have not yet been determined. It has been reported that one person died and others were injured as a result of the incident. Debris from the incident included dirt and mud containing asbestos. The response to the incident has required the closing of several buildings and streets for various periods. The company has notified its insurers of the incident and believes that the policies currently in force will cover most of the company s costs, which could be substantial, to satisfy its liability to others in connection with the incident.

Lease In/Lease Out Transactions

In each of 1997 and 1999, Con Edison Development entered into a transaction in which it leased property and then immediately subleased it back to the lessor (termed Lease In/Lease Out, or LILO transaction). The transactions respectively involve gas distribution and electric generating facilities in the Netherlands, with a total investment of $259 million. The transactions were financed with $93 million of equity and $166 million of non-recourse, long-term debt secured by the underlying assets. In

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accordance with Statement of Financial Accounting Standards (SFAS) No. 13, Accounting for Leases, Con Edison is accounting for the two LILO transactions as leveraged leases. Accordingly, the company s investment in these leases, net of non-recourse debt, is carried as a single amount in Con Edison s consolidated balance sheet and income is recognized pursuant to a method that incorporates a level rate of return for those years when net investment in the lease is positive, based upon the after-tax cash flows projected at the inception of the leveraged leases. At June 30, 2007 and December 31, 2006, the company s investment in these leveraged leases ($234 million and $232 million, respectively) net of deferred tax liabilities ($217 million and $208 million, respectively), amounted to $17 million and $24 million, respectively.

On audit of Con Edison s tax return for 1997, the Internal Revenue Service (IRS) disallowed the tax losses in connection with the 1997 LILO transaction. In December 2005, Con Edison paid a $0.3 million income tax deficiency asserted by the IRS for the tax year 1997 with respect to the 1997 LILO transaction. In April 2006, the company paid interest of $0.2 million associated with the deficiency and commenced an action in the United States Court of Federal Claims, entitled Consolidated Edison Company of New York, Inc. v. United States, to obtain a refund of this tax payment and interest. In September 2006, at the audit level, the IRS also disallowed $151 million of net tax deductions taken with respect to both of the LILO transactions for the tax years 1998 through 2001. In November 2006, Con Edison filed an appeal of this disallowance with the Appeals Office of the IRS, where consideration of this matter is pending. In March 2007, at the audit level, the IRS disallowed $43 million of net tax deductions taken with respect to both of the LILO transactions for the tax year 2005. Con Edison filed an appeal of this disallowance with the Appeals Office of the IRS, where consideration of this matter is pending.

Con Edison believes that its LILO transactions have been correctly reported, and has not recorded any reserve with respect to the disallowance of tax losses, or related interest, in connection with its LILO transactions. Con Edison s estimated tax savings, reflected in its financial statements, from the two LILO transactions through June 30, 2007, in the aggregate, was $163 million. If Con Edison were required to repay all or a portion of these amounts, it would also be required to pay interest of up to $53 million.

Northeast Utilities Litigation

Con Edison and Northeast Utilities are pursuing claims against each other for damages as a result of the alleged breach of their agreement and plan of merger, dated as of October 13, 1999, as amended and restated as of January 11, 2000. The litigation, entitled Consolidated Edison, Inc. v. Northeast Utilities, was commenced in March 2001 and is pending in the United States District Court for the Southern District of New York. The parties are seeking to recover from each other fees and expenses

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each incurred in connection with the merger agreement and preparing for the merger. In addition, Con Edison is seeking to recover from Northeast Utilities compensation for synergies that were lost when the merger did not occur, together with the attorney s fees it has incurred in connection with the litigation. Con Edison does not expect that the lawsuit will have a material adverse effect on its financial position, results of operations or liquidity.

Mirant Litigation

In June 2007, the United States Bankruptcy Court for the Northern District of Texas approved the settlement of the legal proceedings relating to the June 1999 sale of generating assets by Con Edison of New York and O&R to affiliates of Mirant Corporation (which had filed a petition for reorganization under the U.S. Bankruptcy Code). Pursuant to the settlement, the proceedings against Con Edison of New York and O&R were dismissed, with prejudice, and they paid certain amounts to the Mirant affiliates, which, in aggregate, were not material to the Companies.

Guarantees

Con Edison and its subsidiaries enter into various agreements providing financial or performance assurance primarily to third parties on behalf of their subsidiaries. In addition, a Con Edison Development subsidiary has issued a guarantee on behalf of an entity in which it has an equity interest. Maximum amounts guaranteed by Con Edison totaled $1.3 billion and $1.2 billion at June 30, 2007 and December 31, 2006, respectively.

A summary, by type and term, of Con Edison s total guarantees at June 30, 2007 is as follows:

Guarantee Type	*0 3 years*	*4 10 years*	*> 10 years*	*Total*
		(Millions of Dollars)		
Commodity transactions	$ 893	$ 33	$ 211	$ 1,137
Affordable housing program		22		22
Intra-company guarantees	45		1	46
Other guarantees	44	42		86
TOTAL	$ 982	$ 97	$ 212	$ 1,291

For a description of guarantee types, see Note H to the financial statements in Item 8 of the Form 10-K.

Note H - Income Tax

Uncertain Tax Positions

Reference is made to Note H to the financial statements in Part I, Item 1 of the First Quarter Form 10-Q for information about the Companies January 2007 adoption of Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48).

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The Companies uncertain tax positions include use of the simplified service cost method (SSCM) to determine the extent to which construction-related costs could be deducted in 2002 through 2005. The Companies expect that they will be required to repay, with interest, a portion of their past SSCM tax benefits ($331 million, of which $303 million is attributable to Con Edison of New York) and to capitalize and depreciate over a period of years costs they previously deducted under SSCM. Interest on all past SSCM tax benefits for Con Edison and Con Edison of New York could be approximately $99 million and $90 million, respectively. Repayment of the SSCM tax benefits would not otherwise affect the Companies results of operations because deferred taxes have been previously provided for the related temporary differences between the SSCM deductions taken for federal income tax purposes and the corresponding amounts charged to expense for financial reporting purposes.

At June 30, 2007, the liabilities for uncertain tax positions for Con Edison and Con Edison of New York were $147 million and $134 million, respectively, and accrued interest on the liabilities amounted to $32 million and $28 million, respectively. The Companies recognize interest accrued related to the liability for uncertain tax positions in interest expense and penalties, if any, in operating expenses in the Companies consolidated income statements. The Companies recognized interest expense for uncertain tax positions for the three and six months ended June 30, 2007 were as follows:

	For the Three Months Ended June 30, 2007		*For the Six Months Ended June 30, 2007*	
(Millions of Dollars)	*Con Edison*	*Con Edison of New York*	*Con Edison*	*Con Edison of New York*
Interest expense	$ 6	$ 3	$ 10	$ 7

In June 2007, Con Edison paid $160 million to the Internal Revenue Service, $147 million of which is attributable to Con Edison of New York, as a deposit for the repayment, including related interest, that the Companies expect will be required with respect to the past SSCM benefits. As a result, for federal income tax purposes, interest will continue to accrue only on the portion of the liability, if any, that exceeds the deposit. Con Edison and Con Edison of New York have recorded the deposit as a noncurrent asset on their consolidated balance sheet.

The Companies do not expect the total amounts of uncertain tax positions to significantly increase or decrease within the next 12 months.