CONSOLIDATED EDISON INC
Form 10-Q
August 03, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
x Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2017
OR
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to

Commission File Number	Exact name of registrant as specified in its charter and principal executive 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.

Consolidated Edison, Inc. (Con Edison) Yes x No ¨
Consolidated Edison Company of New York, Inc. (CECONY) Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Con Edison Yes x No ¨
CECONY Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer”, “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Con Edison
Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨
Smaller reporting company ¨ Emerging growth company ¨
CECONY
Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x
Smaller reporting company ¨ Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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
CECONY Yes ¨ No x

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As of July 31, 2017, Con Edison had outstanding 305,674,488 Common Shares ($.10 par value). All of the outstanding common equity of CECONY is held by Con Edison.

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. (CECONY). CECONY is a wholly-owned subsidiary of Con Edison and, as such, the information in this report about CECONY also applies to Con Edison. As used in this report, the term the “Companies” refers to Con Edison and CECONY. However, CECONY 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 abbreviations or acronyms that are used in the Companies' SEC reports:

Con Edison Companies

Con Edison	Consolidated Edison, Inc.
CECONY	Consolidated Edison Company of New York, Inc.
Clean Energy Businesses	Con Edison Clean Energy Businesses, Inc., together with its subsidiaries
Con Edison Development	Consolidated Edison Development, Inc.
Con Edison Energy	Consolidated Edison Energy, Inc.
Con Edison Solutions	Consolidated Edison Solutions, Inc.
Con Edison Transmission	Con Edison Transmission, Inc., together with its subsidiaries
CET Electric	Consolidated Edison Transmission, LLC
CET Gas	Con Edison Gas Pipeline and Storage, LLC
O&R	Orange and Rockland Utilities, Inc.
RECO	Rockland Electric Company
The Companies	Con Edison and CECONY
The Utilities	CECONY and O&R

Regulatory Agencies, Government Agencies and Other Organizations

EPA	U.S. Environmental Protection Agency
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
IASB	International Accounting Standards Board
IRS	Internal Revenue Service
NJBPU	New Jersey Board of Public Utilities
NJDEP	New Jersey Department of Environmental Protection
NYISO	New York Independent System Operator
NYPA	New York Power Authority
NYSDEC	New York State Department of Environmental Conservation
NYSERDA	New York State Energy Research and Development Authority
NYSPSC	New York State Public Service Commission
NYSRC	New York State Reliability Council, LLC
PJM	PJM Interconnection LLC
SEC	U.S. Securities and Exchange Commission

Accounting

AFUDC	Allowance for funds used during construction
ASU	Accounting Standards Update
GAAP	Generally Accepted Accounting Principles in the United States of America
OCI	Other Comprehensive Income
VIE	Variable Interest Entity

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Environmental	
CO_2	Carbon dioxide
GHG	Greenhouse gases
MGP Sites	Manufactured gas plant sites
PCBs	Polychlorinated biphenyls
PRP	Potentially responsible party
RGGI	Regional Greenhouse Gas Initiative
Superfund	Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 and similar state statutes
Units of Measure	
AC	Alternating current
Bcf	Billion cubic feet
Dt	Dekatherms
kV	Kilovolt
kWh	Kilowatt-hour
MDt	Thousand dekatherms
MMlb	Million pounds
MVA	Megavolt ampere
MW	Megawatt or thousand kilowatts
MWh	Megawatt hour
Other	
AMI	Advanced metering infrastructure
COSO	Committee of Sponsoring Organizations of the Treadway Commission
DER	Distributed energy resources
EGWP	Employer Group Waiver Plan
Fitch	Fitch Ratings
First Quarter Form 10-Q	The Companies' combined Quarterly Report on Form 10-Q for the quarterly period ended March 31 of the current year
Second Quarter Form 10-Q	The Companies' combined Quarterly Report on Form 10-Q for the quarterly period ended June 30 of the current year
Form 10-K	The Companies’ combined Annual Report on Form 10-K for the year ended December 31, 2016
LTIP	Long Term Incentive Plan
Moody’s	Moody’s Investors Service
REV	Reforming the Energy Vision
S&P	S&P Global Ratings
VaR	Value-at-Risk

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FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements intended to qualify for the safe-harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are statements of future expectation and not facts. Words such as “forecasts,” “expects,” “estimates,” “anticipates,” “intends,” “believes,” “plans,” “will” and similar expressions identify forward-looking statements. Forward-looking statements are based on information available at the time the statements are made, and accordingly speak only as of that time. Actual results or developments might differ materially from those included in the forward-looking statements because of various factors including, but not limited to:

- the Companies are extensively regulated and are subject to penalties;
- the Utilities’ rate plans may not provide a reasonable return;
- the Companies may be adversely affected by changes to the Utilities’ rate plans;
- the intentional misconduct of employees or contractors could adversely affect the Companies;
- the failure of, or damage to, the Companies’ facilities could adversely affect the Companies;
- a cyber attack could adversely affect the Companies;
- the Companies are exposed to risks from the environmental consequences of their operations;
- a disruption in the wholesale energy markets or failure by an energy supplier could adversely affect the Companies;
- the Companies have substantial unfunded pension and other postretirement benefit liabilities;
- Con Edison’s ability to pay dividends or interest depends on dividends from its subsidiaries;
- the Companies require access to capital markets to satisfy funding requirements;
- changes to tax laws could adversely affect the Companies;
- the Companies’ strategies may not be effective to address changes in the external business environment; and
- the Companies also face other risks that are beyond their control.

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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,	
	2017	2016	2017	2016
	(Millions of Dollars/ Except Per Share Data)			
OPERATING REVENUES				
Electric	$1,965	$2,035	$3,899	$3,947
Gas	435	336	1,297	1,012
Steam	88	85	385	343
Non-utility	145	338	280	648
TOTAL OPERATING REVENUES	2,633	2,794	5,861	5,950
OPERATING EXPENSES				
Purchased power	408	558	793	1,249
Fuel	38	33	139	104
Gas purchased for resale	149	81	470	239
Other operations and maintenance	773	820	1,553	1,607
Depreciation and amortization	332	302	662	599
Taxes, other than income taxes	511	485	1,052	995
TOTAL OPERATING EXPENSES	2,211	2,279	4,669	4,793
Gain on sale of solar electric production project	1	—	1	—
OPERATING INCOME	423	515	1,193	1,157
OTHER INCOME (DEDUCTIONS)				
Investment income	20	7	39	7
Other income	17	8	23	12
Allowance for equity funds used during construction	2	2	5	4
Other deductions	(5)	(6)	(7)	(11)
TOTAL OTHER INCOME	34	11	60	12
INCOME BEFORE INTEREST AND INCOME TAX EXPENSE	457	526	1,253	1,169
INTEREST EXPENSE				
Interest on long-term debt	179	167	356	330
Other interest	3	5	7	12
Allowance for borrowed funds used during construction	(2)	(2)	(3)	(3)
NET INTEREST EXPENSE	180	170	360	339
INCOME BEFORE INCOME TAX EXPENSE	277	356	893	830
INCOME TAX EXPENSE	102	124	330	288
NET INCOME	$175	$232	$563	$542
Net income per common share—basic	$0.57	$0.78	$1.84	$1.83
Net income per common share—diluted	$0.57	$0.77	$1.84	$1.82
DIVIDENDS DECLARED PER COMMON SHARE	$0.69	$0.67	$1.38	$1.34
AVERAGE NUMBER OF SHARES OUTSTANDING—BASIC (IN MILLIONS)	305.4	299.1	305.3	296.7
AVERAGE NUMBER OF SHARES OUTSTANDING—DILUTED (IN MILLIONS)	306.8	300.4	306.7	298.0

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,	
	2017	2016	2017	2016
	(Millions of Dollars)			
NET INCOME	$175	$232	$563	$542
OTHER COMPREHENSIVE INCOME, NET OF TAXES				
Pension and other postretirement benefit plan liability adjustments, net of taxes	1	1	—	1
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAXES	1	1	—	1
COMPREHENSIVE INCOME	$176	$233	$563	$543

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,	
	2017	2016
	(Millions of Dollars)	
OPERATING ACTIVITIES		
Net income	$563	$542
PRINCIPAL NON-CASH CHARGES/(CREDITS) TO INCOME		
Depreciation and amortization	662	599
Deferred income taxes	359	268
Rate case amortization and accruals	(62)	(112)
Common equity component of allowance for funds used during construction	(5)	(4)
Net derivative (gains)/losses	2	(33)
(Gain)/Loss on sale of solar electric production project	(1)	—
Other non-cash items, net	(43)	42
CHANGES IN ASSETS AND LIABILITIES		
Accounts receivable – customers	128	101
Materials and supplies, including fuel oil and gas in storage	(18)	29
Other receivables and other current assets	12	(38)
Income taxes receivable	29	151
Prepayments	(36)	(15)
Accounts payable	(94)	(21)
Pensions and retiree benefits obligations, net	213	302
Pensions and retiree benefits contributions	(283)	(307)
Accrued taxes	(22)	(16)
Accrued interest	(18)	3
Superfund and environmental remediation costs, net	(6)	60
Distributions from equity investments	52	24
System benefit charge	132	151
Deferred charges, noncurrent assets and other regulatory assets	(45)	(98)
Deferred credits and other regulatory liabilities	(17)	75
Other current and noncurrent liabilities	72	(72)
NET CASH FLOWS FROM OPERATING ACTIVITIES	1,574	1,631
INVESTING ACTIVITIES		
Utility construction expenditures	(1,425)	(1,344)
Cost of removal less salvage	(122)	(95)
Non-utility construction expenditures	(225)	(331)
Investments in electric and gas transmission projects	(16)	(79)
Investments in/acquisitions of renewable electric production projects	(1)	(1,171)
Proceeds from the transfer of assets to NY Transco	—	122
Proceeds from sale of assets	34	—
Restricted cash	28	(6)
Other investing activities	24	(82)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(1,703)	(2,986)
FINANCING ACTIVITIES		

Net payment of short-term debt	(18)	(821)
Issuance of long-term debt	997	1,765
Retirement of long-term debt	(426)	(6)
Debt issuance costs	(11)	(15)
Common stock dividends	(398)	(378)
Issuance of common shares - public offering	—	702
Issuance of common shares for stock plans	25	27
Distribution to noncontrolling interest	—	(1)
NET CASH FLOWS FROM FINANCING ACTIVITIES	169	1,273
CASH AND TEMPORARY CASH INVESTMENTS:		
NET CHANGE FOR THE PERIOD	40	(82)
BALANCE AT BEGINNING OF PERIOD	776	944
BALANCE AT END OF PERIOD	$816	$862
SUPPLEMENTAL DISCLOSURE OF CASH INFORMATION		
Cash paid/(received) during the period for:		
Interest	$372	$318
Income taxes	$(35)	$(142)
SUPPLEMENTAL DISCLOSURE OF NON-CASH INFORMATION		
Construction expenditures in accounts payable	$308	$254
Issuance of common shares for dividend reinvestment	$23	$23

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

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Consolidated Edison, Inc.
CONSOLIDATED BALANCE SHEET (UNAUDITED)

	June 30, 2017	December 31, 2016
	(Millions of Dollars)	
ASSETS		
CURRENT ASSETS		
Cash and temporary cash investments	$816	$776
Accounts receivable – customers, less allowance for uncollectible accounts of $63 and $69 in 2017 and 2016, respectively	984	1,106
Other receivables, less allowance for uncollectible accounts of $8 and $14 in 2017 and 2016, respectively	165	195
Income taxes receivable	50	79
Accrued unbilled revenue	436	447
Fuel oil, gas in storage, materials and supplies, at average cost	357	339
Prepayments	195	159
Regulatory assets	77	100
Restricted cash	26	54
Other current assets	174	151
TOTAL CURRENT ASSETS	3,280	3,406
INVESTMENTS	1,961	1,921
UTILITY PLANT, AT ORIGINAL COST		
Electric	28,339	27,747
Gas	7,828	7,524
Steam	2,452	2,421
General	2,844	2,719
TOTAL	41,463	40,411
Less: Accumulated depreciation	8,738	8,541
Net	32,725	31,870
Construction work in progress	1,212	1,175
NET UTILITY PLANT	33,937	33,045
NON-UTILITY PLANT		
Non-utility property, less accumulated depreciation of $170 and $140 in 2017 and 2016, respectively	1,535	1,482
Construction work in progress	779	689
NET PLANT	36,251	35,216
OTHER NONCURRENT ASSETS		
Goodwill	428	428
Intangible assets, less accumulated amortization of $10 and $6 in 2017 and 2016, respectively	116	124
Regulatory assets	6,935	7,024
Other deferred charges and noncurrent assets	128	136
TOTAL OTHER NONCURRENT ASSETS	7,607	7,712
TOTAL ASSETS	$49,099	$48,255

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

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Consolidated Edison, Inc.
CONSOLIDATED BALANCE SHEET (UNAUDITED)

	June 30, 2017	December 31, 2016
	(Millions of Dollars)	
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Long-term debt due within one year	$637	$39
Notes payable	1,036	1,054
Accounts payable	973	1,147
Customer deposits	345	352
Accrued taxes	42	64
Accrued interest	132	150
Accrued wages	103	101
Fair value of derivative liabilities	64	77
Regulatory liabilities	64	128
System benefit charge	566	434
Other current liabilities	367	297
TOTAL CURRENT LIABILITIES	4,329	3,843
NONCURRENT LIABILITIES		
Provision for injuries and damages	171	160
Pensions and retiree benefits	1,652	1,847
Superfund and other environmental costs	745	753
Asset retirement obligations	252	246
Fair value of derivative liabilities	74	40
Deferred income taxes and unamortized investment tax credits	10,549	10,205
Regulatory liabilities	1,886	1,905
Other deferred credits and noncurrent liabilities	240	215
TOTAL NONCURRENT LIABILITIES	15,569	15,371
LONG-TERM DEBT	14,703	14,735
EQUITY		
Common shareholders' equity	14,490	14,298
Noncontrolling interest	8	8
TOTAL EQUITY (See Statement of Equity)	14,498	14,306
TOTAL LIABILITIES AND EQUITY	$49,099	$48,255

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

Consolidated Edison, Inc.
CONSOLIDATED STATEMENT OF EQUITY (UNAUDITED)

(In Millions)	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock		Capital Stock Expense	Accumulated Other Comprehensive Income/(Loss)	Noncontrolling Interest	Total
	Shares	Amount			Shares	Amount				
BALANCE AS OF DECEMBER 31, 2015	293	$32	$5,030	$9,123	23	$(1,038)	$(61)	$(34)	$9	$13,061
Net income				310						310
Common stock dividends				(197)						(197)
Issuance of common shares for stock plans	1		28							28
Other comprehensive income										—
Noncontrolling interest									(1)	(1)
BALANCE AS OF MARCH 31, 2016	294	$32	$5,058	$9,236	23	$(1,038)	$(61)	$(34)	$8	$13,201
Net income				232						232
Common stock dividends				(204)						(204)
Issuance of common shares - public offering	10	1	723				(22)			702
Issuance of common shares for stock plans			26							26
Other comprehensive income								1		1
Noncontrolling interest										—
BALANCE AS OF JUNE 30, 2016	304	$33	$5,807	$9,264	23	$(1,038)	$(83)	$(33)	$8	$13,958
BALANCE AS OF DECEMBER 31, 2016	305	$33	$5,854	$9,559	23	$(1,038)	$(83)	$(27)	$8	$14,306
Net income				388						388
Common stock dividends				(211)						(211)
Issuance of common shares for stock plans			24							24
Other comprehensive loss								(1)		(1)
Noncontrolling interest										—
BALANCE AS OF MARCH 31, 2017	305	$33	$5,878	$9,736	23	$(1,038)	$(83)	$(28)	$8	$14,506
Net income				175						175

Common stock dividends				(210)						(210)
Issuance of common shares for stock plans	1		26							26
Other comprehensive income								1		1
Noncontrolling interest										—
BALANCE AS OF JUNE 30, 2017	306	$33	$5,904	$9,701	23	$(1,038)	$(83)	$(27)	$8	$14,498

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,	
	2017	2016	2017	2016
	(Millions of Dollars)			
OPERATING REVENUES				
Electric	$1,817	$1,892	$3,610	$3,665
Gas	388	304	1,153	905
Steam	88	85	386	343
TOTAL OPERATING REVENUES	2,293	2,281	5,149	4,913
OPERATING EXPENSES				
Purchased power	363	369	710	721
Fuel	38	33	139	104
Gas purchased for resale	84	51	314	183
Other operations and maintenance	638	701	1,301	1,381
Depreciation and amortization	296	275	591	547
Taxes, other than income taxes	487	460	1,003	944
TOTAL OPERATING EXPENSES	1,906	1,889	4,058	3,880
OPERATING INCOME	387	392	1,091	1,033
OTHER INCOME (DEDUCTIONS)				
Investment and other income	3	1	7	2
Allowance for equity funds used during construction	2	2	5	4
Other deductions	(4)	(1)	(6)	(6)
TOTAL OTHER INCOME	1	2	6	—
INCOME BEFORE INTEREST AND INCOME TAX EXPENSE	388	394	1,097	1,033
INTEREST EXPENSE				
Interest on long-term debt	151	146	301	290
Other interest	4	4	8	9
Allowance for borrowed funds used during construction	(1)	(1)	(3)	(2)
NET INTEREST EXPENSE	154	149	306	297
INCOME BEFORE INCOME TAX EXPENSE	234	245	791	736
INCOME TAX EXPENSE	91	84	309	264
NET INCOME	$143	$161	$482	$472

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,	
	2017	2016	2017	2016
	(Millions of Dollars)			
NET INCOME	$143	$161	$482	$472
OTHER COMPREHENSIVE INCOME, NET OF TAXES				
Pension and other postretirement benefit plan liability adjustments, net of taxes	—	1	—	1
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAXES	—	1	—	1
COMPREHENSIVE INCOME	$143	$162	$482	$473

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,	
	2017	2016
	(Millions of Dollars)	
OPERATING ACTIVITIES		
Net income	$482	$472
PRINCIPAL NON-CASH CHARGES/(CREDITS) TO INCOME		
Depreciation and amortization	591	547
Deferred income taxes	326	283
Rate case amortization and accruals	(72)	(120)
Common equity component of allowance for funds used during construction	(5)	(4)
Other non-cash items, net	(18)	15
CHANGES IN ASSETS AND LIABILITIES		
Accounts receivable – customers	125	102
Materials and supplies, including fuel oil and gas in storage	(4)	18
Other receivables and other current assets	56	(64)
Accounts receivable from affiliated companies	17	92
Prepayments	(20)	3
Accounts payable	(60)	(54)
Accounts payable to affiliated companies	3	5
Pensions and retiree benefits obligations, net	191	287
Pensions and retiree benefits contributions	(281)	(306)
Superfund and environmental remediation costs, net	(4)	67
Accrued taxes	(17)	(15)
Accrued taxes to affiliated companies	(119)	(2)
Accrued interest	—	(3)
System benefit charge	120	138
Deferred charges, noncurrent assets and other regulatory assets	(72)	(100)
Deferred credits and other regulatory liabilities	11	89
Other current and noncurrent liabilities	(16)	(51)
NET CASH FLOWS FROM OPERATING ACTIVITIES	1,234	1,399
INVESTING ACTIVITIES		
Utility construction expenditures	(1,341)	(1,268)
Cost of removal less salvage	(119)	(92)
Proceeds from the transfer of assets to NY Transco	—	122
Restricted cash	—	13
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(1,460)	(1,225)
FINANCING ACTIVITIES		
Net issuance/(payment) of short-term debt	150	(425)
Issuance of long-term debt	500	550
Debt issuance costs	(6)	(6)
Capital contribution by parent	45	51
Dividend to parent	(398)	(372)

NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES	291	(202)
CASH AND TEMPORARY CASH INVESTMENTS:		
NET CHANGE FOR THE PERIOD	65	(28)
BALANCE AT BEGINNING OF PERIOD	702	843
BALANCE AT END OF PERIOD	$767	$815
SUPPLEMENTAL DISCLOSURE OF CASH INFORMATION		
Cash paid/(received) during the period for:		
Interest	$296	$285
Income taxes	$86	$(117)
SUPPLEMENTAL DISCLOSURE OF NON-CASH INFORMATION		
Construction expenditures in accounts payable	$234	$196

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, 2017	December 31, 2016
	(Millions of Dollars)	
ASSETS		
CURRENT ASSETS		
Cash and temporary cash investments	$767	$702
Accounts receivable – customers, less allowance for uncollectible accounts of $58 and $65 in 2017 and 2016, respectively	914	1,032
Other receivables, less allowance for uncollectible accounts of $7 and $13 in 2017 and 2016, respectively	78	81
Accrued unbilled revenue	400	399
Accounts receivable from affiliated companies	92	109
Fuel oil, gas in storage, materials and supplies, at average cost	274	270
Prepayments	120	100
Regulatory assets	68	90
Restricted cash	2	2
Other current assets	46	95
TOTAL CURRENT ASSETS	2,761	2,880
INVESTMENTS	361	315
UTILITY PLANT, AT ORIGINAL COST		
Electric	26,687	26,122
Gas	7,095	6,814
Steam	2,452	2,421
General	2,597	2,490
TOTAL	38,831	37,847
Less: Accumulated depreciation	8,017	7,836
Net	30,814	30,011
Construction work in progress	1,140	1,104
NET UTILITY PLANT	31,954	31,115
NON-UTILITY PROPERTY		
Non-utility property, less accumulated depreciation of $25 in 2017 and 2016	4	4
NET PLANT	31,958	31,119
OTHER NONCURRENT ASSETS		
Regulatory assets	6,404	6,473
Other deferred charges and noncurrent assets	64	69
TOTAL OTHER NONCURRENT ASSETS	6,468	6,542
TOTAL ASSETS	$41,548	$40,856

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, 2017	December 31, 2016
	(Millions of Dollars)	
LIABILITIES AND SHAREHOLDER’S EQUITY		
CURRENT LIABILITIES		
Long-term debt due within one year	$600	$—
Notes payable	750	600
Accounts payable	756	876
Accounts payable to affiliated companies	11	30
Customer deposits	333	336
Accrued taxes	33	50
Accrued taxes to affiliated companies	—	119
Accrued interest	111	111
Accrued wages	94	91
Fair value of derivative liabilities	40	96
Regulatory liabilities	49	20
System benefit charge	518	398
Other current liabilities	204	262
TOTAL CURRENT LIABILITIES	3,505	2,989
NONCURRENT LIABILITIES		
Provision for injuries and damages	165	154
Pensions and retiree benefits	1,314	1,584
Superfund and other environmental costs	651	655
Asset retirement obligations	232	217
Fair value of derivative liabilities	63	63
Deferred income taxes and unamortized investment tax credits	9,795	9,430
Regulatory liabilities	1,686	1,712
Other deferred credits and noncurrent liabilities	209	150
TOTAL NONCURRENT LIABILITIES	14,115	13,965
LONG-TERM DEBT	11,970	12,073
SHAREHOLDER’S EQUITY (See Statement of Shareholder’s Equity)	11,958	11,829
TOTAL LIABILITIES AND SHAREHOLDER’S EQUITY	$41,548	$40,856

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

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Consolidated Edison Company of New York, Inc.
CONSOLIDATED STATEMENT OF SHAREHOLDER'S EQUITY (UNAUDITED)

	Common Stock		Additional Paid-In	Retained Earnings	Repurchased Con Edison Stock	Capital Stock Expense	Accumulated Other Comprehensive Income/(Loss)	Total
(In Millions)	Shares	Amount	Capital					
BALANCE AS OF DECEMBER 31, 2015	235	$589	$4,247	$7,611	$(962)	$(61)	$(9)	$11,415
Net income				310				310
Common stock dividend to parent				(186)				(186)
Capital contribution by parent			23					23
Other comprehensive income							—	—
BALANCE AS OF MARCH 31, 2016	235	$589	$4,270	$7,735	$(962)	$(61)	$(9)	$11,562
Net income				161				161
Common stock dividend to parent				(186)				(186)
Capital contribution by parent			28					28
Other comprehensive income							1	1
BALANCE AS OF JUNE 30, 2016	235	$589	$4,298	$7,710	$(962)	$(61)	$(8)	$11,566
BALANCE AS OF DECEMBER 31, 2016	235	$589	$4,347	$7,923	$(962)	$(61)	$(7)	$11,829
Net income				339				339
Common stock dividend to parent				(199)				(199)
Capital contribution by parent			22					22
Other comprehensive income								—
BALANCE AS OF MARCH 31, 2017	235	$589	$4,369	$8,063	$(962)	$(61)	$(7)	$11,991
Net income				143				143
Common stock dividend to parent				(199)				(199)
Capital contribution by parent			23					23
Other comprehensive income								—
BALANCE AS OF JUNE 30, 2017	235	$589	$4,392	$8,007	$(962)	$(61)	$(7)	$11,958

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

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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 (CECONY). CECONY 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 CECONY consolidated financial statements, are also consolidated, along with those of Orange and Rockland Utilities, Inc. (O&R), Con Edison Clean Energy Businesses, Inc. (together with its subsidiaries, the Clean Energy Businesses) and Con Edison Transmission, Inc. (together with its subsidiaries, Con Edison Transmission) in Con Edison's consolidated financial statements. The term "Utilities" is used in these notes to refer to CECONY and O&R.

As used in these notes, the term "Companies" refers to Con Edison and CECONY and, except as otherwise noted, the information in these combined notes relates to each of the Companies. However, CECONY 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, 2016 and their separate unaudited financial statements (including the combined notes thereto) included in Part 1, Item 1 of their combined Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2017. Certain prior period amounts have been reclassified to conform to the current period presentation.

Con Edison has two regulated utility subsidiaries: CECONY and O&R. CECONY 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 subsidiary, provides electric service in southeastern New York and northern New Jersey and gas service in southeastern New York. Con Edison Clean Energy Businesses, Inc. has three subsidiaries: Consolidated Edison Development, Inc. (Con Edison Development), a company that develops, owns and operates renewable and energy infrastructure projects; Consolidated Edison Energy, Inc. (Con Edison Energy), a company that provides energy-related products and services to wholesale customers; and Consolidated Edison Solutions, Inc. (Con Edison Solutions), a company that provides energy-related products and services to retail customers. Con Edison Transmission, Inc. invests in electric transmission facilities through its subsidiary, Consolidated Edison Transmission, LLC (CET Electric), and invests in gas pipeline and storage facilities through its subsidiary Con Edison Gas Pipeline and Storage, LLC (CET Gas).

Note A – Summary of Significant Accounting Policies

Earnings Per Common Share

Con Edison presents basic and diluted earnings per share on the face of its consolidated income statement. Basic earnings per share (EPS) are calculated by dividing earnings available to common shareholders ("Net income" on Con Edison's consolidated income statement) by the weighted average number of Con Edison common shares outstanding during the period. In the calculation of diluted EPS, weighted average shares outstanding are increased for additional shares that would be outstanding if potentially dilutive securities were converted to common stock.

Potentially dilutive securities for Con Edison consist of restricted stock units, deferred stock units and stock options for which the average market price of the common shares for the period was greater than the exercise price.

For the three and six months ended June 30, 2017 and 2016, basic and diluted EPS for Con Edison are calculated as follows:

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	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(Millions of Dollars, except per share amounts/Shares in Millions)	2017	2016	2017	2016
Net income	$175	$232	$563	$542
Weighted average common shares outstanding – basic	305.4	299.1	305.3	296.7
Add: Incremental shares attributable to effect of potentially dilutive securities	1.4	1.3	1.4	1.3
Adjusted weighted average common shares outstanding – diluted	306.8	300.4	306.7	298.0
Net Income per common share – basic	$0.57	$0.78	$1.84	$1.83
Net Income per common share – diluted	$0.57	$0.77	$1.84	$1.82

The computation of diluted EPS for the six months ended June 30, 2016 excludes immaterial amounts of performance share awards that were not included because of their anti-dilutive effect.

Changes in Accumulated Other Comprehensive Income/(Loss) by Component

For the three and six months ended June 30, 2017 and 2016, changes to accumulated other comprehensive income/(loss) (OCI) for Con Edison and CECONY are as follows:

	For the Three Months Ended June 30,			
	Con Edison		CECONY	
(Millions of Dollars)	2017	2016	2017	2016
Beginning balance, accumulated OCI, net of taxes (a)	$(28)	$(34)	$(7)	$(9)
Amounts reclassified from accumulated OCI related to pension plan liabilities, net of tax of $(1) for Con Edison in 2017 and 2016 (a)(b)	1	1	—	1
Current period OCI, net of taxes	1	1	—	1
Ending balance, accumulated OCI, net of taxes	$(27)	$(33)	$(7)	$(8)

	For the Six Months Ended June 30,			
	Con Edison		CECONY	
(Millions of Dollars)	2017	2016	2017	2016
Beginning balance, accumulated OCI, net of taxes (a)	$(27)	$(34)	$(7)	$(9)
OCI before reclassifications, net of tax of $1 for Con Edison in 2017 and 2016	(2)	(1)	—	—
Amounts reclassified from accumulated OCI related to pension plan liabilities, net of tax of $(2) for Con Edison in 2017 and 2016 (a)(b)	2	2	—	1
Current period OCI, net of taxes	—	1	—	1
Ending balance, accumulated OCI, net of taxes	$(27)	$(33)	$(7)	$(8)

(a) Tax reclassified from accumulated OCI is reported in the income tax expense line item of the consolidated income statement.

(b) For the portion of unrecognized pension and other postretirement benefit costs relating to the Utilities, costs are recorded into, and amortized out of, regulatory assets instead of OCI. The net actuarial losses and prior service costs recognized during the period are included in the computation of total periodic pension and other postretirement benefit cost. See Notes E and F.

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Note B — Regulatory Matters
Rate Plans
Rockland Electric Company (RECO)
In February 2017, the New Jersey Board of Public Utilities (NJBPU) approved a stipulation of settlement for a RECO electric rate plan commencing March 2017. The following table contains a summary of the electric rate plan.

RECO	
Effective period	March 2017 (a)
Base rate changes	Yr. 1 - $1.7 million
Amortization to income of net regulatory (assets) and liabilities	$0.2 million over three years and continuation of $(25.6) million of deferred storm costs over four years expiring July 31, 2018 (b)
Recoverable energy costs	Current rate recovery of purchased power costs.
Cost reconciliations	None
Average rate base	Yr. 1 - $178.7 million
Weighted average cost of capital (after-tax)	7.47 percent
Authorized return on common equity	9.6 percent
Cost of long-term debt	5.37 percent
Common equity ratio	49.7 percent

(a) Effective until a new rate plan approved by the NJBPU goes into effect.
(b) In January 2016, the NJBPU approved RECO’s plan to spend $15.7 million in capital over three years to harden its electric system against storms, the costs of which RECO, beginning in 2017, is collecting through a customer surcharge.

In January 2017, RECO filed a request with FERC for an increase to its annual transmission revenue requirement from $11.8 million to $19.7 million. The filing reflects a return on common equity of 10.7 percent and a common equity ratio of 48 percent.

Other Regulatory Matters
At its August 2, 2017 meeting, the New York State Public Service Commission (NYSPSC) voted to issue an order in its proceeding investigating an April 21, 2017 Metropolitan Transportation Authority (MTA) subway power outage. The NYSPSC indicated that the outage resulted from a failure of CECONY’s electricity supply to a subway station and led to a loss of the subway signals. The NYSPSC also indicated that the company’s failure to document the rerouting of secondary services to the MTA facility significantly delayed repair. The company anticipates that, pursuant to the NYSPSC order, it will be required to take certain actions, including performing inspections of electrical equipment that serves the MTA system, analyzing power supply and power quality events affecting the MTA’s signaling services, providing new monitoring and other equipment and filing monthly reports with the NYSPSC on all of the company's activities related to the MTA system. In July 2017, the Chairman of the NYSPSC notified the company that the April 21, 2017 subway power outage incident will likely result in a prudence review of the reasonableness of CECONY’s actions and conduct. The company does not anticipate that the NYSPSC order will commence a prudence review or address cost recovery. The company is unable to estimate the amount or range of its possible costs related to this matter.

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Regulatory Assets and Liabilities

Regulatory assets and liabilities at June 30, 2017 and December 31, 2016 were comprised of the following items:

	Con Edison		CECONY	
(Millions of Dollars)	2017	2016	2017	2016
Regulatory assets				
Unrecognized pension and other postretirement costs	$2,768	$2,874	$2,612	$2,730
Future income tax	2,413	2,439	2,302	2,325
Environmental remediation costs	807	823	697	711
Revenue taxes	327	295	311	280
Deferred derivative losses	77	48	70	42
Pension and other postretirement benefits deferrals	59	38	32	7
Municipal infrastructure support costs	54	44	54	44
Deferred storm costs	44	56	—	3
Unamortized loss on reacquired debt	40	43	38	41
Indian Point Energy Center program costs	40	50	40	50
Surcharge for New York State assessment	32	28	30	26
O&R property tax reconciliation	32	37	—	—
Brooklyn Queens demand management program	26	29	26	29
Preferred stock redemption	25	25	25	25
Net electric deferrals	17	24	17	24
Recoverable energy costs	15	42	15	38
Workers' compensation	14	13	14	13
O&R transition bond charges	12	15	—	—
Other	133	101	121	85
Regulatory assets – noncurrent	6,935	7,024	6,404	6,473
Deferred derivative losses	71	91	65	86
Recoverable energy costs	6	9	3	4
Regulatory assets – current	77	100	68	90
Total Regulatory Assets	$7,012	$7,124	$6,472	$6,563
Regulatory liabilities				
Allowance for cost of removal less salvage	$786	$755	$661	$641
Pension and other postretirement benefit deferrals	206	193	177	162
Net unbilled revenue deferrals	164	145	164	145
Property tax reconciliation	148	178	148	178
Unrecognized other postretirement costs	88	60	88	60
Settlement of prudence proceeding	80	95	80	95
Carrying charges on repair allowance and bonus depreciation	55	68	54	67
New York State income tax rate change	53	61	52	60
Variable-rate tax-exempt debt – cost rate reconciliation	43	55	38	48
Base rate change deferrals	31	40	31	40
Settlement of gas proceedings	27	27	27	27
Earnings sharing - electric, gas and steam	22	39	13	28
Net utility plant reconciliations	12	16	10	15
Other	171	173	143	146
Regulatory liabilities – noncurrent	1,886	1,905	1,686	1,712
Refundable energy costs	29	29	10	5
Revenue decoupling mechanism	29	71	27	61

Deferred derivative gains	6	28	5	24
Regulatory liabilities – current	64	128	42	90
Total Regulatory Liabilities	$1,950	$2,033	$1,728	$1,802

Note C — Capitalization

In March 2017, Con Edison issued $400 million aggregate principal amount of 2.00 percent debentures, due 2020, and prepaid the $400 million variable rate term loan that was to mature in 2018. Also, in March 2017, a Con Edison Development subsidiary issued $97 million aggregate principal amount of 4.45 percent senior notes, due 2042,

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secured by the company's Upton County Solar project. In June 2017, CECONY issued $500 million aggregate principal amount of 3.875 percent debentures, due 2047.

The carrying amounts and fair values of long-term debt at June 30, 2017 and December 31, 2016 were:

(Millions of Dollars)	2017		2016	
Long-Term Debt (including current portion) (a)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Con Edison	$15,340	$17,052	$14,774	$16,093
CECONY	$12,570	$14,104	$12,073	$13,268

(a) Amounts shown are net of unamortized debt expense and unamortized debt discount of $139 million and $116 million for Con Edison and CECONY, respectively, as of June 30, 2017 and $134 million and $113 million for Con Edison and CECONY, respectively, as of December 31, 2016.

Fair values of long-term debt have been estimated primarily using available market information. For Con Edison, $16,416 million and $636 million of the fair value of long-term debt at June 30, 2017 are classified as Level 2 and Level 3, respectively. For CECONY, $13,468 million and $636 million of the fair value of long-term debt at June 30, 2017 are classified as Level 2 and Level 3, respectively (see Note L). The $636 million of long-term debt classified as Level 3 is CECONY's tax-exempt, auction-rate securities for which the market is highly illiquid and there is a lack of observable inputs.

Note D — Short-Term Borrowing

At June 30, 2017, Con Edison had $1,036 million of commercial paper outstanding of which $750 million was outstanding under CECONY's program. The weighted average interest rate at June 30, 2017 was 1.3 percent for both Con Edison and CECONY. At December 31, 2016, Con Edison had $1,054 million of commercial paper outstanding of which $600 million was outstanding under CECONY's program. The weighted average interest rate at December 31, 2016 was 1.0 percent for both Con Edison and CECONY.

At June 30, 2017 and December 31, 2016, no loans were outstanding under the credit agreement (Credit Agreement). An immaterial amount and $2 million (including $2 million for CECONY) of letters of credit were outstanding under the Credit Agreement as of June 30, 2017 and December 31, 2016, respectively.

Note E — Pension Benefits

Total Periodic Benefit Cost

The components of the Companies' total periodic benefit costs for the three and six months ended June 30, 2017 and 2016 were as follows:

	For the Three Months Ended June 30,			
	Con Edison		CECONY	
(Millions of Dollars)	2017	2016	2017	2016
Service cost – including administrative expenses	$66	$69	$61	$65
Interest cost on projected benefit obligation	148	149	139	140
Expected return on plan assets	(243)	(237)	(229)	(225)
Recognition of net actuarial loss	149	149	141	141
Recognition of prior service costs	(4)	1	(5)	—
TOTAL PERIODIC BENEFIT COST	$116	$131	$107	$121
Cost capitalized	(51)	(53)	(48)	(50)
Reconciliation to rate level	(3)	13	(5)	14

Cost charged to operating expenses	$62	$91	$54	$85

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	For the Six Months Ended June 30,			
	Con Edison		CECONY	
(Millions of Dollars)	2017	2016	2017	2016
Service cost – including administrative expenses	$132	$138	$123	$129
Interest cost on projected benefit obligation	296	298	277	280
Expected return on plan assets	(484)	(474)	(459)	(449)
Recognition of net actuarial loss	297	298	282	282
Recognition of prior service costs	(9)	2	(10)	1
NET PERIODIC BENEFIT COST	$232	$262	$213	$243
Cost capitalized	(94)	(106)	(88)	(99)
Reconciliation to rate level	(14)	26	(16)	26
Cost charged to operating expenses	$124	$182	$109	$170

Expected Contributions

Based on estimates as of June 30, 2017, the Companies expect to make contributions to the pension plans during 2017 of $450 million (of which $412 million is to be contributed by CECONY). The Companies' policy is to fund the total periodic benefit cost of the qualified plan to the extent tax deductible and to also contribute to the non-qualified supplemental plans. During the first six months of 2017, the Companies contributed $283 million to the pension plans, nearly all of which was contributed by CECONY. CECONY also contributed $14 million to its external trust supplemental plans.

Note F — Other Postretirement Benefits

Total Periodic Benefit Cost

The components of the Companies' total periodic other postretirement benefit costs for the three and six months ended June 30, 2017 and 2016 were as follows:

	For the Three Months Ended June 30,			
	Con Edison		CECONY	
(Millions of Dollars)	2017	2016	2017	2016
Service cost	$5	$4	$3	$3
Interest cost on accumulated other postretirement benefit obligation	11	12	10	10
Expected return on plan assets	(17)	(19)	(15)	(17)
Recognition of net actuarial loss/(gain)	1	1	(1)	1
Recognition of prior service cost	(4)	(5)	(3)	(3)
TOTAL PERIODIC OTHER POSTRETIREMENT BENEFIT COST	$(4)	$(7)	$(6)	$(6)
Cost capitalized	2	2	3	2
Reconciliation to rate level	(1)	7	(1)	6
Cost charged to operating expenses	$(3)	$2	$(4)	$2

	For the Six Months Ended June 30,			
	Con Edison		CECONY	
(Millions of Dollars)	2017	2016	2017	2016

Service cost	$10	$9	$7	$7
Interest cost on accumulated other postretirement benefit obligation	23	24	19	20
Expected return on plan assets	(35)	(38)	(30)	(34)
Recognition of net actuarial loss/(gain)	1	2	(2)	1
Recognition of prior service cost	(8)	(10)	(6)	(7)
TOTAL PERIODIC OTHER POSTRETIREMENT BENEFIT COST	$(9)	$(13)	$(12)	$(13)
Cost capitalized	4	3	5	3
Reconciliation to rate level	(2)	14	(1)	14
Cost charged to operating expenses	$(7)	$4	$(8)	$4

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Expected Contributions

Based on estimates as of June 30, 2017, Con Edison expects to make a contribution of $16 million, of which $8 million is to be contributed by CECONY, to the other postretirement benefit plans in 2017. The Companies' policy is to fund the total periodic benefit cost of the plans to the extent tax deductible.

Note G — 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 natural resource 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 and any neighboring areas to which contamination may have migrated, 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 of the amount the Utilities will need to pay to investigate and, where determinable, 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 of the company’s share of the undiscounted cost to investigate the sites and, for sites that have been investigated in whole or in part, the cost to remediate the sites, if remediation is necessary and if a reasonable estimate of such cost can be made. 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, 2017 and December 31, 2016 were as follows:

	Con Edison		CECONY	
(Millions of Dollars)	2017	2016	2017	2016
Accrued Liabilities:				
Manufactured gas plant sites	$659	$664	$565	$567
Other Superfund Sites	86	89	86	88
Total	$745	$753	$651	$655
Regulatory assets	$807	$823	$697	$711

Most of the accrued Superfund Site liability relates to sites that have been investigated, in whole or in part. However, for some of the sites, the extent and associated cost of the required remediation has not yet been determined. As investigations progress and information pertaining to the required remediation becomes available, the Utilities expect that additional liability may be accrued, the amount of which is not presently determinable but may be material. The Utilities are permitted to recover or defer as regulatory assets (for subsequent recovery through rates) prudently incurred site investigation and remediation costs.

Environmental remediation costs incurred related to Superfund Sites for the three and six months ended June 30, 2017 and 2016 were as follows:

	For the Three Months Ended June 30,			
	Con Edison		CECONY	
(Millions of Dollars)	2017	2016	2017	2016

Remediation costs incurred	$7	$9	$4	$3

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	For the Six Months Ended June 30,			
	Con Edison		CECONY	
(Millions of Dollars)	2017	2016	2017	2016
Remediation costs incurred	$14	$12	$11	$5

Insurance recoveries received by Con Edison or CECONY were immaterial for the three and six months ended June 30, 2017. No insurance recoveries were received by Con Edison or CECONY for the three or six months ended June 30, 2016.

In 2016, Con Edison and CECONY estimated that for their manufactured gas plant sites (including CECONY's Astoria site), the aggregate undiscounted potential liability for the investigation and remediation of coal tar and/or other environmental contaminants could range up to $2.8 billion and $2.6 billion, respectively. These estimates were based on the assumption that there is contamination at all sites, including those that have not yet been fully investigated and additional assumptions about the extent of the contamination and the type and extent of the 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 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. At June 30, 2017, Con Edison and CECONY have accrued their estimated aggregate undiscounted potential liabilities for these suits and additional suits that may be brought over the next 15 years as shown in the following table. These estimates were based upon a combination of modeling, historical data analysis and risk factor assessment. Courts have begun, and unless otherwise determined on appeal may continue, to apply different standards for determining liability in asbestos suits than the standard that applied historically. As a result, the Companies currently believe that there is a reasonable possibility of an exposure to loss in excess of the liability accrued for the suits. The Companies are unable to estimate the amount or range of such loss. In addition, certain current and former employees have claimed or are claiming workers' compensation benefits based on alleged disability from exposure to asbestos. CECONY 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, 2017 and December 31, 2016 were as follows:

	Con Edison		CECONY	
(Millions of Dollars)	2017	2016	2017	2016
Accrued liability – asbestos suits	$8	$8	$7	$7
Regulatory assets – asbestos suits	$8	$8	$7	$7
Accrued liability – workers' compensation	$89	$88	$85	$83
Regulatory assets – workers' compensation	$14	$13	$14	$13

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Note H — Other Material Contingencies

Manhattan Steam Main Rupture

In July 2007, a CECONY steam main located in midtown Manhattan ruptured. It has been reported that one person died and others were injured as a result of the incident. Several buildings in the area were damaged. Debris from the incident included dirt and mud containing asbestos. The response to the incident required the closing of several buildings and streets for various periods. Approximately forty-five suits are pending against the company seeking generally unspecified compensatory and, in some cases, punitive damages, for wrongful death, personal injury, property damage and business interruption. In July 2017, the company reached agreements to resolve most of these suits which, after payment by the company of agreed-upon settlement amounts, are expected to be discontinued. The company has notified its insurers of the incident and believes that the policies in force at the time of the incident will cover the company's costs to satisfy its liability to others in connection with the suits. In the company's estimation, there is not a reasonable possibility that an exposure to loss exists for the suits that is materially in excess of the estimated liability accrued. At June 30, 2017, the company has accrued its estimated liability for the suits of $18 million and an insurance receivable of $18 million.

Manhattan Explosion and Fire

On March 12, 2014, two multi-use five-story tall buildings located on Park Avenue between 116th and 117th Streets in Manhattan were destroyed by an explosion and fire. CECONY had delivered gas to the buildings through service lines from a distribution main located below ground on Park Avenue. Eight people died and more than 50 people were injured. Additional buildings were also damaged. The National Transportation Safety Board (NTSB) investigated. The parties to the investigation included the company, the City of New York, the Pipeline and Hazardous Materials Safety Administration and the NYSPSC. In June 2015, the NTSB issued a final report concerning the incident, its probable cause and safety recommendations. The NTSB determined that the probable cause of the incident was (1) the failure of a defective fusion joint at a service tee (which joined a plastic service line to a plastic distribution main) installed by the company that allowed gas to leak from the distribution main and migrate into a building where it ignited and (2) a breach in a City sewer line that allowed groundwater and soil to flow into the sewer, resulting in a loss of support for the distribution main, which caused it to sag and overstressed the defective fusion joint. The NTSB also made safety recommendations, including recommendations to the company that addressed its procedures for the preparation and examination of plastic fusions, training of its staff on conditions for notifications to the City's Fire Department and extension of its gas main isolation valve installation program. In February 2017, the NYSPSC approved a settlement agreement with the company related to the NYSPSC's investigations of the incident and the practices of qualifying persons to perform plastic fusions. Pursuant to the agreement, the company will not recover from customers $126 million of costs it incurred for gas emergency response activities in 2014, 2015 and 2016 in excess of the amounts reflected in its gas rate plan and will provide $27 million of future benefits to customers (for which it has accrued a regulatory liability, see Note B). Approximately eighty suits are pending against the company seeking generally unspecified damages and, in some cases, punitive damages, for wrongful death, personal injury, property damage and business interruption. The company has notified its insurers of the incident and believes that the policies in force at the time of the incident will cover the company's costs, in excess of a required retention (the amount of which is not material), to satisfy any liability it may have for damages in connection with the incident. The company is unable to estimate the amount or range of its possible loss for damages related to the incident. At June 30, 2017, the company had not accrued a liability for damages related to the incident.

Other Contingencies

See "Other Regulatory Matters" in Note B and "Uncertain Tax Positions" in Note I.

Guarantees

Con Edison and its subsidiaries enter into various agreements providing financial or performance assurance primarily to third parties on behalf of their subsidiaries. Maximum amounts guaranteed by Con Edison totaled $2,329 million and $2,370 million at June 30, 2017 and December 31, 2016, respectively.

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A summary, by type and term, of Con Edison’s total guarantees at June 30, 2017 is as follows:

Guarantee Type	0 – 3 years	4 – 10 years	> 10 years	Total
	(Millions of Dollars)			
Con Edison Transmission	$643	$404	$—	$1,047
Energy transactions	497	31	215	743
Renewable electric production projects	392	—	19	411
Other	128	—	—	128
Total	$1,660	$435	$234	$2,329

Con Edison Transmission — Con Edison has guaranteed payment by CET Electric of the contributions CET Electric agreed to make to New York Transco LLC (NY Transco). CET Electric acquired a 45.7 percent interest in NY Transco when it was formed in 2014. In May 2016, the transmission owners transferred certain projects to NY Transco, for which CET Electric made its required contributions. NY Transco has proposed other transmission projects in the New York Independent System Operator's competitive bidding process. These other projects are subject to certain authorizations from the NYSPSC, the FERC and, as applicable, other federal, state and local agencies. Guarantee amount shown is for the maximum possible required amount of CET Electric’s contributions for these other projects as calculated based on the assumptions that the projects are completed at 175 percent of their estimated costs and NY Transco does not use any debt financing for the projects. Guarantee term shown is assumed as the selection of the projects and resulting timing of the contributions is not certain. Also included within the table above is a guarantee for $25 million from Con Edison on behalf of CET Gas in relation to a proposed gas transmission project in West Virginia and Virginia.

Energy Transactions — Con Edison guarantees payments on behalf of the Clean Energy Businesses in order to facilitate physical and financial transactions in electricity, gas, pipeline capacity, transportation, oil, renewable energy credits and energy services. To the extent that liabilities exist under the contracts subject to these guarantees, such liabilities are included in Con Edison’s consolidated balance sheet. Guarantee amounts shown above include $21 million of guarantees provided by Con Edison on behalf of Con Edison Solutions that may continue in effect during the period in which Con Edison Solutions provides transition services in connection with the retail electric supply business it sold in September 2016. As part of the sale agreement, the purchaser has agreed to pay Con Edison Solutions for draws on such guarantees.

Renewable Electric Production Projects — Con Edison, Con Edison Development, and Con Edison Solutions guarantee payments on behalf of their wholly-owned subsidiaries associated with their investment in, or development for others of, solar and wind energy facilities.

Other — Other guarantees include $70 million in guarantees provided by Con Edison to Travelers Insurance Company for indemnity agreements for surety bonds in connection with operation of solar energy facilities and energy service projects of Con Edison Development and Con Edison Solutions, respectively. Other guarantees also includes Con Edison's guarantee (subject to a $53 million maximum amount) of certain obligations of Con Edison Solutions under the agreement pursuant to which it sold its retail electric supply business. In addition, Con Edison issued a guarantee estimated at $5 million to the Public Utility Commission of Texas covering obligations of Con Edison Solutions as a retail electric provider. As part of the sale agreement for the retail electric supply business discussed above, the purchaser has agreed to pay Con Edison Solutions for draws on the guarantee to the Public Utility Commission of Texas.

Note I — Income Tax

Con Edison’s income tax expense decreased to $102 million for the three months ended June 30, 2017 from $124 million for the three months ended June 30, 2016. Con Edison's effective tax rate for the three months ended June 30, 2017 and 2016 was 37 percent and 35 percent, respectively. The increase in Con Edison's effective tax rate is primarily due to a decrease in tax benefits for plant-related flow through items and higher reserves for injuries and damages, offset in part by lower state income taxes and bad debt expense.

CECONY’s income tax expense increased to $91 million for the three months ended June 30, 2017 from $84 million for the three months ended June 30, 2016. CECONY's effective tax rate for the three months ended June 30, 2017 and 2016 was 39 percent and 34 percent, respectively. The increase in CECONY's effective tax rate is primarily due to a decrease in tax benefits for plant-related flow through items and higher reserves for injuries and damages, offset in part by lower state income taxes and bad debt expense.

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Con Edison’s income tax expense increased to $330 million for the six months ended June 30, 2017 from $288 million for the six months ended June 30, 2016. Con Edison's effective tax rate for the six months ended June 30, 2017 and 2016 was 37 percent and 35 percent, respectively. The increase in Con Edison's effective tax rate is primarily due to a decrease in tax benefits for plant-related flow through items and higher reserves for injuries and damages, offset in part by lower state income taxes and bad debt expense.

CECONY’s income tax expense increased to $309 million for the six months ended June 30, 2017 from $264 million for the six months ended June 30, 2016. CECONY's effective tax rate for the six months ended June 30, 2017 and 2016 was 39 percent and 36 percent, respectively. The increase in CECONY's effective tax rate is primarily due to a decrease in tax benefits for plant-related flow through items, lower research and development tax credits and higher reserve for injuries and damages, offset in part by lower state income taxes and bad debt expense.

Con Edison anticipates a federal consolidated net operating loss for 2017, primarily due to bonus depreciation. Con Edison expects to carryback a portion of its 2017 net operating loss to recover $18 million of income tax. The remaining 2017 net operating loss, as well as general business tax credits generated in 2017, will be carried forward to future tax years. A deferred tax asset for these tax attribute carryforwards was recorded, and no valuation allowance has been provided, as it is more likely than not that the deferred tax asset will be realized.

Uncertain Tax Positions

At June 30, 2017, the estimated liability for uncertain tax positions for Con Edison was $40 million ($21 million for CECONY). Con Edison reasonably expects to resolve approximately $33 million ($23 million, net of federal taxes) of its uncertain tax positions within the next twelve months, including $19 million ($13 million, net of federal taxes), which, if recognized, would reduce Con Edison’s effective tax rate. The amount related to CECONY is approximately $17 million ($12 million, net of federal taxes), including $2 million, which, if recognized, would reduce CECONY’s effective tax rate. The total amount of unrecognized tax benefits, if recognized, that would reduce Con Edison’s effective tax rate is $23 million ($16 million, net of federal taxes).

The Companies recognize interest on liabilities for uncertain tax positions in interest expense and would recognize penalties, if any, in operating expenses in the Companies’ consolidated income statements. In the three and six months ended June 30, 2017, the Companies recognized an immaterial amount of interest expense and no penalties for uncertain tax positions in their consolidated income statements. At June 30, 2017 and December 31, 2016, the Companies recognized an immaterial amount of accrued interest on their consolidated balance sheets.

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Note J — Financial Information by Business Segment

Con Edison's principal business segments are CECONY's regulated utility activities, O&R's regulated utility activities, the Clean Energy Businesses and Con Edison Transmission. CECONY's principal business segments are its regulated electric, gas and steam utility activities. The financial data for the business segments for the three and six months ended June 30, 2017 and 2016 were as follows:

	For the Three Months Ended June 30,							
	Operating revenues		Inter-segment revenues		Depreciation and amortization		Operating income/(loss)	
(Millions of Dollars)	2017	2016	2017	2016	2017	2016	2017	2016
CECONY								
Electric	$1,817	$1,892	$4	$4	$229	$215	$330	$371
Gas	388	304	2	1	45	39	83	48
Steam	88	85	18	21	22	21	(26)	(27)
Consolidation adjustments	—	—	(24)	(26)	—	—	—	—
Total CECONY	$2,293	$2,281	$—	$—	$296	$275	$387	$392
O&R								
Electric	$148	$144	$—	$—	$13	$13	$14	$14
Gas	47	31	—	—	4	4	5	(1)
Total O&R	$195	$175	$—	$—	$17	$17	$19	$13
Clean Energy Businesses	$146	$338	$—	$3	$18	$10	$18	$109
Con Edison Transmission	—	—	—	—	—	—	(2)	(1)
Other (a)	(1)	—	—	(3)	1	—	1	2
Total Con Edison	$2,633	$2,794	$—	$—	$332	$302	$423	$515

	For the Six Months Ended June 30,							
	Operating revenues		Inter-segment revenues		Depreciation and amortization		Operating income/(loss)	
(Millions of Dollars)	2017	2016	2017	2016	2017	2016	2017	2016
CECONY								
Electric	$3,610	$3,665	$8	$9	$458	$428	$622	$645
Gas	1,153	905	3	3	90	78	374	301
Steam	386	343	37	44	43	41	95	87
Consolidation adjustments	—	—	(48)	(56)	—	—	—	—
Total CECONY	$5,149	$4,913	$—	$—	$591	$547	$1,091	$1,033
O&R								
Electric	$289	$284	$—	$—	$25	$24	$27	$32
Gas	144	106	—	—	10	9	44	34
Total O&R	$433	$390	$—	$—	$35	$33	$71	$66
Clean Energy Businesses	$283	$648	$—	$9	$36	$19	$34	$58
Con Edison Transmission	—	—	—	—	—	—	(4)	(1)
Other (a)	(4)	(1)	—	(9)	—	—	1	1
Total Con Edison	$5,861	$5,950	$—	$—	$662	$599	$1,193	$1,157

(a) Parent company and consolidation adjustments. Other does not represent a business segment.

Note K — Derivative Instruments and Hedging Activities

Con Edison's subsidiaries hedge market price fluctuations associated with physical purchases and sales of electricity, natural gas, steam and, to a lesser extent, refined fuels by using derivative instruments including futures, forwards, basis swaps, options, transmission congestion contracts and financial transmission rights contracts. Derivatives are recognized on the consolidated balance sheet at fair value (see Note L), unless an exception is available under the accounting rules for derivatives and hedging. Qualifying derivative contracts that have been designated as normal purchases or normal sales contracts are not reported at fair value under the accounting rules.

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The fair values of the Companies' commodity derivatives including the offsetting of assets and liabilities on the consolidated balance sheet at June 30, 2017 and December 31, 2016 were:

(Millions of Dollars)	2017				2016			
Balance Sheet Location	Gross Amounts of Recognized Assets/(Liabilities)	Gross Amounts Offset	Net Amounts of Assets/ (Liabilities) (a)		Gross Amounts of Recognized Assets/(Liabilities)	Gross Amounts Offset	Net Amounts of Assets/ (Liabilities) (a)	
Con Edison								
Fair value of derivative assets								
Current	$93	$(78)	$15	(b)	$81	$(64)	$17	(b)
Noncurrent	63	(63)	—		49	(43)	6	
Total fair value of derivative assets	$156	$(141)	$15		$130	$(107)	$23	
Fair value of derivative liabilities								
Current	$(153)	$89	$(64)		$(138)	$61	$(77)	
Noncurrent	(136)	62	(74)		(91)	52	(39)	(c)
Total fair value of derivative liabilities	$(289)	$151	$(138)		$(229)	$113	$(116)	
Net fair value derivative assets/(liabilities)	$(133)	$10	$(123)	(b)	$(99)	$6	$(93)	(b) (c)
CECONY								
Fair value of derivative assets								
Current	$52	$(48)	$4	(b)	$52	$(45)	$7	(b)
Noncurrent	53	(53)	—		41	(35)	6	
Total fair value of derivative assets	$105	$(101)	$4		$93	$(80)	$13	
Fair value of derivative liabilities								
Current	$(105)	$56	$(49)		$(111)	$45	$(66)	
Noncurrent	(119)	53	(66)		(77)	44	(33)	
Total fair value of derivative liabilities	$(224)	$109	$(115)		$(188)	$89	$(99)	
Net fair value derivative assets/(liabilities)	$(119)	$8	$(111)	(b)	$(95)	$9	$(86)	(b)

(a) Derivative instruments and collateral were offset on the consolidated balance sheet as applicable under the accounting rules. The Companies enter into master agreements for their commodity derivatives. These agreements typically provide offset in the event of contract termination. In such case, generally the non-defaulting party's payable will be offset by the defaulting party's payable. The non-defaulting party will customarily notify the defaulting party within a specific time period and come to an agreement on the early termination amount.

(b) At June 30, 2017 and December 31, 2016, margin deposits for Con Edison ($7 million and $7 million, respectively) and CECONY ($7 million and $7 million, respectively) were classified as derivative assets on the consolidated balance sheet, but not included in the table. Margin is collateral, typically cash, that the holder of a derivative instrument is required to deposit in order to transact on an exchange and to cover its potential losses with its broker or the exchange.

(c) Does not include $(1) million for interest rate swap.

The Utilities generally recover their prudently incurred fuel, purchased power and gas costs, including hedging gains and losses, in accordance with rate provisions approved by the applicable state utility regulators. In accordance with the accounting rules for regulated operations, the Utilities record a regulatory asset or liability to defer recognition of unrealized gains and losses on their electric and gas derivatives. As gains and losses are realized in future periods, they will be recognized as purchased power, gas and fuel costs in the Companies' consolidated income statements. The Clean Energy Businesses record realized and unrealized gains and losses on their derivative contracts in purchased power, gas purchased for resale and non-utility revenue in the reporting period in which they occur. Management believes that these derivative instruments represent economic hedges that mitigate exposure to fluctuations in commodity prices.

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The following table presents the realized and unrealized gains or losses on commodity derivatives that have been deferred or recognized in earnings for the three and six months ended June 30, 2017 and 2016:

		For the Three Months Ended June 30,				
		Con Edison			CECONY	
(Millions of Dollars)	Balance Sheet Location	2017	2016		2017	2016
Pre-tax gains/(losses) deferred in accordance with accounting rules for regulated operations:						
Current	Deferred derivative gains	$(21)	$10		$(17)	$9
Noncurrent	Deferred derivative gains	—	1		—	—
Total deferred gains/(losses)		$(21)	$11		$(17)	$9
Current	Deferred derivative losses	$22	$68		$20	$61
Current	Recoverable energy costs	(40)	(52)		(39)	(47)
Noncurrent	Deferred derivative losses	(9)	68		(8)	62
Total deferred gains/(losses)		$(27)	$84		$(27)	$76
Net deferred gains/(losses)		$(48)	$95		$(44)	$85
	Income Statement Location					
Pre-tax gain/(loss) recognized in income						
	Purchased power expense	$—	$45	(b)	$—	$—
	Gas purchased for resale	(51)	(23)		—	—
	Non-utility revenue	(8)(a)	5	(b)	—	—
Total pre-tax gain/(loss) recognized in income		$(59)	$27		$—	$—

(a) For the three months ended June 30, 2017, Con Edison recorded an unrealized pre-tax loss in non-utility operating revenue ($7 million).

(b) For the three months ended June 30, 2016, Con Edison recorded an unrealized pre-tax gain in purchased power expense ($97 million gain).

		For the Six Months Ended June 30,			
		Con Edison		CECONY	
(Millions of Dollars)	Balance Sheet Location	2017	2016	2017	2016
Pre-tax gains/(losses) deferred in accordance with accounting rules for regulated operations:					
Current	Deferred derivative gains	$(22)	$7	$(19)	$5
Noncurrent	Deferred derivative gains	(3)	1	(3)	(1)
Total deferred gains/(losses)		$(25)	$8	$(22)	$4
Current	Deferred derivative losses	$20	$38	$21	$33
Current	Recoverable energy costs	(85)	(125)	(78)	(113)
Noncurrent	Deferred derivative losses	(29)	12	(28)	11
Total deferred gains/(losses)		$(94)	$(75)	$(85)	$(69)
Net deferred gains/(losses)		$(119)	$(67)	$(107)	$(65)
	Income Statement Location				
Pre-tax gain/(loss) recognized in income					

Purchased power expense	$—	$(70) (b)	$—	$—
Gas purchased for resale	(114)	(33)	—	—
Non-utility revenue	6 (a)	17 (b)	—	—
Total pre-tax gain/(loss) recognized in income	$(108)	$(86)	$—	$—

(a) For the six months ended June 30, 2017, Con Edison recorded an unrealized pre-tax loss in non-utility operating revenue ($4 million).

(b) For the six months ended June 30, 2016, Con Edison recorded unrealized pre-tax gains and losses in non-utility operating revenue ($1 million loss) and purchased power expense ($35 million gain).

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The following table presents the hedged volume of Con Edison's and CECONY's derivative transactions at June 30, 2017:

	Electric Energy (MWh) (a)(b)	Capacity (MW) (a)	Natural Gas (Dt) (a)(b)	Refined Fuels (gallons)
Con Edison	33,854,855	9,319	99,241,963	1,680,000
CECONY	31,442,175	4,500	91,970,000	1,680,000

(a) Volumes are reported net of long and short positions, except natural gas collars where the volumes of long positions are reported.

(b) Excludes electric congestion and gas basis swap contracts, which are associated with electric and gas contracts and hedged volumes.

The Companies are exposed to credit risk related to transactions entered into primarily for the various energy supply and hedging activities by the Utilities and the Clean Energy Businesses. Credit risk relates to the loss that may result from a counterparty's nonperformance. The Companies use credit policies to manage this risk, including an established credit approval process, monitoring of counterparty limits, netting provisions within agreements, collateral or prepayment arrangements, credit insurance and credit default swaps. The Companies measure credit risk exposure as the replacement cost for open energy commodity and derivative positions plus amounts owed from counterparties for settled transactions. The replacement cost of open positions represents unrealized gains, net of any unrealized losses where the Companies have a legally enforceable right to offset.

At June 30, 2017, Con Edison and CECONY had $70 million and $9 million of credit exposure in connection with energy supply and hedging activities, net of collateral, respectively. Con Edison's net credit exposure consisted of $23 million with investment-grade counterparties, $21 million with non-investment grade/non-rated counterparties$13 million with commodity exchange brokers, and $13 million with independent system operators. CECONY's net credit exposure consisted of $7 million with commodity exchange brokers and $2 million with investment-grade counterparties.

The collateral requirements associated with, and settlement of, derivative transactions are included in net cash flows from operating activities in the Companies' consolidated statement of cash flows. Most derivative instrument contracts contain provisions that may require a party to provide collateral on its derivative instruments that are in a net liability position. The amount of collateral to be provided will depend on the fair value of the derivative instruments and the party's credit ratings.

The following table presents the aggregate fair value of the Companies' derivative instruments with credit-risk-related contingent features that are in a net liability position, the collateral posted for such positions and the additional collateral that would have been required to be posted had the lowest applicable credit rating been reduced one level and to below investment grade at June 30, 2017:

(Millions of Dollars)	Con Edison (a)		CECONY (a)	
Aggregate fair value – net liabilities	$128		$113	
Collateral posted	41		41	
Additional collateral (b) (downgrade one level from current ratings)	16		15	
Additional collateral (b) (downgrade to below investment grade from current ratings)	99	(c)	84	(c)

(a) Non-derivative transactions for the purchase and sale of electricity and gas and qualifying derivative instruments, which have been designated as normal purchases or normal sales, are excluded from the table. These transactions primarily include purchases of electricity from independent system operators. In the event the Utilities and the Clean Energy Businesses were no longer extended unsecured credit for such purchases, the Companies would be required to post additional collateral of $12 million at June 30, 2017. For certain other such non-derivative transactions, the Companies could be required to post collateral under certain circumstances, including in the event counterparties had reasonable grounds for insecurity.

(b) The Companies measure the collateral requirements by taking into consideration the fair value amounts of derivative instruments that contain credit-risk-related contingent features that are in a net liability position plus amounts owed to counterparties for settled transactions and amounts required by counterparties for minimum financial security. The fair value amounts represent unrealized losses, net of any unrealized gains where the Companies have a legally enforceable right to offset.

(c) Derivative instruments that are net assets have been excluded from the table. At June 30, 2017, if Con Edison had been downgraded to below investment grade, it would have been required to post additional collateral for such derivative instruments of $14 million.

Interest Rate Swap

In December 2016, the Clean Energy Businesses acquired Coram Wind project which holds an interest rate swap that terminates in June 2024, pursuant to which it pays a fixed-rate of 2.0855 percent and receives a LIBOR-based variable rate. The fair value of this interest rate swap was a liability of $1 million as of June 30, 2017 and December 31, 2016 on Con Edison’s consolidated balance sheet.

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Note L — Fair Value Measurements

The accounting rules for fair value measurements and disclosures define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in a principal or most advantageous market. Fair value is a market-based measurement that is determined based on inputs, which refer broadly to assumptions that market participants use in pricing assets or liabilities. These inputs can be readily observable, market corroborated, or generally unobservable firm inputs. The Companies often make certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, and the risks inherent in the inputs to valuation techniques. The Companies use valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

The accounting rules for fair value measurements and disclosures established a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value in three broad levels. The rules require that assets and liabilities be classified in their entirety based on the level of input that is significant to the fair value measurement. Assessing the significance of a particular input may require judgment considering factors specific to the asset or liability, and may affect the valuation of the asset or liability and their placement within the fair value hierarchy. The Companies classify fair value balances based on the fair value hierarchy defined by the accounting rules for fair value measurements and disclosures as follows:

- Level 1 – Consists of assets or liabilities whose value is based on unadjusted quoted prices in active markets at the measurement date. An active market is one in which transactions for assets or liabilities occur with sufficient frequency and volume to provide pricing information on an ongoing basis. This category includes contracts traded on active exchange markets valued using unadjusted prices quoted directly from the exchange.
- Level 2 – Consists of assets or liabilities valued using industry standard models and based on prices, other than quoted prices within Level 1, that are either directly or indirectly observable as of the measurement date. The industry standard models consider observable assumptions including time value, volatility factors and current market and contractual prices for the underlying commodities, in addition to other economic measures. This category includes contracts traded on active exchanges or in over-the-counter markets priced with industry standard models.
- Level 3 – Consists of assets or liabilities whose fair value is estimated based on internally developed models or methodologies using inputs that are generally less readily observable and supported by little, if any, market activity at the measurement date. Unobservable inputs are developed based on the best available information and subject to cost benefit constraints. This category includes contracts priced using models that are internally developed and contracts placed in illiquid markets. It also includes contracts that expire after the period of time for which quoted prices are available and internal models are used to determine a significant portion of the value.

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Assets and liabilities measured at fair value on a recurring basis as of June 30, 2017 and December 31, 2016 are summarized below.

	2017					2016				
(Millions of Dollars)	Level 1	Level 2	Level 3	Netting Adjustment (e)	Total	Level 1	Level 2	Level 3	Netting Adjustment (e)	Total
Con Edison										
Derivative assets:										
Commodity (a)(b)(c)	$6	$37	$4	$(25)	$22	$1	$34			