CONSOLIDATED EDISON INC
Form 10-K
February 22, 2008
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007

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 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 -

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Consolidated Edison, Inc.,	
Common Shares ($.10 par value)	New York Stock Exchange
Consolidated Edison Company of New York, Inc.,	
$5 Cumulative Preferred Stock, without par value	New York Stock Exchange
Cumulative Preferred Stock, 4.65% Series C ($100 par value)	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:

Title of each class

Consolidated Edison Company of New York, Inc.
Cumulative Preferred Stock, 4.65% Series D ($100 par value)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

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

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.

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

Table of Contents

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Con Edison								
Large accelerated filer	x	Accelerated filer	¨	Non-accelerated filer	¨	Smaller reporting company	¨
Con Edison of New York								
Large accelerated filer	¨	Accelerated filer	¨	Non-accelerated filer	x	Smaller reporting company	¨

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

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

The aggregate market value of the common equity of Con Edison held by non-affiliates of Con Edison, as of June 30, 2007, was approximately $11.7 billion.

As of January 31, 2008, Con Edison had outstanding 272,139,105 Common Shares ($.10 par value).

All of the outstanding common equity of Con Edison of New York is held by Con Edison.

Documents Incorporated By Reference

Portions of Con Edison s definitive proxy statement and Con Edison of New York s definitive information statement, for their respective Annual Meetings of Stockholders to be held on May 19, 2008, to be filed with the Commission pursuant to Regulation 14A and Regulation 14C, respectively, not later than 120 days after December 31, 2007, are incorporated in Part III of this report.

Filing Format

This Annual Report on Form 10-K 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.

Table of Contents

TABLE OF CONTENTS

Table of Contents

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

ALJs	Administrative Law Judges
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 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
ERRP	East River Repowering Project
FASB	Financial Accounting Standards Board
FIN	FASB Interpretation No.
Fitch	Fitch Ratings
FSP	FASB Staff Position
GHG	Greenhouse gases
kV	Kilovolts

4

Table of Contents

Other

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
Net T&D Revenues	Revenue requirement impact resulting from the reconciliation pursuant to Con Edison of New York s electric rate agreement of the differences between the actual amount of transmission and distribution utility plant, net of depreciation, to the amount reflected in electric rates
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
Superfund	Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 and similar state statutes
VaR	Value-at-Risk
VIE	Variable interest entity

5

Table of Contents

PART I

ITEM 1. BUSINESS

Table of Contents

Incorporation by Reference

Information in other Items of this report as to which reference is made in this Item 1 is hereby incorporated by reference in this Item 1. The use of terms such as see or refer to shall be deemed to incorporate into this Item 1 the information to which such reference is made.

Available Information

Con Edison and Con Edison of New York file annual, quarterly and current reports, proxy or information statements and other information with the Securities and Exchange Commission (SEC). The public may read and copy any materials that the companies file with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Room 1580 Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers (including Con Edison and Con Edison of New York) that file electronically with the SEC. The address of that site is *http://www.sec.gov.*

This information the Companies file with the SEC is also available free of charge on or through the Investor Information section of their websites as soon as reasonably practicable after the reports are electronically filed with, or furnished to, the SEC. Con Edison s internet website is at: *http://www.conedison.com*; and Con Edison of New York s is at: *http://www.coned.com.*

The Investor Information section of Con Edison s website also includes the company s code of ethics (and amendments or waivers of the code for executive officers or directors), corporate governance guidelines and the charters of the following committees of the company s Board of Directors: Audit Committee, Management Development and Compensation Committee, and Corporate Governance and Nominating Committee. This information is available in print to any shareholder who requests it. Requests should be directed to: Corporate Secretary, Consolidated Edison, Inc., 4 Irving Place, New York, NY 10003.

Information on the Companies websites is not incorporated herein.

Con Edison

Corporate Overview

Consolidated Edison, Inc. (Con Edison), incorporated in New York State in 1997, owns all of the outstanding common stock of Consolidated Edison Company of New York, Inc. (Con Edison of New York) and Orange and Rockland Utilities, Inc. (O&R). Con Edison of New York and O&R, which are regulated utilities, are referred to in this report as the Utilities. As used in this report, the term the Companies refers to Con Edison and Con Edison of New York. Con Edison has no significant business operations other than those of the Utilities and Con Edison s competitive energy businesses. See Corporate Overview in Item 7.

Operating Segments

Con Edison s principal business segments are Con Edison of New York s regulated electric, gas and steam utility segments, O&R s regulated electric and gas utility segments and Con Edison s competitive energy businesses. For a discussion of operating revenues and operating income for each segment, see Results of Operations in Item 7. For additional segment information see Note N to the financial statements in Item 8.

Con Edison of New York

For information about Con Edison of New York, see below in this Item 1.

O&R

O&R, a subsidiary of Con Edison, has two wholly-owned utility subsidiaries, Rockland Electric Company (RECO), a New Jersey corporation, and Pike County Light & Power Company (Pike), a Pennsylvania corporation.

O&R and its utility subsidiaries provide electric service in southeastern New York and in adjacent areas of northern New Jersey and eastern Pennsylvania, an approximately 1,350 square mile service area. They also provide gas service in southeastern New York and adjacent areas of eastern Pennsylvania. O&R s business is subject to regulation by the New York State Public Service Commission (PSC), the New Jersey Board of Public Utilities (NJBPU), the Pennsylvania Public Utility Commission (PPUC) and the Federal Energy Regulatory Commission (FERC). Changes in regulation or legislation applicable to O&R could have a material adverse effect on the company s financial position, results of operations or liquidity. O&R s principal business segments are its regulated electric and gas utility businesses. In 2007, electric and gas operating revenues were 71 percent and 29 percent, respectively, of its operating revenues. See O&R Operating Statistics below.

Competitive Energy Businesses

Con Edison pursues competitive energy opportunities through three wholly owned subsidiaries: Consolidated Edison Development, Inc. (Con Edison Development), Consolidated Edison Energy, Inc. (Con Edison Energy) and Consolidated Edison Solutions, Inc. (Con Edison Solutions).

Con Edison Development owns, leases or operates energy and infrastructure projects, principally in the United States. Substantially all of its electric generation facilities are located in New England and the PJM Interconnection (PJM) markets. See Item 2 for information about the company s generating capacity. In December 2007, Con Edison Development and its subsidiary, CED/SCS Newington, LLC, agreed to sell their ownership interests in power generating projects with an aggregate capacity

Table of Contents

of approximately 1,706 megawatts. See Note U to the financial statements in Item 8. Con Edison Development sells capacity and energy in wholesale markets administered by independent system operators in New England, New York and PJM. The company also sells capacity and energy to other utilities through its affiliate Con Edison Energy by participating in auctions for basic generation service or other wholesale supply transactions. These markets have developed significantly as states have opened their wholesale markets to competition.

Con Edison Development has investments in two Lease In/ Lease Out (LILO) transactions see Note J to the financial statements in Item 8. These leases involve gas distribution and electric generating facilities in the Netherlands. Additionally, Con Edison Development has invested in tax-advantaged leases under Section 42 of the Internal Revenue Code. See Affordable Housing Program in Note H to the financial statements in Item 8.

Con Edison Energy markets the electric production of Con Edison Development s generation facilities and manages the fuel supply for those facilities. It also supplies electricity to wholesale customers, procures electricity for Con Edison Solutions, and offers plant optimization services to generation facilities in the northeastern United States.

Con Edison Solutions was reported by KEMA consulting in August 2007, as the ninth largest non-residential retail electricity provider in the United States. The company primarily sells electricity to industrial and large commercial customers and also to residential customers in the northeastern United States. At December 31, 2007, it served approximately 48,300 customers, not including approximately 176,000 served under two aggregation agreements in Massachusetts. Con Edison Solutions sold 12.2 million MWHs of electricity in 2007, a 15 percent increase over 2006 volumes.

Con Edison Solutions seeks to serve customers in utility service territories that encourage retail competition through transparent pricing, purchase of receivables or utility-sponsored customer acquisition programs. The company currently sells electricity in the service territories of 35 utilities in the states of New York, Massachusetts, Connecticut, New Hampshire, Maine, New Jersey, Delaware, Maryland, Illinois, Pennsylvania and Texas, as well as the District of Columbia.

Total peak load at the end of 2007 was 3,400 MWs. Most of the sales volumes were contracted by customers in New York, with essentially all of the remainder in New England and the Mid-Atlantic States. Con Edison Solutions entered the retail electricity supply market in Texas in 2006 and Illinois in 2007 but volumes remain small.

Con Edison Solutions offers the choice of green power to customers. In 2007 it sold approximately 130,000 MWHs of green power, ending the year with almost 13,000 customers. Green power is a term used by electricity suppliers to describe electricity produced from renewable energy sources, including wind, hydro and solar.

Con Edison Solutions also provides energy-efficiency services to government and commercial customers. The services include the design and installation of lighting retrofits, high-efficiency heating, ventilating and air conditioning equipment and other energy saving technologies. The company is compensated based primarily on the increased energy efficiency of installed equipment over a multi-year period. Con Edison Solutions has won competitive solicitations for energy savings contracts with the Department of Energy, the Department of Defense and a shared energy savings contract with the United States Postal Service.

The competitive energy businesses generating capacity owned or leased, sales and customers were as follows:

	2007	2006	2005	2004	2003
Generating capacity (MW)	1,739	1,668	1,668	1,668	1,668
Generation sold (MWH)	3,558,302	3,154,988	3,602,727	3,397,007	2,064,259
Wholesale electricity sales (MWH)	8,046,474	6,548,658	1,288,696	1,907,302	2,000,000
Retail electric volumes sold (MWH)	12,209,233	10,633,151	9,970,252	6,943,299	6,002,126
Number of retail customers accounts:					
Industrial and large commercial	14,335*	10,957*	5,775*	3,913	3,469
Mass market	33,979	31,725	24,989	24,242	26,738

* Excludes aggregation agreement customers.

Regulation

The Utilities are subject to extensive federal and state regulation, including by state utility commissions and the FERC. Con Edison, itself, is not subject to such regulation except to the extent that the rules or orders of these agencies impose restrictions on relationships between Con Edison and the Utilities. The North American Electric Reliability Corporation has been granted authority by the FERC to set bulk system reliability standards and impose penalties upon utilities for violations of those standards. See Regulation in the discussion below of Con Edison of New York s business in this Item 1.

Table of Contents

Con Edison has been and is expected to continue to be impacted by legislative and regulatory developments. The Utilities are subject to extensive regulation in New York, New Jersey and Pennsylvania. Changes in regulation or legislation applicable to Con Edison s subsidiaries could have a material adverse effect on the Companies. See Regulatory Matters in Item 7.

Competition

See Competition, below in the discussion of the businesses of Con Edison of New York in this Item 1. The competitive energy businesses participate in competitive energy supply and services businesses that are subject to different risks than those found in the businesses of the Utilities.

Capital Requirements and Financing

For information about Con Edison s capital requirements, financing and securities ratings, see Liquidity and Capital Resources Capital Resources and Capital Requirements and Financial and Commodity Market Risks in Item 7.

State Anti-Takeover Law

New York State law provides that a domestic corporation, such as Con Edison, may not consummate a merger, consolidation or similar transaction with the beneficial owner of a 20 percent or greater voting stock interest in the corporation, or with an affiliate of the owner, for five years after the acquisition of the voting stock interest, unless the transaction or the acquisition of the voting stock interest was approved by the corporation s board of directors prior to the acquisition of the voting stock interest. After the expiration of the five-year period, the transaction may be consummated only pursuant to a stringent fair price formula or with the approval of a majority of the disinterested stockholders.

Employees

Con Edison has no employees other than those of Con Edison of New York, O&R and Con Edison s competitive energy businesses (which at December 31, 2007 had 13,877, 1,051 and 286, employees, respectively). The collective bargaining agreements covering most of the employees of Con Edison of New York and O&R expire in June 2008 and June 2009, respectively.

Con Edison of New York

Corporate Overview

Con Edison of New York, incorporated in New York State in 1884, is a subsidiary of Con Edison and has no significant subsidiaries of its own. Con Edison of New York provides electric service in all of New York City (except part of Queens) and most of Westchester County, an approximately 660 square mile service area with a population of more than nine million. It also provides gas service in Manhattan, the Bronx and parts of Queens and Westchester, and steam service in parts of Manhattan.

Operating Segments

Con Edison of New York s principal business segments are its regulated electric, gas and steam businesses. In 2007, electric, gas and steam operating revenues were 75 percent, 18 percent and 7 percent, respectively, of its operating revenues. For a discussion of the company s operating revenues and operating income for each segment, see Results of Operations in Item 7. For additional information about the segments, see Note N to the financial statements in Item 8.

Electric Operations

Electric Sales. Electric operating revenues were $7.4 billion in 2007 or 75 percent of Con Edison of New York s operating revenues. The percentages were 76 and 75 percent, respectively, in the two preceding years. In 2007, 43 percent of the electricity delivered by Con Edison of New York in its service area was sold by the company to its full-service customers, 37 percent was sold by other suppliers, including Con Edison Solutions, a competitive energy business of Con Edison, to Con Edison of New York s customers under its electric retail access program and the balance was delivered to the state and municipal customers of the New

York Power Authority (NYPA) and the economic development customers of municipal electric agencies. The company charges its cost for the electricity it sells to full-service customers, and it charges all customers in its service area for the delivery of electricity.

For additional information about electricity sales, see Con Edison of New York Operating Statistics, below, and Results of Operations in Item 7.

Electric Peak Demand. The electric peak demand in Con Edison of New York s service area occurs during the summer air conditioning season. The 2007 service area peak demand, which occurred on August 8, 2007, was 12,807 thousand kilowatts (MW). The 2007 peak demand included an estimated 6,004 MW for Con Edison of New York s full-service customers, 4,817 MW for customers participating in its electric retail access program and 1,986 MW for NYPA s customers and municipal electric agency customers. The New York Independent System Operator (NYISO) did not invoke demand reduction programs on August 8, 2007, as it had on peak demand days in 2006 and 2005. Design weather for the electric system is a standard to which the actual peak demand is adjusted for evaluation and planning purposes. Since the majority of demand reduction programs are invoked only in specific circumstances, design conditions do not include these programs potential impact. However, the Con Edison of New York forecasted peak demand at design conditions does include the impact of permanent demand reduction programs. The company estimates that, under design weather conditions, the 2008 service area peak demand will be 13,775 MW, including an estimated 6,430 MW for its full-service customers, 5,375 MW for its electric retail access customers and 1,970 MW for NYPA s customers and municipal electric agency customers.

Electric Supply. Most of the electricity sold by Con Edison of New York to its customers in 2007 was purchased under firm power contracts or through the wholesale electricity market administered by the NYISO.

The company plans to meet its continuing obligation to supply electricity to its customers with electric energy purchased under contracts with non-utility generators (NUGs) or others, purchased through the NYISO s wholesale electricity or generated from its electric generating facilities.

For additional information about electric power purchases, see Electric Power Requirements in Item 7 and Recoverable Energy Costs in Note A to the financial statements in Item 8.

For information about the company s contracts with NUGs for approximately 3,576 MW of electric generating capacity, see Note I to the financial statements in Item 8.

For information about the company s current 704 MW of electric generating capacity, see Item 2.

In 2002, the Governor of New York set a goal of having 25 percent of the electricity used in New York provided by renewable resources by 2013. In September 2004, the PSC issued an order, which provides that by 2013, 23.5 percent of the State s energy needs would come from large renewable facilities such as wind, hydro, and biomass, 1 percent would come from green marketing efforts, and the remaining 0.5 percent is expected to come from on-site generation, limited to solar, fuel cells, and wind farms less than 300 kW in size. The PSC agreed with the Utilities that the responsibility for procuring the new renewable resources would rest with the New York State Energy Research and Development Authority (NYSERDA), and not the Utilities. NYSERDA is expected to enter into long-term agreements with developers that will pay renewable premiums to finance the construction of renewable projects. The renewable premiums plus NYSERDA s administrative fee are financed through a volumetric wires charge imposed on the delivery customers of each of the state s utilities. Pursuant to the PSC order, Con Edison and Con Edison of New York billed customers renewable portfolio standard surcharges of $23 million and $21 million in 2007, respectively, and $12 million and $11 million in 2006, respectively. These surcharges may increase as NYSERDA increases its renewables commitments.

New York Independent System Operator. The NYISO is a not-for-profit organization that controls and operates most of the electric transmission facilities in New York State, including those of Con Edison of New York, as an integrated system and administers wholesale markets for electricity in New York State. Pursuant to a requirement that is set annually by the New York State Reliability Council (NYSRC), the NYISO requires that entities supplying electricity to customers in New York State have generating capacity (either owned or contracted for) in an amount above the expected peak demand for their customers. NYSRC set the margin at 16.5 percent for the 2007/2008 capability year and, subject to approval by the appropriate regulatory agency at 15.0 percent for the 2008/2009 capability year, which begins May 1, 2008. In addition, the NYISO has determined that entities that serve customers in New York City must have enough New York City-located capacity to cover a substantial percentage of their New York City customer peak demands. Con Edison of New York met the requirements applicable to it in 2007 and expects to meet them in 2008. As transmission owners participating in the NYISO, the Utilities may be required to construct projects that result from the NYISO s FERC-approved planning process.

Gas Operations

Gas Sales. Gas operating revenues in 2007 were $1.8 billion or 18 percent of Con Edison of New York s operating revenues. The percentages were 17 and 18 percent in the two preceding years. In 2007, 32 percent of the gas delivered by the company in its service area was sold by the company to its full-service (firm and interruptible) customers and 68 percent was sold by other suppliers. For additional information about gas sales, see Con Edison of New York Operating Statistics, below, and Results of Operations in Item 7.

Gas Requirements and Peak Demand. Firm demand for gas in Con Edison of New York s service area peaks during the winter heating season. The design criteria for the company s gas system assume severe weather conditions, which have not occurred since the 1933-34 winter. Under these criteria, the company estimated that its requirements to deliver gas to firm customers during the November 2007/March 2008 winter heating season would amount to 97,000 mdths (including 55,000 mdths to its firm sales customers and 42,000 mdths to its firm transportation customers). Through January 14, 2008, the company s peak throughput day in this heating season occurred on January 2, 2008, when it delivered 1,176 mdths of gas (including 564 mdths to its firm and interruptible sales customers, 77 mdths to NYPA, 375 mdths to its transportation customers and 160 mdths for use by the company in generating electricity and steam).

Under its design criteria, the company projects that for the November 2008/March 2009 winter heating season, its requirements for firm gas customers will amount to 98,000 mdths (including 55,700 mdths to firm sales customers and 42,300 mdths to firm transportation customers) and that the peak day requirements for these customers will amount to 1,332 mdths. The company expects to be able to meet these requirements.

Table of Contents

Gas Supply. Con Edison of New York and O&R have established a combined gas supply and capacity portfolio. The combined portfolio is administered by, and related management services are provided by, Con Edison of New York (for itself and as agent for O&R) and costs are allocated between the Utilities in accordance with provisions approved by the PSC. See Note R to the financial statements in Item 8.

Charges from suppliers for the firm purchase of gas, which are based on formulas or indexes or are subject to negotiation, are generally designed to approximate market prices. The contracts are for various terms extending to 2012. The Utilities have contracts with interstate pipeline companies for the purchase of firm transportation and storage services. Charges under these contracts are approved by the FERC. The contracts are for various terms extending to 2023. The Utilities are required to pay certain charges under the supply, transportation and storage contracts whether or not the contracted capacity is actually used. These fixed charges amounted to approximately $199 million in 2007, including $166 million for Con Edison of New York. See Liquidity and Capital Resources Contractual Obligations in Item 7. In addition, the Utilities purchase gas on the spot market and have interruptible gas transportation contracts. See Recoverable Energy Costs in Note A to the financial statements in Item 8.

Steam Operations

Steam Sales. Con Edison of New York sells steam in Manhattan south of 96th Street, mostly to large office buildings, apartment houses and hospitals. In 2007, steam operating revenues were $686 million or 7 percent of the company s operating revenues. The percentages were 7 percent in the two preceding years.

For additional information about Con Edison of New York s steam operations, see Regulatory Matters and Results of Operations in Item 7, the discussion of Con Edison of New York s steam facilities in Item 2 and Con Edison of New York Operating Statistics, below.

Steam Peak Demand and Capacity. Demand for steam in Con Edison of New York s service area peaks during the winter heating season. The one-hour peak demand during the winter of 2007/2008 (through January 31, 2008) occurred on January 3, 2008 when the demand reached 8.4 million pounds (mmlbs) per hour. The company s estimate for the winter of 2008/2009 peak demand of its steam customers is 10.6 mmlbs per hour under design criteria, which assume severe weather.

On December 31, 2007, the steam system had the capability of delivering approximately 13.1 mmlbs of steam per hour and Con Edison of New York estimates that the system will have the capability to deliver this capacity in the 2008/2009 winter.

Steam Supply. Fifty-one percent of the steam sold by Con Edison of New York in 2007 was produced in the company s steam-only generating stations; 34 percent was produced in the company s steam/electric generating stations, where it is first used to generate electricity; and 15 percent was purchased from others. See Item 2 for a discussion of Con Edison of New York s steam facilities.

Regulation

The PSC regulates, among other things, Con Edison of New York s electric, gas and steam rates, the siting of its transmission lines and the issuance of its securities. Certain activities of the company are subject to the jurisdiction of the FERC. In addition, various matters relating to the construction and operation of the company s facilities are subject to regulation by other governmental agencies. Changes in regulation or legislation applicable to the company could have a material adverse effect on the company. For additional information, including information about the company s electric, gas and steam rates, see Regulatory Matters in Item 7.

The PSC from time to time conducts generic proceedings to consider issues relating to all electric and gas utilities operating in New York State. Pending proceedings include those relating to utilities exiting the business of selling electric energy and gas at retail (including an examination of utilities provider of last resort responsibility, the implementation of energy efficiency programs and consumer protections) and addressing any rate disincentives to the promotion of energy efficiency and distributed generation. The company typically is an active participant in such proceedings. The company does not expect that the pending generic proceedings will have a material adverse effect on its financial position, results of operation or liquidity.

Competition

Con Edison of New York is primarily a wires and pipes energy delivery company that:

- has sold most of its electric generating capacity;
- provides its customers the opportunity to buy electricity and gas from other suppliers;
- purchases substantially all of the electricity and all of the gas it sells to its full-service customers (the cost of which is recovered pursuant to provisions approved by the PSC); and
- provides energy delivery services to customers pursuant to rate provisions approved by the PSC.

See Rate Agreements in Note B and Recoverable Energy Costs in Note A to the financial statements in Item 8.

Competition from suppliers of oil and other sources of energy, including distributed generation (such as fuel cells and micro-turbines) may provide alternatives for Con Edison of New York delivery customers. The company does not consider it

11

Table of Contents

reasonably likely that another company would be authorized to provide utility delivery service where the company already provides service. Any such other company would need to obtain PSC consent, satisfy applicable local requirements and install facilities to provide the service. A new company would also be subject to extensive ongoing regulation by the PSC.

Capital Requirements and Financing

For information about Con Edison of New York s capital requirements, financing and securities ratings, see Liquidity and Capital Resources Capital Resources and Capital Requirements and Financial and Commodity Market Risks in Item 7.

Environmental Matters

Hazardous substances, such as asbestos, polychlorinated biphenals (PCBs) and coal tar, have been used or generated in the course of operations of Con Edison of New York and its 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. See Asbestos and Superfund in the discussion of Con Edison of New York s legal proceedings in Item 3 and Note G to the financial statements in Item 8.

Con Edison of New York s capital expenditures for environmental protection facilities and related studies were $79 million in 2007 and are estimated to be $160 million in 2008.

Toxic Substances Control Act. Virtually all electric utilities, including Con Edison of New York, own equipment containing PCBs. PCBs are regulated under the Federal Toxic Substances Control Act of 1976.

Water Quality. Certain governmental authorities are investigating contamination in the Hudson River and the New York Harbor. These waters run through portions of Con Edison of New York s service area. Governmental authorities could require entities that released hazardous substances that contaminated these waters to bear the cost of investigation and remediation, which could be substantial.

Climate Change. As indicated in 2007 by the Intergovernmental Panel on Climate Change, emissions of greenhouse gases, including carbon dioxide are very likely changing the world s climate.

Based on the most recent data (2006) published by the federal Department of Energy, Con Edison estimates that its greenhouse gas emissions constitute approximately 0.1 percent of the nation s greenhouse gas emissions. Con Edison s emissions of greenhouse gases during the past five years (expressed in terms of millions of tons of carbon dioxide equivalent) were:

2007	2006	2005	2004	2003
7.0	6.9	8.3	8.1	7.9

The increase in greenhouse gas emissions in 2007, as compared to 2006, reflects primarily increased steam production by Con Edison of New York during colder than normal winter weather and increased electric generation at the Con Edison Development generating projects (which are being sold see Note U to the financial statements in Item 8). Con Edison of New York significantly reduced its greenhouse gas emissions following 2005 when it replaced old generating facilities with its East River Repowering Project. The project, which consists of gas-fueled, combined-cycle combustion turbines, comprises almost 42 percent of the company s 704 MW of electric generating capacity, based on 2007 summer ratings.

The Companies are working to further reduce greenhouse gas emissions. Con Edison of New York minimizes greenhouse gas emissions from its generating plants through the use of oil and gas fuels and cogeneration technologies that reduce emissions per unit of energy output. Also, it has participated for several years in voluntary initiatives with the Environmental Protection Agency to reduce its methane and sulfur hexafluoride emissions. The Utilities reduce methane emissions from the operation of their gas distribution systems through pipe maintenance and replacement programs, by operating system components at lower pressure, and by introducing new technologies. The Utilities reduce emissions of sulfur hexafluoride, which is used for arc suppression in substation circuit breakers and switches, by using improved technologies to locate and repair leaks, and by replacing older equipment. The Utilities also reduce greenhouse gas emissions through energy efficiency programs for customers.

Beginning in 2009, both Con Edison of New York and Con Edison Development will be subject to carbon dioxide emissions regulations being established under the Regional Greenhouse Gas Initiative. The initiative is a cooperative effort by Northeastern and Mid-Atlantic states which will first cap and then reduce carbon dioxide emissions resulting from the generation of electricity to a level ten percent below current emissions by 2019. Under this program, affected electric generators will be required to obtain emission allowances to cover their carbon dioxide emissions, which will be available primarily through auctions administered by participating states or a secondary market. New York s proposed schedule is for auctions to begin in 2008 for portions of the 2009 and 2010 allowances.

Several bills have been introduced in Congress that would limit greenhouse gas emissions. Also, New York State has announced a goal to reduce forecast energy usage 15 percent from the levels predicted for 2015, and New York City is aiming to reduce its greenhouse gas emissions 30 percent by 2030.

The cost to comply with legislation, regulations or initiatives limiting the company s greenhouse gas emissions could be substantial.

Operating Statistics

The following tables contain operating statistics for Con Edison of New York and O&R.

Table of Contents

Con Edison of New York

Operating Statistics

	Year Ended December 31,				
	2007	2006	2005	2004	2003
ELECTRIC ENERGY (MWH)					
Generated	**2,888,371**	2,785,602	2,261,680	1,441,498	1,077,681
Purchased from others	**24,719,391**	25,282,216	29,055,402	30,221,137	31,717,254
Total Generated and Purchased	**27,607,762**	28,067,818	31,317,082	31,662,635	32,794,935
Less: Used by company	**174,077**	162,449	178,406	168,533	175,965
Distribution losses and other variances	**1,294,268**	1,028,512	1,794,724	1,623,682	1,893,403
Net Generated and Purchased	**26,139,417**	26,876,857	29,343,952	29,870,420	30,725,567
Electric Energy Sold					
Residential	**12,312,007**	12,589,961	13,689,870	12,672,847	12,440,663
Commercial and industrial	**12,918,203**	13,409,474	15,402,396	16,966,448	18,033,468
Railroads and railways	**13,430**	13,217	16,847	19,308	18,193
Public authorities	**71,008**	88,061	234,839	209,699	135,758
Con Edison of New York full service customers	**25,314,648**	26,100,713	29,343,952	29,868,302	30,628,082
Off-System Sales	**824,769**	776,144	-	2,118	97,485
Total Electric Energy Sold	**26,139,417**	26,876,857	29,343,952	29,870,420	30,725,567
Electric Energy Delivered					
Con Edison of New York full service Customers	**25,314,648**	26,100,713	29,343,952	29,868,302	30,628,082
Delivery service for retail access Customers	**21,531,885**	19,256,268	16,847,745	14,143,045	12,636,520
Delivery service to NYPA customers and others	**10,691,701**	10,227,204	10,457,619	10,067,633	9,839,818
Delivery service for municipal agencies	**723,201**	723,905	720,757	696,041	647,388
Total Deliveries in Franchise Area	**58,261,435**	56,308,090	57,370,073	54,775,021	53,751,808
Average Annual KWH Use per Residential Customer(a)	**4,480**	4,613	5,052	4,700	4,622
Average Revenue per KWH Sold (Cents)					
Residential(a)	**21.6**	20.9	21.1	18.9	19.4
Commercial and Industrial(a)	**19.2**	18.3	18.6	16.0	16.3

(a) Includes Municipal Agency sales.

Table of Contents

Con Edison of New York

Operating Statistics Continued

	Year Ended December 31,				
	2007	**2006**	**2005**	**2004**	**2003**
GAS (DTH)					
Purchased	**141,839,604**	133,395,510	147,855,203	137,605,722	145,325,065
Storage net change	**(1,273,518)**	(8,294,717)	(5,041,321)	(1,331,154)	(5,516,703)
Used as boiler fuel at Electric and Steam Stations	**(41,256,777)**	(38,061,392)	(35,820,239)	(29,435,890)	(27,362,620)
Gas Purchased for Resale	**99,309,309**	87,039,401	106,993,643	106,838,678	112,445,742
Less: Gas used by the company	**144,236**	120,626	366,780	364,142	383,312
Off-System Sales, NYPA and other variances	**11,843,241**	724,748	6,449,725	6,062,145	4,007,592
Distribution losses	**3,010,000**	2,340,000	2,074,000	2,769,000	4,023,631
Total Gas Purchased for Con Edison of New York Customers	**84,311,832**	83,854,027	98,103,138	97,643,391	104,031,207
Gas Sold					
Firm Sales					
Residential	**42,572,866**	40,589,064	48,175,004	48,569,514	51,943,706
General	**31,161,746**	31,269,464	36,800,299	35,886,544	36,840,304
Total Firm Sales	**73,734,612**	71,858,528	84,975,303	84,456,058	88,784,010
Interruptible Sales	**10,577,220**	11,995,499	13,127,835	13,187,333	15,247,197
Total Gas Sold to Con Edison of New York Customers	**84,311,832**	83,854,027	98,103,138	97,643,391	104,031,207
Transportation of customer-owned gas					
Firm transportation	**39,016,610**	23,687,707	19,087,650	16,795,124	16,485,309
NYPA	**42,084,635**	41,057,320	22,305,249	18,622,910	23,360,162
Other	**95,260,356**	83,687,918	66,667,025	63,306,409	61,575,954
Off-System Sales	**2,324,700**	691,321	127,696	266,907	459,088
Total Sales and Transportation	**262,998,133**	232,978,293	206,290,758	196,634,741	205,911,720
Average Revenue per DTH Sold					
Residential	**$ 19.78**	$ 19.24	$ 16.94	$ 13.94	$ 13.02
General	**$ 16.01**	$ 15.07	$ 13.41	$ 10.75	$ 10.23
Steam Sold (Mlb)	**25,803,909**	23,250,064	26,876,883	26,128,644	26,248,361
Average Revenue per Mlb Sold	**$ 25.33**	$ 25.71	$ 22.77	$ 20.34	$ 19.47
Customers Average for Year					
Electric	**3,236,036**	3,203,541	3,176,355	3,152,023	3,137,301
Gas	**1,060,744**	1,058,816	1,054,981	1,053,698	1,053,946
Steam	**1,771**	1,780	1,796	1,811	1,825

15

Table of Contents

O&R

Operating Statistics

	Year Ended December 31,				
	2007	**2006**	**2005**	**2004**	**2003**
ELECTRIC ENERGY (MWH)					
Total Purchased	**4,440,300**	4,099,968	4,348,953	4,113,111	4,388,804
Less: Used by company	**14,417**	13,539	15,068	14,174	15,511
Distribution losses and other(a)	**202,100**	76,455	38,585	217,043	215,626
Net Purchased	**4,223,783**	4,009,974	4,295,300	3,881,894	4,157,667
Electric Energy Sold					
Residential	**1,912,310**	1,802,574	1,904,884	1,729,095	1,769,421
Commercial and industrial	**2,191,307**	2,093,880	2,276,161	2,045,800	2,276,973
Public authorities	**120,166**	113,520	114,255	106,999	111,273
Total Electric Energy Sold	**4,223,783**	4,009,974	4,295,300	3,881,894	4,157,667
Total deliveries to O&R customers	**4,223,783**	4,009,974	4,295,300	3,881,894	4,157,667
Delivery service for retail access customers	**1,687,794**	1,765,958	1,835,948	1,860,661	1,454,794
Total Deliveries In Franchise Area	**5,911,577**	5,775,932	6,131,248	5,742,555	5,612,461
Average Annual KWH Use Per Residential Customer	**9,472**	8,979	9,657	8,818	8,955
Average Revenue Per KWH Sold (Cents)					
Residential	**15.56**	13.98	13.34	12.35	12.17
Commercial and Industrial	**12.90**	11.34	10.90	9.89	9.81

(a) Includes unbilled sales adjustments of 89,331 MWH recorded in March 2005 for 2005, and 22,510 MWH recorded in March 2006 for 2006.

16

Table of Contents

O&R

Operating Statistics   Continued

	Year Ended December 31,				
	2007	2006	2005	2004	2003
GAS (DTH)					
Purchased	**16,412,737**	12,582,361	15,329,809	16,105,586	17,658,579
Storage net change	**(1,950,963)**	409,333	121,547	373,271	1,112,011
Gas Purchased For Resale	**14,461,774**	12,991,694	15,451,356	16,478,857	18,770,590
Less: Gas used by the company	**38,268**	37,630	48,410	58,823	52,377
Distribution losses and other variances	**937,526**	703,676	848,790	1,390,405	1,488,616
Total Gas Purchased For O&R Customers	**13,485,980**	12,250,388	14,554,156	15,029,629	17,229,597
Gas Sold					
Firm Sales					
Residential	**8,768,828**	7,758,439	9,306,592	9,486,765	10,810,384
General	**2,065,633**	1,891,565	2,269,207	2,487,197	3,314,154
Total Firm Sales	**10,834,461**	9,650,004	11,575,799	11,973,962	14,124,538
Interruptible Sales	**2,651,519**	2,600,384	2,978,357	3,055,667	3,105,059
Total Gas Sold To O&R Customers	**13,485,980**	12,250,388	14,554,156	15,029,629	17,229,597
Transportation of customer-owned gas					
Firm transportation	**10,248,184**	9,058,260	9,840,507	9,930,731	8,497,814
Interruptible transportation	**3,330,770**	3,255,956	3,480,376	3,940,332	3,728,018
Sales for resale	**1,043,864**	938,503	1,072,111	1,067,953	1,133,649
Sales to electric generating stations	**4,552,473**	3,035,695	1,433,891	659,449	2,833,322
Off-System Sales	**455,360**	371,724	172,458	53,692	373,686
Total Sales and Transportation	**33,116,631**	28,910,526	30,553,499	30,681,786	33,796,086
Average Revenue Per DTH Sold					
Residential	**$ 17.31**	$ 17.38	$ 14.07	$ 11.84	$ 10.41
General	**$ 16.36**	$ 16.44	$ 13.37	$ 11.27	$ 10.00
Customers Average For Year					
Electric	**297,641**	295,390	293,245	290,905	288,746
Gas	**126,713**	125,589	124,591	123,505	122,565

17

Table of Contents

ITEM 1A. RISK FACTORS

Con Edison

For information about the risk factors of Con Edison, see Risk Factors in Item 7 (which information is incorporated herein by reference).

Con Edison of New York

For information about the risk factors of Con Edison of New York, see Risk Factors in Item 7 (which information is incorporated herein by reference).

ITEM 1B. UNRESOLVED STAFF COMMENTS

Con Edison

None.

Con Edison of New York

None.

ITEM 2. PROPERTIES

Con Edison

Con Edison has no significant properties other than those of the Utilities and its competitive energy businesses.

For information about the capitalized cost of the Companies utility plant, net of accumulated depreciation, see Plant and Depreciation in Note A to the financial statements in Item 8 (which information is incorporated herein by reference).

Con Edison of New York

Electric Facilities

Generating Facilities. Con Edison of New York s electric generating facilities consist of plants located in New York City with an aggregate capacity of 704 MW based on 2007 summer ratings. The company expects to have sufficient amounts of gas and fuel oil available in 2008 for use in these facilities. This includes the company s East River Repowering Project, which commenced commercial operations in April 2005 and is currently supplying electric capacity of 295 MW based on a 2007 summer rating.

Transmission Facilities. Under terms of the NYISO Tariff, Con Edison of New York s transmission facilities are operated under the jurisdiction of the NYISO, except specific underground bulk power facilities which are located predominantly within New York City. See Electric Operations Electric Supply in Item 1 (which information is incorporated herein by reference). At December 31, 2007, Con Edison of New York s transmission system had 428 miles of overhead circuits operating at 138, 230, 345 and 500 kV and 663 miles of underground circuits operating at 138 and 345 kV. There are 267 miles of radial subtransmission circuits operating at 69 kV and above. The company s 38 transmission substations supplied by circuits operated at 69kV and above. The company s transmission facilities are located in New York City and Westchester, Orange, Rockland, Putnam and Dutchess counties in New York State.

Con Edison of New York has transmission interconnections with Niagara Mohawk, Central Hudson Gas & Electric Corporation, O&R, New York State Electric and Gas Corporation, Connecticut Light and Power Company, Long Island Power Authority, NYPA and Public Service Electric and Gas Company.

Distribution Facilities. Con Edison of New York owns 58 area distribution substations and various distribution facilities located throughout New York City and Westchester County. At December 31, 2007, the company s distribution system had a transformer capacity of 27,674 MVA, with 36,448 miles of overhead distribution lines and 94,055 miles of underground distribution lines.

Gas Facilities

Natural gas is delivered by pipeline to Con Edison of New York at various points in its service territory and is distributed to customers by the company through an estimated 4,314 miles of mains and 382,286 service lines. The company owns a natural gas liquefaction facility and storage tank at its Astoria property in Queens, New York. The plant can store approximately 1,000 mdths of which a maximum of about 250 mdths can be withdrawn per day. The company has about 1,230 mdths of additional natural gas storage capacity at a field in upstate New York, owned and operated by Honeoye Storage Corporation, a corporation 28.8 percent owned by Con Edison of New York.

Steam Facilities

Con Edison of New York generates steam at one steam/electric generating station and five steam-only generating stations and distributes steam to its customers through approximately 105 miles of transmission, distribution, and service piping. Con Edison of New York also has an energy sales agreement for steam and electricity with Brooklyn Navy Yard Cogeneration Partners.

O&R

Electric Transmission and Distribution Facilities

O&R and its utility subsidiaries, RECO and Pike, own, in whole or in part, transmission and distribution facilities which include 593 circuit miles of transmission lines, 14 transmission substations, 62 distribution substations, 99,489 in-service line transformers, 3,643 pole miles of overhead distribution lines and 1,569 miles of underground distribution lines. O&R s transmission system is part of the NYISO system except that portions of RECO s system are located within the transmission area controlled by the Pennsylvania-Jersey-Maryland Independent System Operator.

Gas Facilities

O&R and Pike own their gas distribution systems, which include 1,838 miles of mains. In addition, O&R owns and maintains a gas transmission system, which includes 77 miles of mains.

Table of Contents

Competitive Energy Businesses

Con Edison Development, a subsidiary of Con Edison owns or leases interests in 1,739 MW of capacity in electric generating facilities, most of which use gas and/or oil as fuel. These interests, the capitalized costs of which at December 31, 2007 amounted to $778 million (net of accumulated depreciation), are described in the table below. In December 2007, Con Edison Development and its subsidiary, CED/SCS Newington, LLC, agreed to sell their ownership interests in power generating projects with an aggregate capacity of approximately 1,706 megawatts. See Note U to the financial statements in Item 8 (which information is incorporated herein by reference).

Name/Location	Plant Type/ Fuel Used	Off-take Contract	Power Pool	Capacity (MWs) Aggregate	Constructed
Baseload					
Newington(a)(c)					
Newington, NH	Gas/Oil	Merchant	ISO-NE	525	2002
ADA					
Ada, MI	Gas	Consumers Power Co. (2026)	East Central Area Reliability Council	29	1984
Total baseload				**554**	
Intermediate					
GENOR					
Puerto Barrios, Guatemala	Oil	Merchant	Central America	42	2001
CEEMI(c)					
West Springfield, MA	Gas/Oil/Hydro	Merchant	ISO-NE	125	Various
Lakewood(c)					
Lakewood, NJ	Gas/Oil	JCPL (2014)	PJM	247	1994
Total intermediate				**414**	
Peaking					
CEEMI(c)					
West Springfield, MA	Gas/Oil	Merchant	ISO-NE	156	Various
Ocean Peaking(c)					
Lakewood, NJ	Gas	Merchant	PJM	351	2003
Rock Springs(c)					
Rising Sun, MD	Gas	Merchant	PJM	352	2003
Total peaking				**859**	
Total capacity				**1,827(b)**	

(a) Leased pursuant to a consolidated lease transaction. See Note P to the financial statements in Item 8.

(b) Con Edison Development s interest in these facilities amounts to 1,739 MW.

(c) Assets held for sale at December 31, 2007. See Note U to the financial statements in Item 8.

Con Edison Development has also leased gas distribution and electric generating facilities in the Netherlands in two separate transactions. See Note J to the financial statements in Item 8 (which information is incorporated herein by reference).

ITEM 3. LEGAL PROCEEDINGS

Con Edison

Northeast Utilities

For information about legal proceedings relating to Con Edison s October 1999 agreement to acquire Northeast Utilities, see Note H to the financial statements in Item 8 (which information is incorporated herein by reference).

Lease In/Lease Out Transactions

For information about Con Edison s competitive energy businesses appeal of a disallowance by the Internal Revenue Service of certain tax losses recognized in connection with the company s lease in/lease out transactions, as to which a trial was held in October 2007, see Note J to the financial statements in Item 8 (which information is incorporated herein by reference).

Con Edison of New York

Power Outage Proceedings

For information about proceedings relating to power outages in 2006, see Power Outage Proceedings in Note B to the financial statements in Item 8 (which is incorporated herein by reference).

Manhattan Steam Main Rupture

For information about proceedings relating to the July 2007 rupture of a steam main located in midtown Manhattan, see Manhattan Steam Main Rupture in Note H to the financial statements in Item 8 (which information is incorporated herein by reference.)

Asbestos

For information about legal proceedings relating to exposure to asbestos, see Note G to the financial statements in Item 8 (which information is incorporated herein by reference).

Table of Contents

Superfund

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 costs, remediation costs and environmental damages. The sites at which Con Edison of New York has been asserted to have liability under Superfund include its and its predecessor companies former manufactured gas sites, its Astoria Site, its Arthur Kill Site, its Flushing Service Center Site and other Superfund Sites discussed below. There may be additional sites as to which assertions will be made that the company has liability. For a further discussion of claims and possible claims against the company under Superfund, including with respect to its manufactured gas sites, estimated liability accrued for Superfund claims and recovery from customers of site investigation and remediation costs, see Note G to the financial statements in Item 8 (which information is incorporated herein by reference).

Manufactured Gas Sites. Con Edison of New York and its predecessors formerly manufactured gas and maintained storage holders for manufactured gas at sites in New York City and Westchester County (MGP Sites). Many of these sites are now owned by parties other than Con Edison of New York and have been redeveloped by them for other uses, including schools, residential and commercial developments and hospitals. The New York State Department of Environmental Conservation (DEC) is requiring the company to investigate, and if necessary, develop and implement remediation programs for the sites, which include 34 manufactured gas plant sites and 17 storage holder sites and any neighboring areas to which contamination may have migrated.

The information available to Con Edison of New York for many of the MGP Sites is incomplete as to the extent of contamination and scope of the remediation likely to be required. Through the end of 2007, investigations have been started for all or portions of 35 MGP Sites, and have been completed at 11 of the sites. Coal tar and/or other manufactured gas production/storage-related environmental contaminants have been detected at 27 MGP Sites, including locations within Manhattan and other parts of New York City and in Westchester County. Remediation has been completed at two sites and portions of eight other sites.

Astoria Site. Con Edison of New York is permitted by the DEC to operate a hazardous waste storage facility on property the company owns in the Astoria section of Queens, New York. Portions of the property were formerly the location of a manufactured gas plant and also have been used or are being used for, among other things, electric generation operations, electric substation operations, the storage of fuel oil and liquefied natural gas, and the maintenance and storage of electric equipment. As a condition of its DEC permit, the company is required to investigate the property and where environmental contamination is found and action is necessary, to conduct corrective action to remediate the contamination. The company has investigated various sections of the property and is performing additional investigations. The company has submitted to the DEC and the New York State Department of Health a report identifying the known areas of contamination. The company estimates that its undiscounted potential liability for the completion of the site investigation and cleanup of the known contamination on the property will be at least $18 million.

Arthur Kill Site. Following a September 1998 transformer fire at Con Edison of New York s former Arthur Kill Generating Station, it was determined that oil containing high levels of PCBs was released to the environment during the incident. The company has completed DEC-approved cleanup programs for the station s facilities and various soil and pavement areas of the site affected by the PCB release. Pursuant to a July 1999 DEC consent order, the company completed a DEC-approved assessment of the nature and extent of the contamination in, and recommended a remediation program for the waterfront area of the station. DEC has selected the remediation program for the waterfront area and the company will implement it pursuant to an additional consent order entered into during 2005. The company estimates that its undiscounted potential liability for the cleanup of PCB contamination at the site will be approximately $2.9 million.

Flushing Service Center Site. The owner of a former Con Edison of New York service center facility in Flushing, New York, has informed the company that PCB contamination has been detected on a substantial portion of the property, which the owner has remediated, and is redeveloping for residential and commercial use pursuant to the New York Brownfield Cleanup Program administered by the DEC. The property owner has asserted a claim for $36 million for the costs of investigation and remediation of this site. The Company is negotiating with the property owner to resolve its liability. The DEC has also demanded that the company investigate PCB contamination in the adjacent Flushing River that may have emanated from this site. At this time, the company cannot estimate its liability for the investigation and cleanup of any PCB contamination that may have entered into the Flushing River from the site, but such liability may be substantial.

Other Superfund Sites. Con Edison of New York is a potentially responsible party (PRP) with respect to other Superfund sites where there are other PRPs and it is not managing the site investigation and remediation. Work at these sites is in various stages, with the company participating in PRP groups at some of the sites. Investigation, remediation and monitoring at some of these sites have been, and are expected to continue to be, conducted over extended periods of time. The company does not believe that it is reasonably likely that monetary sanctions, such as penalties, will be imposed upon it by any governmental authority with respect to these sites.

20

Table of Contents

The following table lists each of Con Edison of New York s other Superfund sites for which the company anticipates it may have a liability. The table also shows for each such site, its location, the year in which the company was designated or alleged to be a PRP or to otherwise have responsibilities with respect to the site (shown in the table under Start), the name of the court or agency in which proceedings with respect to the site are pending, and the company s current estimate of its approximate potential liability for investigation, remediation and monitoring and environmental damages at the site or the unpaid share of any payments it is required to make under a settlement agreement resolving its liability for the site.

Site	Location	Start	Court or Agency	Estimated Liability(a)	% of Total(a)
Maxey Flats Nuclear	Morehead, KY	1986	EPA	$ 111,000	0.8%
Curcio Scrap Metal	Saddle Brook, NJ	1987	EPA	152,000	100%
Metal Bank of America	Philadelphia, PA	1987	EPA	314,000	1.0%
Cortese Landfill	Narrowsburg, NY	1987	EPA	827,000	6.0%
Global Landfill	Old Bridge, NJ	1988	EPA	115,000	0.3%
PCB Treatment, Inc.	Kansas City, KS & MO	1994	EPA	2,000,000	6.1%
Borne Chemical	Elizabeth, NJ	1997	NJDEP	113,000	0.7%

(a) Superfund liability is joint and several. Estimated liability shown is the company s estimate of its anticipated share of the total liability determined pursuant to consent decrees, settlement agreements or otherwise and in light of financial condition of other PRPs.

O&R

Asbestos

For information about legal proceedings relating to exposure to asbestos, see Note G to the financial statements in Item 8 (which information is incorporated herein by reference).

Superfund

The sites at which O&R has been asserted to have liability under Superfund include its manufactured gas sites, its West Nyack site and other Superfund sites discussed below. There may be additional sites as to which assertions will be made that O&R has liability. For a further discussion of claims and possible claims against O&R under Superfund, see Note G to the financial statements in Item 8 (which information is incorporated herein by reference).

Manufactured Gas Sites. O&R and its predecessors formerly owned and operated manufactured gas plants at seven sites (O&R MGP Sites) in Orange County and Rockland County, New York. Four of these sites are now owned by parties other than O&R, three of which have been redeveloped by them for residential, commercial or industrial uses. The DEC is requiring O&R to develop and implement remediation programs for the O&R MGP Sites including any neighboring areas to which contamination may have migrated.

O&R has completed remedial investigations at all seven O&R MGP Sites. O&R has completed the remediation at one of its sites; is currently implementing remediation at its Nyack site; and has received DEC s decision regarding the remedial work to be done at another site. Since the latter site is Company-owned and has no off-site impacts, remediation of this site has been deferred, with DEC s concurrence, until approximately 2010.

West Nyack Site. In 1994 and 1997, O&R entered into consent orders with the DEC pursuant to which O&R agreed to conduct a remedial investigation and remediate certain property it owns in West Nyack, New York at which PCBs were discovered. Petroleum contamination related to a leaking underground storage tank was found as well. O&R has completed all remediation at the site that the DEC has required to date. O&R is conducting a supplemental groundwater investigation and an on-site vapor intrusion study that has been requested by the DEC.

Other Superfund Sites. O&R is a PRP with respect to other Superfund sites where there are other PRPs and it is not managing the site investigation and remediation. Work at these sites is in various stages, with the company participating in PRP groups at some of the sites. Investigation, remediation and monitoring at some of these sites have been, and is expected to continue to be, conducted over extended periods of time. The company does not believe that it is reasonably likely that monetary sanctions, such as penalties, will be imposed upon it by any governmental authority with respect to these sites.

Table of Contents

The following table lists each of O&R s other Superfund sites for which the company anticipates it may have liability. The table also shows for each such site, its location, the year in which the company was designated or alleged to be a PRP or to otherwise have responsibilities with respect to the site (shown in the table under Start), the name of the court or agency in which proceedings with respect to the site are pending and the company s current estimate of its potential liability for investigation, remediation and monitoring and environmental damages at the site.

Site	Location	Start	Court or Agency	Estimated Liability(a)	% of Total(a)
Borne Chemical	Elizabeth, NJ	1997	NJDEP	91,000	1.7%
Clarkstown Landfill	Clarkstown, NY	2003	NYAG	397,000	(b)

(a) Superfund liability is joint and several. Estimated liability shown is the company s estimate of its anticipated share of the total liability determined pursuant to consent decrees, settlement agreements or otherwise and in light of financial condition of other PRPs.

(b) Not ascertainable.

22

Table of Contents

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

Executive Officers Of The Registrant

The following table sets forth certain information about the executive officers of Con Edison and Con Edison of New York as of February 15, 2008. As indicated, certain of the executive officers are executive officers of each of Con Edison and Con Edison of New York and others are executive officers of Con Edison or Con Edison of New York. The term of office of each officer, is until the next election of directors (trustees) of their company and until his or her successor is chosen and qualifies. Officers are subject to removal at any time by the board of directors (trustees) of their company. Mr. Burke has an employment agreement with Con Edison, which provides for him to serve in his present position through December 31, 2008. The employment agreement provides for automatic one-year extensions of its term, unless notice to the contrary is received six months prior to the end of the term.

Name	Age	Offices and Positions During Past Five Years
Executive Officers of Con Edison and Con Edison of New York		
Kevin Burke	57	3/06 to present Chairman of the Board, President and Chief Executive Officer and Director of Con Edison and Chairman, Chief Executive Officer and Trustee of Con Edison of New York
		9/05 to 2/06 President, Chief Executive Officer and Director of Con Edison and Chief Executive Officer and Trustee of Con Edison of New York
		9/00 to 8/05 President of Con Edison of New York
Louis L. Rana	59	9/05 to present President of Con Edison of New York
		2/03 to 8/05 Senior Vice President Electric Operations
		10/01 to 1/03 Vice President Manhattan Electric Operations
Robert Hoglund	46	9/05 to present Senior Vice President and Chief Financial Officer of Con Edison and Con Edison of New York
		4/04 to 8/05 Senior Vice President of Finance of Con Edison and Con Edison of New York
		6/04 to present Chief Financial Officer and Controller of O&R
		4/97 to 3/04 Managing Director, Citigroup Global Markets Inc. and predecessors
Frances A. Resheske	47	2/02 to present Senior Vice President Public Affairs of Con Edison of New York
JoAnn Ryan	50	7/06 to present Senior Vice President Business Shared Services of Con Edison of New York
		3/01 to 6/06 President and CEO, Con Edison Solutions
Luther Tai	59	7/06 to present Senior Vice President Enterprise Shared Services of Con Edison of New York
		9/01 to 6/06 Senior Vice President Central Services of Con Edison of New York
Charles E. McTiernan, Jr.	63	1/03 to present General Counsel of Con Edison and Con Edison of New York
Gurudatta Nadkarni	42	1/08 to present Vice President of Strategic Planning
		8/06 to 12/07 Managing Director of Growth Initiatives, Duke Energy Corporation
		1/05 to 7/06 Director of Growth Initiatives, Strategy and Integration, Duke Energy Corporation

		6/01 to 12/04	Senior Project Manager of Strategic Business Development, Duke Energy Corporation
Joseph P. Oates	46	7/07 to present	Vice President Energy Management of Con Edison of New York
		4/04 to present	Vice President and Treasurer of Con Edison and Con Edison of New York
		1/04 to 04/04	Vice President of Con Edison of New York
		11/02 to 01/04	Vice President Bronx and Westchester of Con Edison of New York
		7/01 to 11/02	Vice President Energy Management of Con Edison of New York
Edward J. Rasmussen	59	12/00 to present	Vice President and Controller of Con Edison and Con Edison of New York
		12/00 to 12/03	Vice President, Controller and Chief Financial Officer of O&R
Executive Officers of Con Edison but not Con Edison of New York			
John D. McMahon	56	1/03 to present	President and Chief Executive Officer of O&R

Table of Contents

Name	Age	Offices and Positions During Past Five Years		
Executive Officers of Con Edison of New York but not Con Edison				
(All offices and positions listed are with Con Edison of New York)				
Marilyn Caselli	53	5/05 to present	Senior Vice President	Customer Operations
		8/98 to 4/05	Vice President	Customer Operations
Mary Jane McCartney	59	10/93 to present	Senior Vice President	Gas Operations
John F. Miksad	48	9/05 to present	Senior Vice President	Electric Operations
		2/03 to 8/05	Vice President	Manhattan Electric Operations
		1/00 to 1/03	Chief Engineer	Distribution Engineering
William G. Longhi	54	12/06 to present	Senior Vice President	Central Operations
		09/01 to 11/06	Vice President	System and Transmission Operations

24

Table of Contents

PART II

ITEM 5. MARKET FOR THE REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Con Edison

Con Edison s Common Shares ($.10 par value), the only class of common equity of Con Edison, are traded on the New York Stock Exchange. As of January 31, 2008, there were 72,783 holders of record of Con Edison s Common Shares.

The market price range for Con Edison s Common Shares during 2007 and 2006, as reported in the consolidated reporting system, and the dividends paid by Con Edison in 2007 and 2006 were as follows:

	2007			2006		
	High	Low	Dividends Paid	High	Low	Dividends Paid
1st Quarter	$ 51.40	$ 47.19	$ 0.58	$ 47.52	$ 43.35	$ 0.575
2nd Quarter	$ 52.90	$ 44.68	$ 0.58	$ 44.99	$ 41.17	$ 0.575
3rd Quarter	$ 48.57	$ 43.10	$ 0.58	$ 47.45	$ 44.25	$ 0.575
4th Quarter	$ 50.51	$ 44.57	$ 0.58	$ 49.28	$ 46.04	$ 0.575

On January 24, 2008, Con Edison s Board of Directors declared a quarterly dividend of 58.5 cents per Common Share. The first quarter 2008 dividend will be paid on March 15, 2008.

Con Edison expects to pay dividends to its shareholders primarily from dividends and other distributions it receives from its subsidiaries. The payment of future dividends, which is subject to approval and declaration by Con Edison s Board of Directors, will depend on a variety of factors, including business, financial and regulatory considerations. For additional information see Dividends in Note C to the financial statements in Item 8 (which information is incorporated herein by reference).

During 2007, the market price of Con Edison s Common Shares increased by 1.6 percent (from $48.07 at year-end 2006 to $48.85 at year-end 2007). By comparison, the S&P 500 Index and the S&P Utilities Index increased 3.5 percent and 15.8 percent, respectively. The total return to Con Edison s common shareholders during 2007, including both price appreciation and reinvestment of dividends, was 6.6 percent. By comparison, the total returns for the S&P 500 Index and the S&P Utilities Index were 5.5 percent and 19.4 percent, respectively. For the five-year period 2003 through 2007, Con Edison s shareholders total average annual return was 8.1 percent, compared with total average annual returns for the S&P 500 Index and the S&P Utilities Index of 12.8 percent and 21.5 percent, respectively.

	Years Ending					
Company / Index	2002	2003	2004	2005	2006	2007
Consolidated Edison, Inc.	100	106.13	113.84	126.76	138.22	147.39
S&P 500 Index	100	128.68	142.69	149.70	173.34	182.86
S&P Utilities	100	126.26	156.91	183.34	221.82	264.80

Based on $100 invested at December 31, 2002, reinvestment of all dividends in equivalent shares of stock and market price changes on all such shares.

Table of Contents

Con Edison of New York

The outstanding shares of Con Edison of New York s Common Stock ($2.50 par value), the only class of common equity of Con Edison of New York, are held by Con Edison and are not traded.

The dividends declared by Con Edison of New York in 2007 and 2006 are shown in its Consolidated Statement of Common Shareholder s Equity included in Item 8 (which information is incorporated herein by reference). For additional information about the payment of dividends by Con Edison of New York, and restrictions thereon, see Dividends in Note C to the financial statements in Item 8 (which information is incorporated herein by reference).

26

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

Con Edison

(Millions of Dollars, except per share amounts)	2007	2006	2005	2004	2003
	For the Year Ended December 31,				
Operating revenues	**$ 13,120**	$ 11,962	$ 11,343	$ 9,488*	$ 9,612
Purchased power	**5,428**	4,976	4,700	3,925	3,884
Fuel	**624**	553	596	437	374
Gas purchased for resale	**1,173**	1,082	1,155	852	889
Operating income	**1,395**	1,221	1,126	896	1,040
Income from continuing operations	**925**	740	745	565	643
Income/(Loss) from discontinued operations**	**4**	(3)	(26)	(28)	(118)
Income before cumulative effect of changes in accounting principles	**929**	737	719	537	525
Cumulative effect of changes in accounting principles	**-**	-	-	-	3
Net income	**929**	737	719	537	528
Total assets	**28,343**	26,699	24,848	22,560	20,966
Long-term debt	**7,611**	8,298	7,398	6,561	6,733
Common shareholders equity	**9,076**	8,004	7,310	7,054	6,423
Basic earnings per share					
Continuing operations	**$ 3.48**	$ 2.97	$ 3.05	$ 2.40	$ 2.91
Discontinued operations**	**$ 0.01**	$ (0.01)	$ (0.10)	$ (0.12)	$ (0.54)
Before cumulative effect of changes in accounting principles	**$ 3.49**	$ 2.96	$ 2.95	$ 2.28	$ 2.37
Cumulative effect of changes in accounting principles	**-**	-	-	-	$ 0.02
Net Income	**$ 3.49**	$ 2.96	$ 2.95	$ 2.28	$ 2.39
Diluted earnings per share					
Continuing operations	**$ 3.46**	$ 2.96	$ 3.04	$ 2.39	$ 2.90
Discontinued operations**	**$ 0.01**	$ (0.01)	$ (0.10)	$ (0.12)	$ (0.54)
Before cumulative effect of changes in accounting principles	**$ 3.47**	$ 2.95	$ 2.94	$ 2.27	$ 2.36
Cumulative effect of changes in accounting principles	**-**	-	-	-	$ 0.02
Net income	**$ 3.47**	$ 2.95	$ 2.94	$ 2.27	$ 2.38
Cash dividends per common share	**$ 2.32**	$ 2.30	$ 2.28	$ 2.26	$ 2.24
Average common shares outstanding (millions)	**266**	249	244	236	221

* Reflects a $124 million pre-tax charge in 2004, in accordance with Con Edison of New York s electric, gas and steam rate plans.

** See Notes T and U to the financial statements in Item 8.

Con Edison of New York

(Millions of Dollars)	2007	2006	2005	2004	2003
	For the Year Ended December 31,				
Operating revenues	**$ 9,885**	$ 9,288	$ 9,227	$ 7,971*	$ 8,166
Purchased power	**3,014**	3,052	3,322	3,029	3,124
Fuel	**588**	525	526	404	358
Gas purchased for resale	**978**	902	965	709	715
Operating income	**1,277**	1,110	1,041	825	942
Net income for common stock	**844**	686	694	518	591
Total assets	**24,559**	22,816	21,144	19,244	17,764
Long-term debt	**7,172**	6,925	6,055	5,235	5,435
Common shareholder s equity	**8,086**	7,132	6,437	6,116	5,482

* Reflects $124 million pre-tax charge in 2004, in accordance with Con Edison of New York s electric, gas and steam rate plans.

27

Table of Contents

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (COMBINED FOR CON EDISON AND CON EDISON OF NEW YORK)

This combined management s discussion and analysis of financial condition and results of operations (MD&A) relates to the consolidated financial statements included in this report of two separate registrants: Consolidated Edison, Inc. (Con Edison) and Consolidated Edison Company of New York, Inc. (Con Edison of New York) and should be read in conjunction with the financial statements and the notes thereto. As used in this report, the term the Companies refers to Con Edison and Con Edison of New York. Con Edison of New York is a subsidiary of Con Edison and, as such, information in this MD&A about Con Edison of New York applies to Con Edison.

Information in the notes to the consolidated financial statements referred to in this discussion and analysis 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.

Corporate Overview

Con Edison s principal business operations are those of its utility companies, Con Edison of New York and Orange and Rockland Utilities, Inc. (O&R), together known as the Utilities. Con Edison also has competitive energy businesses (see Competitive Energy Businesses, below). Certain financial data of Con Edison s businesses is presented below:

	Twelve months ended December 31, 2007						At December 31, 2007		
(Millions of Dollars)		**Operating Revenues**			**Net Income**			**Assets**	
Con Edison of New York	$	9,885	75%	$	844	91%	$	24,559	87%
O&R		936	7%		46	5%		1,862	6%
Total Utilities		**10,821**	**82%**		**890**	**96%**		**26,421**	**93%**
Con Edison Development(a)		899	7%		29	3%		377	1%
Con Edison Energy(a)		34	-%		-	-%		183	1%
Con Edison Solutions(a)		1,383	11%		29	3%		204	1%
Other(b)		(17)	-%		(23)	(2)%		252	1%
Total continuing operations		**13,120**	**100%**		**925**	**100%**		**27,437**	**97%**
Discontinued operations/held for sale(c)		-	-%		4	- %		906	3%
Total Con Edison	**$**	**13,120**	**100%**	**$**	**929**	**100%**	**$**	**28,343**	**100%**

(a) Net income from continuing operations of the competitive energy businesses for the twelve months ended December 31, 2007 includes $(5) million of net after-tax mark-to-market gains/(losses) (Con Edison Development, $(16) million and Con Edison Solutions, $11 million).

(b) Represents inter-company and parent company accounting. See Results of Operations, below.

(c) Represents the discontinued operations of Con Edison Development.

Con Edison s net income for common stock in 2007 was $929 million or $3.49 a share. Net income for common stock in 2006 and 2005 was $737 million or $2.96 a share and $719 million or $2.95 a share, respectively. See Results of Operations Summary, below.

Con Edison s principal business segments are Con Edison of New York s regulated electric, gas and steam utility activities, O&R s regulated electric and gas utility activities and Con Edison s competitive energy businesses. Con Edison of New York s principal business segments are its regulated electric, gas and steam utility activities. For segment financial information, see Note N to the financial statements and Results of Operations, below.

For information about factors that could have a material adverse effect on the Companies, see Risk Factors, below.

Regulated Utilities

Con Edison of New York provides electric service to approximately 3.2 million customers and gas service to approximately 1.1 million customers in New York City and Westchester County. The company also provides steam service in parts of Manhattan. O&R, along with its regulated utility businesses, provides electric service to approximately 0.3 million customers in southeastern New York and adjacent areas of northern New Jersey and eastern Pennsylvania and gas service to over 0.1 million customers in southeastern New York and adjacent areas of eastern Pennsylvania.

The Utilities are primarily wires and pipes energy delivery businesses that deliver energy in their service areas subject to extensive federal and state regulation. The Utilities customers buy this energy from the Utilities, or from other suppliers through the Utilities retail access programs. The Utilities purchase substantially all of the energy they sell to customers pursuant to firm contracts or through wholesale energy markets, and recover (generally on a current basis) the cost of the energy sold, pursuant to approved rate plans.

Con Edison anticipates that the Utilities will continue to provide substantially all of its earnings over the next few years. The Utilities earnings will depend on various factors including demand for utility service and the Utilities ability to charge rates for their services that reflect the costs of service, including a return on invested equity capital. The factors affecting demand for utility service include growth of customer demand, weather, market prices for energy, economic conditions and measures that promote energy efficiency. Demand for electric service peaks during the summer air conditioning season. Demand for gas and steam service peaks during the winter heating season.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(COMBINED FOR CON EDISON AND CON EDISON OF NEW YORK) CONTINUED

Because the energy delivery infrastructure must be adequate to meet demand in peak periods with a high level of reliability, the Utilities capital investment plans reflect in great part past actual electric peak demand adjusted to summer design weather conditions, as well as forecast growth in peak usage. The weather during the summer of 2007 was cooler than design conditions. The highest peak electric demand reached in 2007 was 12,807 MW for Con Edison of New York on August 8, 2007 and 1,474 MW for O&R on July 10, 2007. The Utilities estimate that, under design weather conditions, the 2008 peak electric demand in their respective service areas will be 13,775 MW for Con Edison of New York and 1,645 MW for O&R. The Con Edison of New York forecasted peak demand includes the impact of permanent demand reduction programs. The average annual growth rate of the peak electric demand over the next five years at design conditions is estimated to be approximately 1.2 percent for Con Edison of New York and 2.5 percent for O&R. The Companies anticipate an ongoing need for substantial capital investment in order to meet this growth in peak usage with the high level of reliability that they currently provide (see Liquidity and Capital Resources Capital Requirements, below).

The Utilities have rate plans approved by state utility regulators that cover the rates they can charge their customers. Con Edison of New York s electric, gas and steam rate plans are effective through March 31, 2008, September 30, 2010 and September 30, 2008, respectively. In May 2007, Con Edison of New York filed a request with the New York State Public Service Commission (PSC) for new electric rates to be effective April 1, 2008. In November 2007, Con Edison of New York filed a request for a new steam rate plan, to be effective October 1, 2008. O&R s rate plans for its electric and gas service in New York and its subsidiary s electric service in New Jersey extend through June 30, 2008, October 31, 2009 and March 31, 2010, respectively. In August 2007, O&R filed for new electric rates for its New York customers to be effective July 10, 2008. Pursuant to the Utilities rate plans, charges to customers generally may not be changed during the respective terms of the rate plans other than for recovery of the costs incurred for energy supply, for specified increases provided in the rate plans and for limited other exceptions. The New York rate plans generally require the Utilities to share with customers earnings in excess of specified rates of return on common equity capital. Changes in delivery volumes are reflected in operating income (except to the extent that weather-normalization or revenue decoupling provisions apply to the gas businesses, and subject to provisions in the rate plans for sharing above-target earnings with customers). See Regulatory Matters below and Recoverable Energy Costs and Rate Agreements in Notes A and B, respectively, to the financial statements.

Accounting rules and regulations for public utilities include Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation," pursuant to which the economic effects of rate regulation are reflected in financial statements. See Application of Critical Accounting Policies, below.

Competitive Energy Businesses

Con Edison s competitive energy businesses participate in segments of the electricity industry that are less comprehensively regulated than the Utilities. These segments include the operation of electric generation facilities, trading of electricity and fuel, sales of electricity to wholesale and retail customers and sales of certain energy-related goods and services. At December 31, 2007, Con Edison s equity investment in its competitive energy businesses was $615 million and their assets, including those held for sale (see below), amounted to $1.7 billion.

Consolidated Edison Solutions, Inc. (Con Edison Solutions) sells electricity directly to delivery-service customers of utilities primarily in the Northeast and Mid-Atlantic regions (including some of the Utilities customers) and also offers energy-related services. Con Edison Solutions does not sell electricity to the Utilities. The company sold approximately 12.2 million MWHs of electricity to customers in 2007.

Consolidated Edison Development, Inc. (Con Edison Development) owns, leases or operates generating plants and participates in other infrastructure projects. At December 31, 2007, the company owned or leased the equivalent of 1,739 MWs of capacity in electric generating facilities of which 203 MWs are sold under long-term purchase power agreements and the balance is sold on the wholesale electricity markets. In addition, the company sells electricity at wholesale to utilities. In December 2007, Con Edison

Development and its subsidiary, CED/SCS Newington, LLC, agreed to sell their ownership interests in power generating projects with an aggregate capacity of approximately 1,706 MW. See Note U to the financial statements.

Consolidated Edison Energy, Inc. (Con Edison Energy) procures electric energy and capacity for Con Edison Solutions and fuel for Con Edison Development and others. It sells the electric capacity and energy produced by plants owned, leased or operated by Con Edison Development and others. The company also provides energy risk management services to Con Edison Solutions and Con Edison Development, offers these services to others and enters into wholesale supply transactions.

The competitive energy businesses are focusing on increasing their customer base and gross margins and completing the sale

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(COMBINED FOR CON EDISON AND CON EDISON OF NEW YORK) CONTINUED

of the generating projects discussed above. See Liquidity and Capital Resources Capital Requirements and Capital Resources, below.

Discontinued Operations

In March 2006, Con Edison completed the sale of Con Edison Communications, LLC (Con Edison Communications) to RCN Corporation. In December 2007, Con Edison Development and its subsidiary, CED/SCS Newington, LLC, agreed to sell their ownership interests in power generating projects with an aggregate capacity of approximately 1,706 MW. See Notes T and U to the financial statements.

Results of Operations Summary

Con Edison s earnings per share in 2007 were $3.49 ($3.47 on a diluted basis). In 2006, earnings per share were $2.96 ($2.95 on a diluted basis). Earnings per share in 2005 were $2.95 ($2.94 on a diluted basis).

Net income for the years ended December 31, 2007, 2006 and 2005 was as follows:

(Millions of Dollars)	**2007**	**2006**	**2005**
Con Edison of New York	$ 844	$ 686	$ 694
O&R	46	45	49
Competitive energy businesses(a)	58	40	13
Other(b)	(23)	(31)	(11)
Total continuing operations	**925**	**740**	**745**
Discontinued operations(c)	4	(3)	(26)
Con Edison	**$ 929**	**$ 737**	**$ 719**

(a) Includes $(5) million, $(15) million and $(8) million of net after-tax mark-to-market losses in 2007, 2006 and 2005, respectively.

(b) Other consists of inter-company and parent company accounting. See Results of Operations, below.

(c) Represents the discontinued operations of certain of Con Edison Development s generation projects and Con Edison Communications. See Notes T and U to the financial statements.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(COMBINED FOR CON EDISON AND CON EDISON OF NEW YORK) CONTINUED

The Companies' results of operations for 2007, as compared with 2006, reflect sales growth, the Utilities rate plans (which are designed to recover increases in certain operations and maintenance expenses, depreciation and property taxes, and interest charges), the impact of storms and weather in 2007. The following table presents the estimated effect on earnings per share and net income from continuing operations for 2007 as compared with 2006 and 2006 as compared with 2005, resulting from these and other major factors:

	2007 vs. 2006		2006 vs. 2005	
	Earnings per Share	Net Income (Millions of Dollars)	Earnings per Share	Net Income (Millions of Dollars)
Con Edison of New York				
Sales growth	$ 0.18	$ 46	$ 0.12	$ 28
Impact of weather	0.11	28	(0.32)	(79)
Electric rate agreement	0.44	109	0.74	181
Gas rate agreement	0.05	12	0.09	22
Net transfers to firm gas service	0.05	14	-	-
Steam rate agreement	0.08	19	0.07	18
Resolution of deferred tax amortization petition	0.06	17	-	-
Operations and maintenance expense	(0.15)	(37)	(0.41)	(98)
Depreciation and property taxes	(0.28)	(69)	(0.27)	(66)
Interest charges	(0.04)	(10)	(0.20)	(48)
Other (includes dilutive effect of new stock issuances)	(0.08)	29	0.08	34
Total Con Edison of New York	0.42	158	(0.10)	(8)
Orange and Rockland Utilities	(0.01)	1	(0.02)	(4)
Competitive energy businesses				
Earnings excluding net mark-to-market effects	0.01	8	0.12	34
Net mark-to-market effects	0.04	10	(0.03)	(7)
Other, including parent company expenses	0.05	8	(0.05)	(20)
Discontinued operations	0.02	7	0.09	23
Total variations	$ 0.53	$ 192	$ 0.01	$ 18

See Results of Operations below for further discussion and analysis of results of operations.

31

Table of Contents

Risk Factors

The Companies businesses are influenced by many factors that are difficult to predict, and that involve uncertainties that may materially affect actual operating results, cash flows and financial condition. These risk factors include:

The Utilities Revenues And Results Of Operations Reflect Regulatory Actions The Utilities have rate plans approved by state utility regulators that cover the prices they can charge their customers. The prices are generally designed to cover the Utilities cost of service (including a return on equity) and generally may not be changed during the specified terms of the rate plans other than for the recovery of energy costs and limited other exceptions. The rate plans generally include earnings adjustments for meeting or failing to meet certain standards. Certain of the plans require action by regulators at their expiration dates, which may include approval of new plans with different provisions. Regulators may also take actions affecting the company outside of the framework of the approved rate plans. The regulators in the states in which the Utilities provide service generally permit the Utilities to recover from their customers the cost of service, other than any cost that is determined to have been imprudently incurred. Regulatory policies are subject to change. The Utilities regulatory filings can involve complex accounting and other calculations. See Application of Critical Accounting Polices and Regulatory Matters, below.

Con Edison s Ability To Pay Dividends Or Interest Is Subject To Regulatory Restrictions Con Edison s ability to pay dividends on its common stock or interest on its external borrowings depends primarily on the dividends and other distributions it receives from its businesses. The dividends that the Utilities may pay to Con Edison are generally limited to not more than 100 percent of their respective income available for dividends calculated on a two-year rolling average basis, with certain exceptions. See Dividends in Note C to the financial statements.

The Companies Purchase Energy For Their Customers A disruption in the wholesale energy markets or in the Companies energy supply arrangements could adversely affect their ability to meet their customers energy needs and the Companies results of operations. The Companies have policies to manage the economic risks related to energy supply, including related hedging transactions and the risk of a counterparty s non-performance. The Utilities generally recover their prudently incurred fuel, purchased power and gas costs, including the cost of hedging transactions, in accordance with rate provisions approved by state regulators. Con Edison s competitive energy businesses enter into hedging transactions to manage their commodity-related price and volumetric risks. See Financial and Commodity Market Risks, below.

Energy Market Prices Are Volatile The impact of changing energy market prices on the Companies is mitigated by their energy management policies and rate provisions pursuant to which the Utilities recover energy supply costs. See Financial and Commodity Market Risks, below. High energy market prices result in increases in energy costs billed to customers that could result in decreased energy usage. If this were to occur, until the Utilities rates were adjusted to offset the effect of decreased usage, the Utilities would have decreased energy delivery revenues. Prices for electricity, fuel oil and gas could also affect the value of Con Edison s competitive energy businesses.

The Utilities Have A Substantial Ongoing Utility Construction Program The Utilities estimate that their construction expenditures will exceed $8 billion over the next three years. The ongoing construction program includes large energy transmission, substation and distribution system projects. The failure to complete these projects in a timely manner could adversely affect the Utilities ability to meet their customers growing energy needs with the high level of reliability that they currently provide. The Utilities expect to use internally-generated funds, equity contributions from Con Edison and external borrowing to fund the construction expenditures.

The Companies Are Active Participants in Financial Markets Changes in financial market conditions or in the Companies credit ratings could adversely affect their ability and their cost to borrow funds. The Companies commercial paper and unsecured debt are rated by Moody s Investors Services, Inc. (Moody s), Standard & Poor s Ratings Services (S&P) and Fitch Ratings (Fitch). The interest rates on $636 million of Con Edison of New York tax-exempt debt and $99 million of O&R tax-exempt debt are also affected by the credit ratings of bond insurers. See Liquidity and Capital Resources Capital Resources, below. Changes to financial market conditions could also adversely affect the return on investment of the plan assets for the Companies pension and other postretirement benefit plans. See Application of Critical Accounting Policies Accounting for Pensions and Other Postretirement

Benefits and Financial and Commodity Market Risks, below.

The Companies Operate Essential Energy Facilities And Other Systems The Utilities provide electricity, gas and steam service using energy facilities that are located either in, or close to, public places. A failure of, or damage to, these facilities could result in bodily injury or death, property damage, the release of hazardous substances or extended service interruptions. See Power Outage Proceedings in Note B to the financial statements and

32

Table of Contents

MANAGEMENT S DISCUSSIONAND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(COMBINED FOR CON EDISON AND CON EDISON OF NEW YORK) CONTINUED

Manhattan Steam Main Rupture in Note H to the financial statements. The Companies have information systems relating to their operations, billing, accounting and other matters, the failure of which could adversely affect the Companies operations and liquidity. In the event of failure or damage to these facilities or systems, the Utilities could incur substantial liability, higher costs and increased regulatory requirements. The Utilities have training, operating, security, maintenance and capital programs designed to provide for the safe and reliable operation of their energy facilities and information systems.

Con Edison s Competitive Energy Businesses Are In Evolving Markets Con Edison s competitive energy businesses are active in evolving markets that are affected by the actions of governmental agencies, other organizations (such as independent system operators) and other competitive businesses. Compared to the Utilities, the profitability of their products and services and the recoverability of Con Edison s investment in these competitive energy businesses is not as predictable.

The Companies May Be Affected By The Application Of Critical Accounting Policies And Rules The application of the Companies critical accounting policies reflects complex judgments, assumptions and estimates. These policies, which are described in Application of Critical Accounting Policies, below, include industry specific accounting applicable to regulated public utilities, the accounting and funding rules applicable to pensions and other postretirement benefits, and accounting for contingencies, long-lived assets, derivative instruments, goodwill and leases. New accounting policies or rules or changes to current accounting policies, rules or interpretations of such policies or rules that affect the Companies financial statements may be adopted by the relevant accounting or other authorities.

The Companies Are Exposed To Risks Relating To Environmental Matters Hazardous substances, such as asbestos, polychlorinated biphenyls (PCBs) and coal tar, have been used or produced in the course of the Utilities operations and are present on properties or in facilities and equipment currently or previously owned by them. See Environmental Matters in Item 1 and Note G to the financial statements. Electric and magnetic fields (EMF) are found wherever electricity is used. If a causal relationship between EMF and adverse health effects were established, there could be a material adverse effect on the Companies. Negative perceptions about EMF can make it more difficult to construct facilities needed for the Companies operations.

The Companies Are Subject To Extensive Government Regulation And Taxation The Companies operations require numerous permits, approvals and certificates from various federal, state and local governmental agencies. The Companies federal income tax returns reflect certain tax positions with which the Internal Revenue Service does not or may not agree, including tax positions with respect to Con Edison s lease in/lease out transactions and the deduction of certain construction-related costs for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. See Notes J and L to the financial statements. The Companies may be subject to new laws or regulations or the revision or reinterpretation of existing laws or regulations which could have a material adverse effect on the Companies.

The Companies Face Risks That Are Beyond Their Control The Companies results of operations can be affected by circumstances or events that are beyond their control. Weather directly influences the demand for electricity, gas and steam service, and can affect the price of energy commodities. Economic conditions can affect customers demand and ability to pay for service. The cost of repairing damage to the Companies facilities and the potential disruption of their operations due to heat, storms, natural disasters, wars, terrorist acts, pandemic illnesses and other catastrophic events could be substantial. See Environmental Matters Climate Change in Item 1 and Power Outage Proceedings in Note B to the financial statements. The occurrence or risk of occurrence of future terrorist attacks or related acts of war could also adversely affect the New York or United States economy. A lower level of economic activity for these or other reasons could result

in a decline in energy consumption, which could adversely affect the Companies revenues and earnings and limit the Companies future growth prospects.

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 "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 such as those discussed under "Risk Factors," above.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(COMBINED FOR CON EDISON AND CON EDISON OF NEW YORK) CONTINUED

Application of Critical Accounting Policies

The Companies financial statements reflect the application of their accounting policies, which conform to accounting principles generally accepted in the United States of America. The Companies critical accounting policies include industry-specific accounting applicable to regulated public utilities and accounting for pensions and other postretirement benefits, contingencies, long-lived assets, derivative instruments, goodwill and leases.

Accounting for Regulated Public Utilities

The Utilities are subject to SFAS No. 71, Accounting for the Effects of Certain Types of Regulation, and the accounting requirements of the Federal Energy Regulatory Commission and state public utility regulatory authorities having jurisdiction.

SFAS No. 71 specifies the economic effects that result from the causal relationship of costs and revenues in the rate-regulated environment and how these effects are to be accounted for by a regulated enterprise. Revenues intended to cover some costs may be recorded either before or after the costs are incurred. If regulation provides assurance that incurred costs will be recovered in the future, these costs would be recorded as deferred charges or regulatory assets under SFAS No. 71. If revenues are recorded for costs that are expected to be incurred in the future, these revenues would be recorded as deferred credits or regulatory liabilities under SFAS No. 71.

The Utilities principal regulatory assets and liabilities are listed in Note B to the financial statements. The Utilities are each receiving or being credited with a return on all regulatory assets for which a cash outflow has been made. The Utilities are each paying or being charged with a return on all regulatory liabilities for which a cash inflow has been received. The regulatory assets and liabilities will be recovered from customers, or applied for customer benefit, in accordance with rate provisions approved by the applicable public utility regulatory commission.

In the event that regulatory assets of the Utilities were no longer probable of recovery (as required by SFAS No. 71), these regulatory assets would be charged to earnings. At December 31, 2007, the regulatory assets for Con Edison and Con Edison of New York were $4.8 billion and $4.4 billion, respectively.

Accounting for Pensions and Other Postretirement Benefits

The Utilities provide pensions and other postretirement benefits to substantially all of their employees and retirees. Con Edison s competitive energy businesses also provide such benefits to certain of their employees. The Companies account for these benefits in accordance with SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R), SFAS No. 87, Employers' Accounting for Pensions and SFAS No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions. In addition, the Utilities apply SFAS No. 71 to account for the regulatory treatment of these obligations (which, as described in Note B to the financial statements, reconciles the amounts reflected in rates for the costs of the benefit to the costs actually incurred). In applying these accounting policies, the Companies have made critical estimates related to actuarial assumptions, including assumptions of expected returns on plan assets, discount rates, health care cost trends and future compensation. See Notes E and F to the financial statements for information about the Companies pension and other postretirement benefits, the actuarial assumptions, actual performance, amortization of investment and other actuarial gains and losses and calculated plan costs for 2007, 2006 and 2005.

The cost of pension and other postretirement benefits in future periods will depend on actual returns on plan assets, assumptions for future periods, contributions and benefit experience. Con Edison s and Con Edison of New York s current estimates for 2008 are decreases, compared with 2007, in their pension and other postretirement benefits cost of $2 million and $3 million, respectively. The discount rate used to determine 2008 pension and other postretirement benefit accounting cost is 6.0 percent and the expected return on plan assets (tax-exempt assets for postretirement benefit accounting costs) is 8.5 percent.

Amortization of market gains and losses experienced in previous years is expected to decrease Con Edison s and Con Edison of New York s pension and other postretirement benefit costs by an additional $7 million in 2009. A 5.0 percentage point variation in the actual annual return in 2008, as compared with the expected annual asset return of 8.5 percent, would change pension and other postretirement benefit costs for both Con Edison and Con Edison of New York by approximately $17 million and $16 million, respectively, in 2009.

The discount rate for determining the present value of future period benefit payments is determined using a model to match the durations of highly-rated (Aa and Aaa, by Moody s) corporate bonds with the projected stream of benefit payments.

In determining the health care cost trend rate, the Companies review actual recent cost trends and projected future trends.

The following table illustrates the effect on 2008 pension and other postretirement costs of changing the critical actuarial

34

assumptions discussed above, while holding all other actuarial assumptions constant:

Actuarial Assumption	Change in Assumption	Pension	Other Postretirement Benefits	Total
		(Millions of Dollars)		
Increase in accounting cost:				
Discount rate				
Con Edison	(0.25%)	$ 29	$ 4	$ 33
Con Edison of New York	(0.25%)	$ 27	$ 3	$ 30
Expected return on plan assets				
Con Edison	(0.25%)	$ 20	$ 2	$ 22
Con Edison of New York	(0.25%)	$ 19	$ 2	$ 21
Health care trend rate				
Con Edison	1.00%	-	$ 3	$ 3
Con Edison of New York	1.00%	-	$ (1)	$ (1)
Increase in projected benefit obligation:				
Discount rate				
Con Edison	(0.25%)	$ 278	$ 44	$ 322
Con Edison of New York	(0.25%)	$ 261	$ 38	$ 299
Health care trend rate				
Con Edison	1.00%	-	$ 18	$ 18
Con Edison of New York	1.00%	-	$ (3)	$ (3)

Pension benefits are provided through a pension plan maintained by Con Edison to which Con Edison of New York, O&R and the competitive energy businesses make contributions for their participating employees. Pension accounting by the Utilities includes an allocation of plan assets.

The Companies were not required to make cash contributions to the pension plan in 2007 under funding regulations and tax laws. However, Con Edison of New York, O&R and Con Edison s competitive energy businesses made discretionary contributions to the plan in 2007 of $112 million, $36 million and $1 million, respectively, and expect to make discretionary contributions in 2008 of $98 million, $32 million and $1 million, respectively.

The Companies policy is to fund their pension and other postretirement benefit accounting costs to the extent tax deductible and for the Utilities, to the extent these costs are recovered under their rate agreements.

Accounting for Contingencies

SFAS No. 5, Accounting for Contingencies, applies to an existing condition, situation or set of circumstances involving uncertainty as to possible loss that will ultimately be resolved when one or more future events occur or fail to occur. Known material contingencies, which are described in the notes to the financial statements, include service interruptions experienced in 2006 (Note B), the Utilities responsibility for hazardous substances, such as asbestos, PCBs and coal tar that have been used or generated in the course of operations (Note G); certain tax matters (Notes J and L); and other contingencies (Note H). In accordance with SFAS No. 5, the Companies have accrued estimates of losses relating to the contingencies as to which loss is probable and can be reasonably estimated and no liability has been accrued for contingencies as to which loss is not probable or cannot be reasonably estimated.

The Utilities generally recover costs for asbestos lawsuits, workers compensation and environmental remediation pursuant to their current rate plans. Changes during the terms of the rate plans to the amounts accrued for these contingencies would not impact earnings.

Accounting for Long-Lived Assets

SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets requires that certain long-lived assets must be tested for recoverability whenever events or changes in circumstances indicate their carrying amounts may not be recoverable. The carrying amount of a long-lived asset is deemed not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Under SFAS No. 144, an impairment loss is recognized if the carrying amount is not recoverable from such cash flows, and exceeds its fair value, which approximates market value.

Con Edison s competitive energy businesses test their assets for impairment whenever events indicate that their carrying amount might not be recoverable. A critical element of this test is the forecast of future undiscounted cash flows to be generated from the long-lived assets. Forecast of these cash flows requires complex judgments about future operations, which are particularly difficult to make with respect to evolving industries such as the competitive energy businesses. Under SFAS No. 144, if alternative courses of action are under consideration or if a range is estimated for the amount of possible future cash flows, the probability of all possible outcomes must be weighted. With respect to the forecasted cash flows associated with Con Edison Development s generation facilities, a 10 percent decrease in the estimated undiscounted cash flows for these facilities would not result in an impairment charge. As a result of the 2005 tests, Con Edison recognized impairment charges of $9 million ($5 million after tax) with respect to Con Edison Communications. The 2006 tests did not result in an impairment charge. In December 2007, Con Edison Development and its subsidiary, CED/SCS Newington, LLC, agreed to sell their ownership interests in power generating projects with an aggregate capacity of approximately 1,706 MW (see Note U to the financial statements). Based on the anticipated sales price of these assets, there was no impairment charge for 2007. See Impairments in Note A to the financial statements.

Accounting for Goodwill

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, Con Edison is required to annually test goodwill for impairment. See Note K to the financial statements. Goodwill is tested for impairment using a two-step approach. The first step of the goodwill impairment test compares the estimated fair value of a reporting unit with its carrying value, including goodwill. If the estimated fair value of a reporting unit exceeds its carrying value, goodwill of the reporting unit is considered not impaired. If the carrying value exceeds the estimated fair value of the reporting unit, the second step is performed to measure the amount of impairment loss, if any. The second step requires a calculation of the implied fair value of goodwill.

Goodwill was $408 million at December 31, 2007. The most recent test, which was performed during 2007, did not require any second-step assessment and did not result in any impairment. The company s most significant assumptions surrounding the goodwill impairment test relate to the estimates of reporting unit fair values. The company estimated fair values based primarily on discounted cash flows. A decrease in the forecasted cash flows of 10 percent would not have resulted in the carrying value of any reporting units exceeding their estimated fair values.

Accounting for Derivative Instruments

The Companies apply SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, and other related accounting pronouncements to their derivative financial instruments. The Companies use derivative financial instruments to hedge market price fluctuations in related underlying transactions for the physical purchase and sale of electricity and gas and interest rate risk on certain debt securities. The Utilities are permitted by their respective regulators to reflect in rates all reasonably incurred gains and losses on these instruments. See Financial and Commodity Market Risks, below and Note O to the financial statements.

Where the Companies are required to make mark-to-market estimates pursuant to SFAS No. 133, the estimates of gains and losses at a particular period end do not reflect the end results of particular transactions, and will most likely not reflect the actual gain or loss at the conclusion of a transaction. Substantially all of the estimated gains or losses are based on prices supplied by external sources such as the fair value of exchange traded futures and options and the fair value of positions for which price quotations are available through or derived from brokers or other market sources.

Accounting for Leases

The Companies apply SFAS No. 13, Accounting for Leases and other related pronouncements to their leasing transactions. See Note J to the financial statements for information about Con Edison Development s Lease In/Lease Out or LILO transactions, a disallowance of tax losses by the Internal Revenue Service and a possible future charge to earnings. In accordance with SFAS No. 13, Con Edison accounted 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.

Liquidity and Capital Resources

The Companies liquidity reflects cash flows from operating, investing and financing activities, as shown on their respective consolidated statement of cash flows and as discussed below.

The principal factors affecting Con Edison s liquidity are its investments in the Utilities, the dividends it pays to its shareholders and the dividends it receives from the Utilities and cash flows from financing activities, including, in 2007 and 2006, issuance of 14.6 million and 12.2 million shares of common stock for $685 and $510 million, respectively, of which $518 million and $447 million were invested in Con Edison of New York. In 2005, 2.8 million shares of common stock were issued for $78 million.

The principal factors affecting Con Edison of New York s liquidity are its cash flows from operating activities, cash used in investing activities (including construction expenditures), the dividends it pays to Con Edison and cash flows from financing activities discussed below.

The Companies generally maintain minimal cash balances and use short-term borrowing to meet their working capital needs and other cash requirements. The Companies repay their short-

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(COMBINED FOR CON EDISON AND CON EDISON OF NEW YORK) CONTINUED

term borrowings using funds from long-term financings and operating activities. The Utilities' cost of capital, including working capital, is reflected in the rates they charge to their customers.

Each of the Companies believes that it will be able to meet its reasonably likely short-term and long-term cash requirements. See Risk Factors, and Application of Critical Accounting Policies Accounting for Contingencies, above, and Regulatory Matters, below.

Changes in the Companies cash and temporary cash investments resulting from operating, investing and financing activities for the years ended December 31, 2007, 2006 and 2005 are summarized as follows:

Con Edison

(Millions of Dollars)	2007	2006	Variance 2007 vs. 2006	2005	Variance 2006 vs. 2005
Operating activities	$ 1,555	$ 1,354	$ 201	$ 790	$ 564
Investing activities	(2,086)	(1,918)	(168)	(1,274)	(644)
Financing activities	647	577	70	539	38
Net change	116	13	103	55	(42)
Balance at beginning of period	94	81	13	26	55
Balance at end of period	$ 210	$ 94	$ 116	$ 81	$ 13

Con Edison of New York

(Millions of Dollars)	2007	2006	Variance 2007 vs. 2006	2005	Variance 2006 vs. 2005
Operating activities	$ 1,251	$ 1,163	$ 88	$ 818	$ 345
Investing activities	(2,021)	(1,839)	(182)	(1,167)	(672)
Financing activities	844	662	182	400	262
Net change	74	(14)	88	51	(65)
Balance at beginning of period	47	61	(14)	10	51
Balance at end of period	$ 121	$ 47	$ 74	$ 61	$ (14)

Cash Flows from Operating Activities

The Utilities cash flows from operating activities reflect principally their energy sales and deliveries and cost of operations. The volume of energy sales and deliveries is dependent primarily on factors external to the Utilities, such as growth of customer demand, weather, market prices for energy, economic conditions and measures that promote energy efficiency. The prices at which the Utilities provide energy to their customers are determined in accordance with their rate agreements. In general, changes in the Utilities cost of purchased power, fuel and gas may affect the timing of cash flows but not net income because the costs are recovered in accordance with rate agreements. See Recoverable Energy Costs in Note A to the financial statements.

Net income is the result of cash and non-cash (or accrual) transactions. Only cash transactions affect the Companies cash flows from operating activities. Principal non-cash charges include depreciation and deferred income tax expense. Principal non-cash credits include the revenue requirement impact resulting from the reconciliation pursuant to Con Edison of New York s electric rate agreement of the differences between the actual amount of transmission and distribution utility plant, net of depreciation to the amounts reflected in electric rates (Net T&D Revenues), prepaid pension costs and amortizations of certain net regulatory liabilities.

See Application of Critical Accounting Policies Accounting for Pensions and Other Postretirement Benefits, and Notes E and F to the financial statements.

Net cash flows from operating activities in 2007 for Con Edison and Con Edison of New York were $201 million and $88 million higher, respectively, than in the 2006 period primarily reflecting increased net income, depreciation expense, deferred income taxes and recovery of certain other receivables, described below, offset in part by higher non-cash credits for Net T&D Revenues, rate case amortizations and accruals and higher customer accounts receivable.

The change in net cash flows also reflects the timing of payments for and recovery of energy costs. This timing issue is reflected within changes to accounts receivable customers, recoverable energy costs and accounts payable balances. The change in other deferred charges and noncurrent assets reflects a $160 million deposit paid by Con Edison to the Internal Revenue Service with respect to the timing of deductions of certain construction related costs. See Note L to the financial statements. Con Edison of New York s portion of this deposit, also recorded as a noncurrent asset, was $147 million.

The increase in other regulatory assets principally reflects increases in deferred pension costs in accordance with SFAS No. 158 and increases in future federal income taxes associated with increased removal costs. See Notes A, B and E to the financial statements.

The decrease in other receivables reflects primarily the recovery of a property tax credit associated with Con Edison of New York s East River Plant and lower hedging program broker margin deposits (reflecting higher commodity prices). For Con Edison, the decrease also reflects the expiration of certain wholesale load contracts, and receivables associated with other hedging activities at the competitive energy businesses.

Net cash flows from operating activities in 2006 for Con Edison and Con Edison of New York were $564 million and $345 million higher, respectively, than in the 2005 period. The increase in net cash flows reflects increased deferred tax benefits, the timing of Con Edison of New York s New York City property tax payments and higher energy prices in the last quarter of 2005. The company achieved a 1.5 percent reduction in its City property taxes for the fiscal year ending June 30, 2006 by prepaying the annual tax amount due on June 30, 2005 instead of paying semi-annual installments on their due dates (July 1, 2005 and January 1, 2006). For the fiscal year ending June 30, 2007, the company made a semi-annual installment on July 1, 2006. The higher 2005 energy prices resulted in higher accounts receivable, net of allowance for uncollectibles, and accounts payable at the end of 2005 and increased collections of receivables from customers and accounts payable payments in the 2006 period. See Other Changes in Assets and Liabilities, below.

Cash Flows Used in Investing Activities

Net cash flows used in investing activities in 2007 for Con Edison and Con Edison of New York were $168 million and $182 million higher, respectively, than in 2006. The increases for the Companies reflect primarily increased utility construction expenditures and lower net proceeds from the sale of certain properties ($30 million in 2007, as compared with $60 million in 2006). For Con Edison, the increase also reflects $39 million of net proceeds from the completion of the sale of Con Edison Communications that offset cash flows used in investing activities in 2006.

Net cash flows used in investing activities in 2006 for Con Edison and Con Edison of New York were $644 million and $672 million higher, respectively, than in 2005. The increases for the Companies reflect primarily increased utility construction expenditures and decreased net sale proceeds from the sale of certain properties ($60 million in 2006 as compared with $534 million in 2005). The $534 million represents proceeds from the completion of the sale of Con Edison of New York properties located on First Avenue in Manhattan, collectively referred to as the First Avenue Properties , see Regulatory Assets and Liabilities in Note B to the financial statements. For Con Edison, the increase was partially offset, relative to Con Edison of New York, by $39 million of net proceeds from the completion of the sale of Con Edison Communications in March 2006.

Cash Flows from Financing Activities

Net cash flows from financing activities for Con Edison and Con Edison of New York increased $70 million and $182 million in 2007 compared with 2006, and increased $38 million and $262 million, respectively, in 2006 compared with 2005.

Con Edison s cash flows from financing activities for the years ended December 31, 2007 and 2006, reflect the issuance through public offerings of 11 million and 9.7 million Con Edison common shares resulting in net proceeds of $558 million and $447 million, respectively. The 2007 proceeds were invested by Con Edison in Con Edison of New York ($518 million) and O&R ($40 million). The $447 million from the 2006 proceeds were invested in Con Edison of New York.

Cash flows from financing activities for 2007, 2006 and 2005 also reflect the issuance of Con Edison common shares through its dividend reinvestment and employee stock plans (2007: 3.6 million shares for $121 million, 2006: 2.5 million shares for $63 million, 2005: 2.8 million shares for $78 million). In addition, as a result of the stock plan issuances, cash used to pay common stock dividends was reduced by $38 million in 2007 and 2005 and $40 million in 2006.

Net cash flows from financing activities during the years ending December 31, 2007, 2006 and 2005 also reflect the following Con Edison of New York transactions:

2007

- Issued $525 million 6.30% 30-year debentures, the proceeds of which were used for general corporate purposes; and
- Redeemed at maturity $330 million 6.45% 10-year debentures.

2006

- Issued $400 million 5.85% 30-year debentures, $250 million 5.30% 10-year debentures and $250 million 5.70% 30-year debentures, the proceeds of which were used for general corporate purposes;
- Issued $400 million 6.20% 30-year debentures, the proceeds of which were used for general corporate purposes and to redeem in advance of maturity $100 million 7.75% debentures due 2026; and

Table of Contents

MANAGEMENT S DISCUSSIONAND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(COMBINED FOR CON EDISON AND CON EDISON OF NEW YORK) CONTINUED

Issued $400 million 5.50% 10-year debentures, the proceeds of which were used to redeem in advance of maturity $400 million 7.50% debentures due 2041.

2005

Issued $350 million 5.30% 30-year debentures, $125 million 5.25% 30-year debentures and $350 million 5.375% 10-year debentures, the proceeds of which were used for general corporate purposes;

Issued note for $126 million of variable-rate, tax-exempt Facilities Revenue Bonds due 2039, the proceeds of which were classified as restricted cash at June 30, 2005 and used together with other funds to redeem in advance of maturity $128 million 6.10% fixed-rate tax-exempt Facilities Revenue Bonds due 2020; and

Redeemed at maturity $100 million 6.625% 10-year debentures and $350 million 6.625% 5-year debentures.

In 2007, Con Edison issued commercial paper and used available cash balances to redeem in advance of maturity $325 million 7.25% 40-year Public Income NotES.

Con Edison s net cash flows from financing activities also include O&R s financings. In 2007, O&R s New Jersey subsidiary redeemed at maturity $20 million 7.125% First Mortgage Bonds. In 2006, O&R issued $75 million of 5.45% 10-year debentures. In 2005, O&R issued $40 million of 5.30% 10-year debentures.

Cash flows from financing activities of the Companies also reflect commercial paper issuance (included on the consolidated balance sheets as Notes payable). The commercial paper amounts outstanding at December 31, 2007, 2006 and 2005 and the average daily balances for 2007, 2006 and 2005 for Con Edison and Con Edison of New York were as follows:

(Millions of Dollars, except Weighted Average Yield)	2007 Out-standing at Dec. 31	2007 Daily average	2006 Out-standing at Dec. 31	2006 Daily average	2005 Out-standing at Dec. 31	2005 Daily average
Con Edison	$ 840	$ 160	$ 117	$ 448	$ 755	$ 210
Con Edison of New York	$ 555	$ 151	$ -	$ 305	$ 520	$ 118
Weighted average yield	5.5%	5.3%	5.4%	5.0%	4.3%	3.3%

Common stock issuances and external borrowings are sources of liquidity that could be affected by changes in credit ratings, financial performance and capital market conditions. For information about the Companies credit ratings and certain financial ratios, see Capital Resources, below.

Other Changes in Assets and Liabilities

The following table shows changes in assets and liabilities at December 31, 2007, compared with December 31, 2006, that have not impacted the Companies consolidated statements of cash flows.

(Millions of Dollars)	Con Edison 2007 vs. 2006 Variance	Con Edison of New York 2007 vs. 2006 Variance
Assets		

Fair value of derivative assets	$ (86)	$ 10
Deferred derivative losses	(205)	(180)
Liabilities		
Uncertain income taxes	155	142
Fair value of derivative liabilities	(322)	(148)

For information on the adoption of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, see Note L to the financial statements.

In the context of higher forward energy market prices and the realization of gains and losses in 2007, the Companies policies for managing their energy purchases resulted in a decrease in the fair value of derivative liabilities at December 31, 2007 as compared with year-end 2006. For Con Edison and Con Edison of New York, the decrease in the fair value of derivative liabilities resulted in a decrease in deferred derivative losses at December 31, 2007 as compared with year-end 2006. For the Utilities, mark-to-market activity had no effect on net income as the amounts were deferred as regulatory assets/liabilities (deferred derivative losses/gains). In accordance with provisions approved by state regulators, the Utilities generally recover from customers their energy supply costs, net of gains and losses on derivative instruments used to hedge energy purchases. The mark-to-market accounting for Con Edison s competitive energy businesses resulted in a net decrease in the fair value of derivative assets and liabilities. The decline in the fair value of derivative assets reflects increasing capacity prices and the timing of entering into new derivative instruments, which was offset in part by the maturity of certain derivative instruments and the impact of increasing energy prices. The competitive energy businesses record mark-to-market gains and losses on derivative instruments in earnings in the reporting period in which such changes occur. See Note O to the financial statements. For the Companies, changes in fair value of derivative instruments may lead to collateral payments made to or received from counterparties or brokers that are reflected in other accounts receivable and other current liabilities.

Capital Resources

Con Edison is a holding company that operates only through its subsidiaries and has no material assets other than its interests in its subsidiaries. Con Edison expects to finance its capital

Table of Contents

MANAGEMENT S DISCUSSIONAND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(COMBINED FOR CON EDISON AND CON EDISON OF NEW YORK) CONTINUED

requirements primarily through the sale of securities including the issuance in 2008 of between $225 million and $425 million of Con Edison common shares in addition to issuances under its dividend reinvestment and employee stock plans and from dividends it receives from its subsidiaries. Con Edison s ability to make payments on its external borrowings and dividends on its common shares is also dependent on its receipt of dividends from its subsidiaries or proceeds from the sale of its securities or its interests in its subsidiaries.

Con Edison expects to use the net proceeds from Con Edison Development s and its subsidiary s pending sale of their ownership interests in power generating projects to repay debt and invest the remaining proceeds in its subsidiaries. See Note U to the financial statements.

For information about restrictions on the payment of dividends by the Utilities and significant debt covenants, see Note C to the financial statements.

For information on the Companies commercial paper program and revolving credit agreements with banks, see Note D to the financial statements.

The Utilities expect to finance their operations, capital requirements and payment of dividends to Con Edison from internally-generated funds, contributions of equity capital from Con Edison and external borrowings.

The Companies are continuing to monitor developments in the capital markets, and currently believe that the Companies' will be able to access capital on reasonable terms.

In May 2005, the PSC authorized Con Edison of New York to issue up to $4.4 billion of debt securities prior to December 31, 2009, of which the company had issued $2.2 billion at December 31, 2007. In January 2006, the PSC authorized O&R to issue up to $325 million of debt securities prior to December 31, 2009, of which the company had issued $75 million as of December 31, 2007. In addition, the PSC has authorized the Utilities to refund outstanding debt securities and preferred stock should the Utilities determine that it is economic to do so.

Con Edison s competitive energy businesses have financed their operations and capital requirements primarily with capital contributions and borrowings from Con Edison, internally-generated funds and external borrowings. See Note P to the financial statements.

For each of the Companies, the ratio of earnings to fixed charges (Securities and Exchange Commission basis) for the years ended December 31, 2007, 2006, 2005, 2004, and 2003 was:

Earnings to Fixed Charges (Times)	**2007**	**2006**	**2005**	**2004**	**2003**
Con Edison	3.4	3.0	3.3	2.8	3.2
Con Edison of New York	3.6	3.2	3.6	3.1	3.4

For each of the Companies, the common equity ratio at December 31, 2007, 2006 and 2005 was:

Common Equity Ratio (Percent of total capitalization)	**2007**	**2006**	**2005**

Con Edison	53.7	48.5	49.0
Con Edison of New York	52.3	50.0	50.7

The commercial paper of the Companies is rated P-1, A-2 and F1, respectively, by Moody s, S&P and Fitch. Con Edison s unsecured debt is rated A2, A- and A, respectively, by Moody s, S&P and Fitch. The unsecured debt of Con Edison of New York is rated A1, A and A+, respectively, by Moody s, S&P and Fitch. The unsecured debt of O&R is rated A2, A and A+, respectively, by Moody s, S&P and Fitch. Securities ratings assigned by rating organizations are expressions of opinion and are not recommendations to buy, sell or hold securities. A securities rating is subject to revision or withdrawal at any time by the assigning rating organization. Each rating should be evaluated independently of any other rating.

Con Edison of New York has $636 million of tax-exempt debt for which the interest rates are determined pursuant to periodic auctions. Of this amount, $391 million is insured by Ambac Assurance Corporation and $245 million is insured by XL Capital Assurance Inc. Credit rating agencies have recently downgraded the ratings of these insurers from AAA to lower levels. The company believes that the interest rates on its insured tax-exempt debt have been adversely impacted by the downgrade. The weighted average annual interest rate on this tax-exempt debt was 3.75 percent on February 20, 2008. The weighted average interest rate was 3.77 percent, 3.45 percent and 2.44 percent for the years 2007, 2006 and 2005, respectively.

O&R has $99 million of tax-exempt debt that currently bears interest at rates determined weekly and is subject to tender by bondholders for purchase by the company. Of this amount, $55 million is insured by Financial Guaranty Insurance Company and $44 million is insured by Ambac Assurance Corporation. Recent downgrades in the credit ratings of these insurers have resulted in interest rates on this O&R debt that are significantly higher than the interest rates borne by Con Edison of New York s $225 million of uninsured weekly rate tender bonds. As of February 20, 2008, the weighted average annual interest rate on the O&R insured weekly rate tender bonds, excluding the effects of an interest rate swap agreement (see Interest Rate Hedging in Note B to the financial statements), was 5.61 percent and the rate on the Con Edison of New York weekly rate tender bonds was 2.22 percent. O&R is evaluating alternatives with respect to its tax-exempt debt, which could include redemption of the debt and termination of the interest rate swap agreement.

Table of Contents

MANAGEMENT S DISCUSSIONAND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(COMBINED FOR CON EDISON AND CON EDISON OF NEW YORK) CONTINUED

Capital Requirements

The following table contains the Companies capital requirements for the years 2005 through 2007 and their current estimate of amounts for 2008 through 2010.

(Millions of Dollars)	Actual 2005	2006	2007	Estimate 2008	2009	2010
Regulated utility construction expenditures						
Con Edison of New York	$ 1,541	$ 1,782	$ 1,879	$ 2,596	$ 2,578	$ 2,558
O&R	87	110	112	133	140	129
Total regulated construction expenditures	1,628	1,892	1,991	2,729	2,718	2,687
Competitive energy businesses capital expenditures	19	6	6	5	5	6
Sub-total	1,647	1,898	1,997	2,734	2,723	2,693
Retirement of long-term securities at maturity*						
Con Edison parent company	-	-	325	200	-	-
Con Edison of New York	578	500	330	280	475	625
O&R	2	2	22	3	3	58
Competitive energy businesses	17	21	22	326	-	1
Total retirement of long-term securities at maturity	597	523	699	809	478	684
Total	**$ 2,244**	**$ 2,421**	**$ 2,696**	**$ 3,543**	**$ 3,201**	**$ 3,377**

* Includes long-term securities redeemed in advance of maturity.

The Utilities have an ongoing need for substantial capital investment in order to meet the growth in demand for electricity and electric, gas and steam reliability needs. Amounts for 2005 also include expenditures for the East River Repowering Project. The increases in 2006 and 2007 reflect a higher level of expenditures for electric substations and ongoing improvements and reinforcements of the electric distribution system. The Utilities estimated construction expenditures for 2008, 2009, and 2010 are subject to change depending on the outcome of certain regulatory proceedings. See Note B to the financial statements.

Table of Contents

MANAGEMENT S DISCUSSIONAND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(COMBINED FOR CON EDISON AND CON EDISON OF NEW YORK) CONTINUED

Contractual Obligations

The following table summarizes the Companies material obligations at December 31, 2007, to make payments pursuant to contracts. Long-term debt, capital lease obligations and other long-term liabilities are included on their balance sheets. Operating leases, non-utility generator (NUG) contracts and other purchased power agreements (PPAs) (for which undiscounted future annual payments are shown) are described in the notes to the financial statements.

		Payments Due by Period			
(Millions of Dollars)	Total	Less than 1 year	2 3 years	4 5 years	After 5 years
Long-term debt (Note C)					
Con Edison of New York	$ 7,471	$ 280	$ 1,100	$ 300	$ 5,791
O&R	437	3	61	6	367
Competitive energy businesses and parent	531	526	1	1	3
Interest on long-term debt	7,402	822	784	677	5,119
Total Long-term debt, including interest	15,841	1,631	1,946	984	11,280
Capital lease obligations (Note J)					
Con Edison of New York	35	8	15	12	-
O&R	2	2	-	-	-
Total capital lease obligations	37	10	15	12	-
Operating leases (Notes J and P)					
Con Edison of New York	298	40	80	81	97
O&R	4	1	2	1	-
Competitive energy businesses	9	2	3	2	2
Total operating leases	311	43	85	84	99
Purchase obligations					
Non-utility generator contracts and purchase power agreements Utilities (Note I)					
Con Edison of New York					
Energy(a)	14,855	1,218	2,444	1,666	9,527
Capacity	4,730	474	974	962	2,320
Total Con Edison of New York	19,585	1,692	3,418	2,628	11,847
O&R					
Energy and Capacity(a)	173	103	70	-	-
Total non-utility generator contracts and purchase power agreements Utilities	19,758	1,795	3,488	2,628	11,847
Natural gas supply, transportation, and storage contracts Utilities(b)					
Con Edison of New York					
Natural gas supply	1,158	580	533	45	-
Transportation and storage	1,490	200	414	252	624
Total Con Edison of New York	2,648	780	947	297	624
O&R					
Natural gas supply	174	83	82	9	-
Transportation and storage	273	34	74	45	120
Total O&R	447	117	156	54	120
Total natural gas supply, transportation and storage contracts	3,095	897	1,103	351	744
Other purchase obligations(c)					
Con Edison of New York	3,085	1,893	1,104	52	36
O&R	176	119	47	8	2
Total other purchase obligations	3,261	2,012	1,151	60	38

Competitive energy businesses commodity and service agreements(d)	134	107	26	1	-
Uncertain income taxes					
Con Edison of New York	142	-	142	-	-
O&R	12	-	12	-	-
Competitive energy businesses	1	-	1	-	-
Total uncertain income taxes	155	-	155	-	-
Total	$ 42,592	$ 6,495	$ 7,969	$ 4,120	$ 24,008

(a) Included in these amounts is the cost of minimum quantities of energy that the company is obligated to purchase at both fixed and variable prices.

(b) Included in these amounts is the cost of minimum quantities of natural gas supply, transportation and storage that the Utilities are obligated to purchase at both fixed and variable prices.

(c) Amounts shown for other purchase obligations, which reflect capital and operations and maintenance costs incurred by the Utilities in running their day-to-day operations, were derived from the Utilities purchasing systems as the difference between the amounts authorized and the amounts paid (or vouchered to be paid) for each obligation. For many of these obligations, the Utilities are committed to purchase less than the amount authorized. Payments for the Other Purchase Obligations are generally assumed to be made ratably over the term of the obligations. The Utilities believe that unreasonable effort and expense would be involved to modify their purchasing systems to enable them to report their Other Purchase Obligations in a different manner.

(d) Amounts represent commitments to purchase minimum quantities of electric energy and capacity, natural gas, natural gas pipeline capacity and generating plant services entered into by Con Edison's competitive energy businesses. These obligations do not include any obligations related to the generation projects being sold. See Note U to the financial statements.

42

Table of Contents

The Companies commitments to make payments in addition to these contractual commitments include their other liabilities reflected in their balance sheets, any funding obligations for their pension and other postretirement benefit plans, financial hedging activities, their collective bargaining agreements and Con Edison s guarantees of certain obligations of its businesses. See Notes E, F, O and Guarantees in Note H to the financial statements.

Electric Power Requirements

In 2007, the Utilities purchased substantially all of the energy they sold to customers pursuant to firm contracts and through the NYISO's wholesale electricity market. Con Edison expects that these resources will again be adequate to meet the requirements of its customers in 2008.

In general, the Utilities recover prudently-incurred purchased power costs pursuant to rate provisions approved by the state public utility regulatory authority having jurisdiction. See "Financial and Commodity Market Risks Commodity Price Risk," below and "Recoverable Energy Costs" in Note A to the financial statements. From time to time certain parties have petitioned the PSC to review these provisions, the elimination of which could have a material adverse effect on the Companies financial position, results of operations or liquidity.

To reduce the volatility of electric energy costs, the Utilities have firm contracts to purchase electric energy and enter into derivative transactions to hedge the costs of a portion of their expected purchases under these contracts and through the NYISO s wholesale electricity market, which together cover a substantial portion of the electric energy expected to be sold to customers in 2008. See Notes I and O to the financial statements. O&R s New Jersey subsidiary entered into firm contracts to purchase electric energy for substantially all of the electric energy expected to be sold to its customers in 2008.

Con Edison of New York also owns generating stations in New York City associated primarily with its steam system. As of December 31, 2007, the generating stations had a combined electric capacity of approximately 704 MW, based on 2007 summer ratings. O&R does not own any electric generating capacity.

In a July 1998 order, the PSC indicated that it "agree(s) generally that Con Edison of New York need not plan on constructing new generation as the competitive market develops," but considers "overly broad" and did not adopt Con Edison of New York's request for a declaration that, solely with respect to providing generating capacity, it will no longer be required to engage in long-range planning to meet potential demand and, in particular, that it will no longer have the obligation to construct new generating facilities, regardless of the market price of capacity. Con Edison of New York monitors the adequacy of the electric capacity resources and related developments in its service area, and works with other parties on long-term resource adequacy issues within the framework of the NYISO. In December 2007, the PSC initiated a proceeding to consider a form of integrated resource planning, which could involve the imposition of obligations on transmission owners (such as Con Edison of New York), that may be needed for system reliability if the market does not solve a reliability need identified by the NYISO.

Con Edison s competitive energy businesses sell electricity to wholesale and retail customers in the NYISO, PJM Interconnection (PJM), ISO New England (ISO-NE) and other markets. In addition, at December 31, 2007, Con Edison Development owned equity interests in electric generating facilities equivalent to 1,739 MW of net generating capacity, substantially all of which is located within the PJM or the ISO-NE. Con Edison Energy sells the electricity from these generating facilities on the wholesale electricity markets or under contract. See Financial and Commodity Market Risks Commodity Price Risk, below. In December 2007, Con Edison Development and its subsidiary, CED/SCS Newington, LLC, agreed to sell their ownership interests in these power generating projects with an aggregate capacity of approximately 1,706 MW. See Note U to the financial statements.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(COMBINED FOR CON EDISON AND CON EDISON OF NEW YORK) CONTINUED

Regulatory Matters

The following table, which summarizes certain significant provisions of the Utilities principal rate agreements, should be read in conjunction with, and is subject to, the more detailed discussion of the agreements in Note B to the financial statements.

Effective Period	Rate Increases	Amortization To Income of Net Regulatory (Assets) and Liabilities	Other Significant Revenue Sources	Authorized Return on Equity (ROE)	ROE Sharing Threshold Earnings Sharing Terms* (Shareholders / Customers)
		(Millions of Dollars, except percentages)			
Con Edison of New York Electric					
April 2005 - March 2008	Yr. 1 - $104.6 Yr. 2 - None Yr. 3 - $220.4**	Yr. 1 - $128 Yr. 2 - $173 Yr. 3 - $249	$60 of annual transmission congestion contracts revenues Transmission and distribution plant reconciliation	-	11.40% 11.4% - 13% - 50/50 > 13% - 25/75
Con Edison of New York Gas					
October 2007 - September 2010	Yr. 1 - $67.5 Yr. 2 - $67.5 Yr. 3 - $67.5	$18 over 3 yrs.	$35 of annual non-firm revenues	9.7%	10.70% 50/50
Con Edison of New York Steam					
October 2006 - September 2008	None	$53 over 2 yrs.	-	9.8%	11.00% 11% - 12% - 50/50 >12% - 25/75
O&R Electric (NY)					
March 2007 - June 2008	None	$(13)	N/A	9.1%	No sharing by customers
O&R Gas*** (NY)					
November 2006 - October 2009	Yr. 1 - $6.5 Yr. 2 - $6.5 Yr. 3 - $6.3	$(3) over 3 yrs.	-	9.8%	11% - 12% - 50/50 12% - 14% - 35/65 >14% - 0/100

* Subject to limitation for cost reconciliations described in Note B to the financial statements.

** $60 million accrued to income in rate year 2.

*** Reflects phase-in of rate increase discussed in Note B to the financial statements.

In May 2007, Con Edison of New York filed a request with the PSC for an electric rate increase of $1,225 million effective April 1, 2008. The PSC is expected to rule on the company s request in March 2008. O&R has pending a request with the PSC for an increase in the rates it charges for electric service rendered in New York, effective July 2008, of $43.7 million. See Note B to the financial statements.

The Companies are actively participating in regulatory proceedings at the federal level that are underway to implement the Energy Policy Act of 2005, such as the implementation of mandatory reliability standards through the North American Electric Reliability Council and efforts to increase investment in infrastructure, including implementation of transmission pricing incentives. The Companies also participate in other federal regulatory proceedings that affect electric capacity and energy markets in New York and PJM regions, and those that affect gas pipeline companies.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(COMBINED FOR CON EDISON AND CON EDISON OF NEW YORK) CONTINUED

Financial and Commodity Market Risks

The Companies are subject to various risks and uncertainties associated with financial and commodity markets. The most significant market risks include interest rate risk, commodity price risk, credit risk and investment risk.

Interest Rate Risk

The interest rate risk relates primarily to variable rate debt and to new debt financing needed to fund capital requirements, including the construction expenditures of the Utilities and maturing debt securities. Con Edison and its businesses manage interest rate risk through the issuance of mostly fixed-rate debt with varying maturities and through opportunistic refinancing of debt. The Companies estimate that at December 31, 2007, each 10 percent variation in interest rates applicable to Con Edison s and Con Edison of New York s variable rate debt and commercial paper would result in a change in annual interest expense of $7 million and $5 million, respectively.

In addition, from time to time, Con Edison and its businesses enter into derivative financial instruments to hedge interest rate risk on certain debt securities. See Interest Rate Hedging in Note O to the financial statements.

Commodity Price Risk

Con Edison s commodity price risk relates primarily to the purchase and sale of electricity, gas and related derivative instruments. The Utilities and Con Edison s competitive energy businesses have risk management strategies to mitigate their related exposures. See Note O to the financial statements.

Con Edison estimates that, as of December 31, 2007, a 10 percent decline in market prices would result in a decline in fair value of $99 million for the derivative instruments used by the Utilities to hedge purchases of electricity and gas, of which $64 million is for Con Edison of New York and $35 million is for O&R. Con Edison expects that any such change in fair value would be largely offset by directionally opposite changes in the cost of the electricity and gas purchased. In accordance with provisions approved by state regulators, the Utilities generally recover from customers the costs they incur for energy purchased for their customers, including gains and losses on certain derivative instruments used to hedge energy purchased and related costs. See Recoverable Energy Costs in Note A to the financial statements.

Con Edison s competitive energy businesses use a value-at-risk (VaR) model to assess the market risk of their electricity and gas commodity fixed-price purchase and sales commitments, physical forward contracts and commodity derivative instruments. VaR represents the potential change in fair value of instruments or the portfolio due to changes in market factors, for a specified time period and confidence level. These businesses estimate VaR across their electricity and natural gas commodity businesses using a delta-normal variance/covariance model with a 95 percent confidence level. Since the VaR calculation involves complex methodologies and estimates and assumptions that are based on past experience, it is not necessarily indicative of future results. VaR for transactions associated with hedges on generating assets and commodity contracts, assuming a one-day holding period, for the years ended December 31, 2007, and 2006, respectively, was as follows:

95% Confidence Level, One-Day Holding Period	2007	2006
	(Millions of Dollars)	
Average for the period	$ 3	$ 3
High	7	10
Low	1	1

Credit Risk

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 competitive 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 and 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 company has a legally enforceable right of setoff.

The Utilities had $66 million of credit exposure in connection with energy supply and hedging activities, net of collateral and reserves, at December 31, 2007, of which $28 million was with investment-grade counterparties and $38 million was with commodity exchange brokers.

Con Edison s competitive energy businesses had $92 million of credit exposure in connection with energy supply and hedging activities, net of collateral and reserves, at December 31, 2007, of which $71 million was with investment grade counterparties and $21 million was with commodity exchanges or independent system operators.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(COMBINED FOR CON EDISON AND CON EDISON OF NEW YORK) CONTINUED

Investment Risk

The Companies investment risk relates to the investment of plan assets for their pension and other postretirement benefit plans. See Application of Critical Accounting Policies Accounting for Pensions and Other Postretirement Benefits, above. The Companies current investment policy for pension plan assets includes investment targets of 65 percent equities and 35 percent fixed income and other securities. At December 31, 2007, the pension plan investments consisted of 65 percent equity and 35 percent fixed income and other securities. See Notes E and F to the financial statements.

Environmental Matters

For information concerning potential liabilities arising from laws and regulations protecting the environment and from claims relating to alleged exposure to asbestos, see Environmental Matters in Item 1 and Note G to the financial statements.

Impact of Inflation

The Companies are affected by the decline in the purchasing power of the dollar caused by inflation. Regulation permits the Utilities to recover through depreciation only the historical cost of their plant assets even though in an inflationary economy the cost to replace the assets upon their retirement will substantially exceed historical costs. The impact is, however, partially offset by the repayment of the Companies long-term debt in dollars of lesser value than the dollars originally borrowed. Also, to the extent the Companies prices change by more or less than inflation, the real price of the Companies services will increase or decline. Over the past 20 years, for example, the real price of electric service has declined substantially.

Material Contingencies

For information concerning potential liabilities arising from the Companies material contingencies, see Application of Critical Accounting Policies Accounting for Contingencies, and Notes B, G, H, J and L to the financial statements.

Results of Operations

Results of operations reflect, among other things, the Companies accounting policies (see Application of Critical Accounting Policies, above), rate plans that cover the rates the Utilities can charge their customers (see Regulatory Matters, above) and demand for utility service. Demand for utility service is affected by weather, economic conditions and other factors.

The Companies results of operations for the 12 months ended December 31, 2007 reflect sales growth, the Utilities rate plans (which are designed to recover increases in certain operations and maintenance expenses, depreciation and property taxes, and interest charges), the impact of storms and weather in 2007. For additional information about major factors affecting earnings, see Results of Operations Summary, above.

In general, the Utilities recover on a current basis the fuel, gas purchased for resale and purchased power costs they incur in supplying energy to their full-service customers (see Recoverable Energy Costs in Note A and Regulatory Matters in Note B to the financial statements). Accordingly, such costs do not generally affect the Companies results of operations. Management uses the term net revenues (operating revenues less such costs) to identify changes in operating revenues that may affect the Companies results of operations. Management believes that, although net revenues may not be a measure determined in accordance with accounting principles generally accepted in the United States of America, the measure facilitates the analysis by management and investors of the Companies results of operations.

Con Edison s principal business segments are Con Edison of New York s regulated electric, gas and steam utility activities, O&R s regulated electric and gas utility activities and Con Edison s competitive energy businesses. Con Edison of New York s principal business segments are its regulated electric, gas and steam utility activities. A discussion of the results of operations by principal business segment for the years ended December 31, 2007, 2006 and 2005 follows. For additional business segment financial information, see Note N to the financial statements.

Table of Contents

MANAGEMENT S DISCUSSIONAND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(COMBINED FOR CON EDISON AND CON EDISON OF NEW YORK) CONTINUED

Year Ended December 31, 2007 Compared with Year Ended December 31, 2006

The Companies results of operations (which were discussed above under Results of Operations Summary) in 2007 compared with 2006 were:

	Con Edison*		Con Edison of New York		O&R		Competitive Energy Businesses and Other**	
(Millions of Dollars)	Increases (Decreases) Amount	Increases (Decreases) Percent	Increases (Decreases) Amount	Increases (Decreases) Percent	Increases (Decreases) Amount	Increases (Decreases) Percent	Increases (Decreases) Amount	Increases (Decreases) Percent
Operating revenues	$ 1,158	9.7%	$ 597	6.4%	$ 118	14.4%	$ 443	23.9%
Purchased power	452	9.1	(38)	(1.2)	77	25.1	413	25.5
Fuel	71	12.8	63	12.0	N/A	N/A	8	28.6
Gas purchased for resale	91	8.4	76	8.4	16	10.7	(1)	(3.3)
Operating revenues less purchased power, fuel and gas purchased for resale (net revenues)	544	10.2	496	10.3	25	6.9	23	12.7
Other operations and maintenance	201	10.7	164	10.1	18	9.7	19	24.4
Depreciation and amortization	50	8.4	48	8.8	3	8.6	(1)	(6.7)
Taxes, other than income taxes	74	5.9	80	6.8	(5)	(10.6)	(1)	(5.3)
Income taxes	45	11.1	37	10.4	(1)	(4.0)	9	33.3
Operating income	174	14.3	167	15.0	10	14.5	(3)	(7.1)
Other income less deductions and related federal income tax	18	62.1	3	9.1	(3)	(75.0)	18	Large
Net interest expense	7	1.4	12	2.7	6	21.4	(11)	(30.6)
Income from continuing operations	185	25.0	158	23.0	1	2.2	26	Large
Discontinued operations ***	7	Large	N/A	N/A	N/A	N/A	7	Large
Net income	$ 192	26.1%	$ 158	23.0%	$ 1	2.2%	$ 33	Large

* Represents the consolidated financial results of Con Edison and its businesses.

** Includes inter-company and parent company accounting.

*** See Note U to the financial statements.

47

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(COMBINED FOR CON EDISON AND CON EDISON OF NEW YORK) CONTINUED

Con Edison of New York

Electric

Con Edison of New York s electric sales and deliveries, excluding off-system sales, in 2007 compared with 2006 were:

	Millions of kWhs Delivered				Revenues in Millions			
	Twelve Months Ended				Twelve Months Ended			
Description	December 31, 2007	December 31, 2006	Variation	Percent Variation	December 31, 2007	December 31, 2006	Variation	Percent Variation
Residential/Religious	12,312	12,590	(278)	(2.2)%	$ 2,657	$ 2,631	$ 26	1.0%
Commercial/Industrial	12,918	13,409	(491)	(3.7)	2,486	2,460	26	1.1
Retail access customers	21,532	19,256	2,276	11.8	1,334	1,040	294	28.3
NYPA, Municipal Agency and other sales	11,499	11,053	446	4.0	342	310	32	10.3
Other operating revenues	-	-	-	-	621	611	10	1.6
Total	**58,261**	**56,308**	**1,953**	**3.5%**	**$ 7,440**	**$ 7,052**	**$ 388**	**5.5%**

Con Edison of New York s electric operating revenues increased $388 million in 2007 compared with 2006 due primarily to the third year of the electric rate plan ($201 million, which includes $71 million of Net T&D Revenues), increased recoveries of demand side management programs ($84 million), sales growth ($50 million), the recognition of the gain on the sale of properties ($29 million), the impact of the weather in 2007 ($12 million), higher transmission revenues ($10 million) and increased recoverable fuel costs ($10 million), offset in part by a decrease in recoverable purchased power costs ($25 million). Other electric operating revenues generally reflect changes in regulatory assets and liabilities in accordance with the company s rate plans. See Note B to the financial statements.

Electric delivery volumes in Con Edison of New York s service area increased 3.5 percent in 2007 compared with 2006 due primarily to sales growth. After adjusting for variations, principally weather and billing days, electric delivery volumes in Con Edison of New York s service area increased 2.6 percent in 2007 compared with 2006.

Con Edison of New York s electric fuel costs increased $10 million in 2007 compared with 2006 due primarily to higher sendout volumes from the company s generating facilities ($12 million), offset by a decrease in unit costs ($2 million). Electric purchased power costs decreased $25 million in 2007 compared with 2006 reflecting a decrease in purchased volumes associated with milder 2007 weather and additional customers obtaining their energy supply through competitive providers ($75 million), offset by an increase in unit costs ($50 million).

Con Edison of New York s electric operating income increased $131 million in 2007 compared with 2006. The increase reflects primarily higher net revenues ($403 million due principally to provisions of the electric rate agreement and sales growth), offset in part by higher operations and maintenance costs ($143 million, due primarily to the impact of storms, demand side management program expenses and increased transmission and distribution expenses), taxes other than income taxes ($59 million principally property taxes), income taxes ($35 million) and depreciation ($34 million).

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(COMBINED FOR CON EDISON AND CON EDISON OF NEW YORK) CONTINUED

Gas

Con Edison of New York s gas sales and deliveries, excluding off-system sales, in 2007 compared with 2006 were:

	Thousands of dths Delivered				Revenues in Millions			
	Twelve Months Ended				Twelve Months Ended			
Description	December 31, 2007	December 31, 2006	Variation	Percent Variation	December 31, 2007	December 31, 2006	Variation	Percent Variation
Residential	42,573	40,589	1,984	4.9%	$ 842	$ 781	$ 61	7.8%
General	31,162	31,269	(107)	(0.3)	499	471	28	5.9
Firm transportation	39,016	23,688	15,328	64.7	168	105	63	60.0
Total firm sales and transportation	**112,751**	**95,546**	**17,205**	**18.0**	**1,509**	**1,357**	**152**	**11.2**
Interruptible sales	10,577	11,995	(1,418)	(11.8)	88	121	(33)	(27.3)
NYPA	42,085	41,057	1,028	2.5	4	4	-	-
Generation plants	79,942	64,365	15,577	24.2	52	46	6	13.0
Other	15,318	19,324	(4,006)	(20.7)	24	30	(6)	(20.0)
Other operating revenues	-	-	-	-	82	55	27	49.1
Total	**260,673**	**232,287**	**28,386**	**12.2%**	**$ 1,759**	**$ 1,613**	**$ 146**	**9.1%**

Con Edison of New York s gas operating revenues increased $146 million in 2007 compared with 2006 due primarily to an increase in recoverable purchased gas costs ($76 million), the gas rate plans ($32 million), the movement of certain customers from interruptible to firm service ($23 million) and sales growth ($9 million). Con Edison of New York s revenues from gas sales are subject to a weather normalization clause that moderates, but does not eliminate, the effect of weather-related changes on net income. Other gas operating revenues generally reflect changes in regulatory assets and liabilities in accordance with the company s rate plans. See Note B to the financial statements.

Con Edison of New York s sales and transportation volumes for firm customers increased 18.0 percent in 2007 compared with 2006 reflecting primarily the impact of the colder winter weather in 2007 compared with 2006 and the net transfers to firm service. After adjusting for variations, principally weather and billing days and net transfers to firm service, firm gas sales and transportation volumes in the company s service area increased 2.3 percent in 2007.

Con Edison of New York s purchased gas cost increased $76 million in 2007 compared with 2006 due to higher sendout volumes ($120 million), offset by lower unit costs ($44 million).

Con Edison of New York s gas operating income increased $32 million in 2007 compared with 2006. The increase reflects primarily higher net revenues ($70 million), offset by higher income taxes ($13 million), taxes other than income taxes ($12 million, principally property taxes), operations and maintenance expense ($9 million) and depreciation ($4 million).

Steam

Con Edison of New York s steam sales and deliveries in 2007 compared with 2006 were:

Description	Millions of Pounds Delivered Twelve Months Ended December 31, 2007	December 31, 2006	Variation	Percent Variation	Revenues in Millions Twelve Months Ended December 31, 2007	December 31, 2006	Variation	Percent Variation
General	589	515	74	14.4%	$ 23	$ 21	$ 2	9.5%
Apartment house	7,519	6,774	745	11.0	188	174	14	8.0
Annual power	17,696	15,961	1,735	10.9	443	405	38	9.4
Other operating revenues	-	-	-	-	32	23	9	39.1
Total	**25,804**	**23,250**	**2,554**	**11.0%**	**$ 686**	**$ 623**	**$ 63**	**10.1%**

Table of Contents

MANAGEMENT S DISCUSSIONAND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(COMBINED FOR CON EDISON AND CON EDISON OF NEW YORK) CONTINUED

Con Edison of New York s steam operating revenues increased $63 million in 2007 compared with 2006 due primarily to net purchased power, fuel costs and timing of fuel recoveries ($40 million), the colder winter weather in 2007 ($32 million) and the net change in rates under the steam rate plan ($7 million). Other steam operating revenues generally reflect changes in regulatory assets and liabilities in accordance with the company s rate plans. See Note B to the financial statements.

Steam sales and delivery volumes increased 11.0 percent in 2007 compared with 2006, reflecting primarily the impact of weather. After adjusting for variations, principally weather and billing days, steam sales and deliveries increased 0.2 percent in 2007.

Con Edison of New York s steam fuel costs increased $53 million in 2007 compared with 2006 due primarily to higher sendout volumes ($32 million) and higher unit costs ($21 million). Steam purchased power costs decreased $13 million in 2007 compared with 2006 due primarily to lower unit costs ($11 million) and purchased volumes ($2 million).

Steam operating income increased $4 million in 2007 compared with 2006. The increase reflects primarily higher net revenues ($23 million) and lower income taxes ($11 million), offset in part by higher operations and maintenance expense ($12 million), depreciation ($10 million) and taxes other than income taxes ($9 million, principally property taxes).

Taxes Other Than Income Taxes

At over $1 billion, taxes other than income taxes remain one of Con Edison of New York s largest operating expenses. The principal components of, and variations in, taxes other than income taxes were:

(Millions of Dollars)	2007	2006	Increase/ (Decrease)
Property taxes	$ 936	$ 869	$ 67
State and local taxes related to revenue receipts	262	253	9
Payroll taxes	55	54	1
Other taxes	10	7	3
Total	**$ 1,263(a)**	**$ 1,183(a)**	**$ 80**

(a) Including sales tax on customers bills, total taxes other than income taxes, billed to customers in 2007 and 2006 were $1.6 billion and $1.5 billion, respectively.

Income Taxes

Operating income taxes increased $37 million in 2007 compared with 2006 due primarily to higher income in the 2007 period.

Net Interest Expense

Net interest expense increased $12 million in 2007 compared with 2006 due primarily to new debt issuances in late 2006 and higher interest rates on floating-rate debt, offset in part by interest accrued in 2006 for the potential repayment of tax benefits from the timing of tax deductions of certain construction related costs (see Note L to the financial statements) and lower principal amounts of commercial paper outstanding in 2007.

O&R

Electric

O&R s electric sales and deliveries, excluding off-system sales, in 2007 compared with 2006 were:

	Millions of kWhs Delivered				Revenues in Millions			
	Twelve Months Ended				Twelve Months Ended			
Description	December 31, 2007	December 31, 2006	Variation	Percent Variation	December 31, 2007	December 31, 2006	Variation	Percent Variation
Residential/Religious	1,913	1,803	110	6.1%	$ 298	$ 252	$ 46	18.3%
Commercial/Industrial	2,191	2,094	97	4.6	283	237	46	19.4
Retail access customers	1,687	1,765	(78)	(4.4)	73	76	(3)	(3.9)
Public authorities	120	114	6	5.3	15	14	1	7.1
Other operating revenues	-	-	-	-	2	3	(1)	(33.3)
Total	**5,911**	**5,776**	**135**	**2.3%**	**$ 671**	**$ 582**	**$ 89**	**15.3%**

50

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(COMBINED FOR CON EDISON AND CON EDISON OF NEW YORK) CONTINUED

O&R s electric operating revenues increased $89 million in 2007 compared with 2006 due primarily to increased recoverable purchased power costs ($77 million). Other electric operating revenues generally reflect changes in regulatory assets and liabilities in accordance with the company s electric rate plan. See Note B to the financial statements.

Electric delivery volumes in O&R s service area increased 2.3 percent in 2007 compared with 2006. After adjusting for weather variations and unbilled volumes, electric delivery volumes in O&R s service area increased 1.5 percent in 2007 compared with 2006.

Electric operating income increased by $2 million in 2007 compared with 2006. The increase reflects higher net revenues ($10 million) and lower taxes other than income taxes ($5 million, principally property taxes), offset in part by higher operations and maintenance expense ($11 million) and depreciation ($2 million).

Gas

O&R s gas sales and deliveries, excluding off-system sales, in 2007 compared with 2006 were:

	Thousands of dths Delivered				Revenues in Millions			
	Twelve Months Ended				Twelve Months Ended			
Description	**December 31, 2007**	**December 31, 2006**	**Variation**	**Percent Variation**	**December 31, 2007**	**December 31, 2006**	**Variation**	**Percent Variation**
Residential	8,768	7,758	1,010	13.0%	$ 152	$ 135	$ 17	12.6%
General	2,066	1,892	174	9.2	34	31	3	9.7
Firm transportation	10,248	9,058	1,190	13.1	39	32	7	21.9
Total firm sales and transportation	**21,082**	**18,708**	**2,374**	**12.7**	**225**	**198**	**27**	**13.6**
Interruptible sales	5,983	5,856	127	2.2	25	28	(3)	(10.7)
Generation plants	4,552	3,036	1,516	49.9	3	3	-	-
Other	1,044	939	105	11.2	-	-	-	-
Other gas revenues	-	-	-	-	12	7	5	71.4
Total	**32,661**	**28,539**	**4,122**	**14.4%**	**$ 265**	**$ 236**	**$ 29**	**12.3%**

O&R s gas operating revenues increased $29 million in 2007 compared with 2006 due primarily to higher costs of gas purchased for resale in 2007 ($16 million) and the impact of the gas rate plan increase that went into effect November 1, 2006 ($13 million).

Sales and transportation volumes for firm customers increased 12.7 percent in 2007 compared with 2006 reflecting the impact of the weather in 2007. After adjusting for weather and other variations, total firm sales and transportation volumes were 0.3 percent higher in 2007 compared with 2006. O&R s revenues from gas sales are subject to a weather normalization clause that moderates, but does not eliminate, the effect of weather-related changes on net income.

Non-firm transportation of customer-owned gas to electric generating plants increased in 2007 compared with 2006 because certain facilities resumed burning gas to generate electricity. The increase in gas burned had minimal impact on earnings because most revenues from these customers result from a fixed demand charge for local transportation.

Gas operating income increased by $6 million in 2007 compared with 2006. The increase reflects higher net revenues ($13 million) and lower taxes other than income taxes ($1 million, principally property taxes), offset in part by higher operations and maintenance costs ($7 million), income taxes ($1 million) and depreciation ($1 million).

Taxes Other Than Income Taxes

Taxes, other than income taxes, decreased $5 million in 2007 compared with 2006. The principal components of taxes, other than income taxes, were:

(Millions of Dollars)	2007	2006	Increase/ (Decrease)
Property taxes	$ 25	$ 30	$(5)
State and local taxes related to revenue receipts	13	13	
Payroll taxes	4	4	
Total	**$ 42(a)**	**$ 47(a)**	**$(5)**

(a) Including sales tax on customers bills, total taxes other than income taxes, billed to customers in 2007 and 2006 were $71 million and $73 million, respectively.

51

Income Taxes

Operating income taxes decreased by $1 million in 2007 compared with 2006.

Other Income (Deductions)

Other income (deductions) decreased $3 million in 2007 compared with 2006 due primarily to the sale of non-utility property and higher interest income in 2006.

Net Interest Expense

Net interest expense increased $6 million in 2007 compared with 2006 due primarily to a new debt issuance in late 2006 and interest accrued for the potential repayment of tax benefits from the timing of tax deductions of certain construction related costs (see Note L to the financial statements).

Competitive Energy Businesses

The competitive energy businesses operating income and earnings from continuing operations increased $2 million and $18 million, respectively, in 2007 compared with 2006 due primarily to higher gross margins from generating plants and wholesale sales, higher income from investments and lower mark-to-market losses, offset in part by lower gross margins from electric retail sales.

Operating revenues increased $384 million in 2007 compared with 2006, primarily due to higher electric wholesale and retail revenues. Electric wholesale revenues increased $134 million, of which $150 million was due to higher sales volume, offset by a $16 million decrease in unit prices. Electric retail revenues increased $190 million in 2007 as compared with 2006, of which $173 million was due to higher sales volumes and $17 million was due to an increase in unit prices. While electric retail revenues increased more than 16 percent from 2006 to 2007, gross margins decreased by approximately 20 percent due primarily to lower margins on indexed priced products. Revenue from the sale of electricity from the competitive energy businesses generation facilities increased $26 million in 2007 as compared with 2006 due primarily to higher capacity prices. Net mark-to-market losses decreased $17 million in 2007 as compared with 2006 due primarily to higher prices on electric and natural gas contracts, which were economic hedges that supported retail obligations (but were not accounted for as cash flow hedges). Other revenues increased $17 million in 2007 as compared with 2006 due primarily to energy services revenue.

Operating expenses excluding income taxes increased $373 million in 2007 compared with 2006, reflecting increased purchased power ($348 million), other operations and maintenance costs ($19 million) and fuel costs ($8 million) offset in part by lower gas purchased for resale costs ($2 million).

Other income increased $12 million in 2007 as compared with 2006 due primarily to a $6 million gain from the sale of an equity investment.

Income taxes increased $10 million in 2007 as compared with 2006, reflecting primarily higher income.

Discontinued Operations

Net income from discontinued operations was $4 million in 2007 compared with a $3 million loss in 2006, reflecting lower mark-to-market losses in 2007 from certain Con Edison Development generation projects. See Note U to the financial statements.

Other

For Con Edison, Other in 2006 reflects a $9 million expense (which will not be recoverable under the Utilities rate plans) for a charitable commitment to the World Trade Center Memorial Foundation and a $9 million expense to effectively reclassify from retained earnings to additional paid-in capital the tax benefits from the exercise of stock options that had been recognized in income in prior years. For Con Edison, Other also includes inter-company eliminations relating to operating revenues and operating expenses.

52

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(COMBINED FOR CON EDISON AND CON EDISON OF NEW YORK) CONTINUED

Year Ended December 31, 2006 Compared with Year Ended December 31, 2005

The Companies results of operations (which were discussed above under Results of Operations Summary) in 2006 compared with 2005 were:

	Con Edison*		Con Edison of New York		O&R		Competitive Energy Businesses and Other**	
(Millions of Dollars)	Increases (Decreases) Amount	Increases (Decreases) Percent	Increases (Decreases) Amount	Increases (Decreases) Percent	Increases (Decreases) Amount	Increases (Decreases) Percent	Increases (Decreases) Amount	Increases (Decreases) Percent
Operating revenues	$ 619	5.5%	$ 61	0.7%	$ (6)	(0.7)%	$ 564	43.7%
Purchased power	276	5.9	(270)	(8.1)	(14)	(4.4)	560	52.9
Fuel	(43)	(7.2)	(1)	(0.2)	-	-	(42)	(60.0)
Gas purchased for resale	(73)	(6.3)	(63)	(6.5)	7	4.9	(17)	(36.2)
Operating revenues less purchased power, fuel and gas purchased for resale (net revenues)	459	9.4	395	8.9	1	0.3	63	53.8
Other operations and maintenance	218	13.1	195	13.7	8	4.5	15	23.8
Depreciation and amortization	37	6.6	36	7.1	1	2.9	-	-
Taxes, other than income taxes	69	5.8	69	6.2	-	-	-	-
Income taxes	40	10.9	26	7.9	(6)	(19.4)	20	Large
Operating income	95	8.4	69	6.6	(2)	(2.8)	28	Large
Other income less deductions and related federal income tax	(12)	(29.3)	5	17.9	3	Large	(20)	(90.9)
Net interest expense	88	20.9	82	22.5	4	16.7	2	5.9
Income from continuing operations	(5)	(0.7)	(8)	(1.2)	(3)	(6.1)	6	Large
Discontinued operations ***	23	88.5	N/A	N/A	N/A	N/A	23	88.5
Net income	$ 18	2.5%	$ (8)	(1.2)%	$ (3)	(6.1)%	$ 29	Large

* Represents the consolidated financial results of Con Edison and its businesses.

** Includes inter-company and parent company accounting.

*** See Notes T and U to the financial statements.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(COMBINED FOR CON EDISON AND CON EDISON OF NEW YORK) CONTINUED

Con Edison of New York

Electric

Con Edison of New York s electric sales and deliveries, excluding off-system sales, in 2006 compared with 2005 were:

	Millions of kWhs Delivered				Revenues in Millions			
	Twelve Months Ended				Twelve Months Ended			
Description	December 31, 2006	December 31, 2005	Variation	Percent Variation	December 31, 2006	December 31, 2005	Variation	Percent Variation
Residential/Religious	12,590	13,690	(1,100)	(8.0)%	$ 2,631	$ 2,884	$ (253)	(8.8)%
Commercial/Industrial	13,409	15,402	(1,993)	(12.9)	2,460	2,869	(409)	(14.3)
Retail access customers	19,256	16,848	2,408	14.3	1,040	679	361	53.2
NYPA, Municipal Agency and other sales	11,053	11,430	(377)	(3.3)	310	337	(27)	(8.0)
Other operating revenues	-	-	-	-	611	179	432	Large
Total	**56,308**	**57,370**	**(1,062)**	**(1.9)%**	**$ 7,052**	**$ 6,948**	**$ 104**	**1.5%**

Con Edison of New York s electric operating revenues were $104 million higher in 2006 than in 2005 due primarily to increased recoverable fuel costs ($52 million), sales growth ($38 million), increased collections for demand side management programs ($31 million), the electric rate plan that took effect in April 2005 ($213 million), recovery of costs relating to the East River Repowering Project ($19 million), a reversal of a portion of the provision for refund to customers of shared earnings above the target level accrued in 2005 ($70 million) and a 2005 provision for refund to customers of deferred taxes associated with the sale of the First Avenue Properties ($23 million), offset in part by a decrease in purchased power costs ($286 million) and the impact of the milder weather ($91 million). Other electric operating revenues generally reflect changes in regulatory assets and liabilities in accordance with the company s rate plans. See Note B to the financial statements.

Electric delivery volumes in Con Edison of New York s service area decreased 1.8 percent in 2006 compared with 2005, primarily reflecting milder weather in 2006 compared with 2005. After adjusting for variations, principally weather and billing days, electric delivery volumes in Con Edison of New York s service area increased 1.8 percent in 2006 compared with 2005.

Con Edison of New York s electric fuel costs increased $52 million, reflecting higher sendout volumes from the company s generating facilities ($59 million), offset by a decrease in unit costs ($7 million). Electric purchased power costs decreased $286 million in 2006 compared with 2005 reflecting a decrease in purchased volumes associated with milder 2006 weather and additional customers obtaining their energy supply through competitive providers ($547 million), partially offset by an increase in unit costs ($261 million).

Con Edison of New York s electric operating income increased $54 million in 2006 compared with 2005. The increase reflects higher net revenues ($340 million due principally to the electric rate agreement), offset in part by higher operations and maintenance costs ($175 million due primarily to power outages ($63 million), compensation for spoilage of food associated with certain of the outages ($9 million), demand side management program expenses ($31 million), East River Repowering Project costs ($19 million), higher expenses relating to uncollectible customer accounts ($7 million), increased transmission and distribution expenses ($19 million) and recognition of expense for stock-based compensation ($7 million)), taxes other than income taxes ($60 million, principally property taxes) and depreciation ($21 million).

Table of Contents

MANAGEMENT S DISCUSSIONAND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(COMBINED FOR CON EDISON AND CON EDISON OF NEW YORK) CONTINUED

Gas

Con Edison of New York s gas sales and deliveries, excluding off-system sales, in 2006 compared with 2005 were:

	Thousands of dths Delivered				Revenues in Millions			
	Twelve Months Ended				Twelve Months Ended			
Description	December 31, 2006	December 31, 2005	Variation	Percent Variation	December 31, 2006	December 31, 2005	Variation	Percent Variation
Residential	40,589	48,175	(7,586)	(15.7)%	$ 781	$ 816	$ (35)	(4.3)%
General	31,269	36,800	(5,531)	(15.0)	471	493	(22)	(4.5)
Firm transportation	23,688	19,088	4,600	24.1	105	69	36	52.2
Total firm sales and transportation	**95,546**	**104,063**	**(8,517)**	**(8.2)**	**1,357**	**1,378**	**(21)**	**(1.5)**
Interruptible sales	11,995	13,128	(1,133)	(8.6)	121	149	(28)	(18.8)
NYPA	41,057	22,305	18,752	84.1	4	4	-	-
Generation plants	64,365	48,564	15,801	32.5	46	50	(4)	(8.0)
Other	19,324	18,103	1,221	6.7	30	25	5	20.0
Other operating revenues	-	-	-	-	55	24	31	Large
Total	**232,287**	**206,163**	**26,124**	**12.7%**	**$ 1,613**	**$ 1,630**	**$ (17)**	**(1.0)%**

Con Edison of New York s gas operating revenues in 2006 decreased $17 million compared with 2005, reflecting primarily a decrease in purchased gas costs ($63 million), offset in part by higher non-firm revenues ($7 million) and the gas rate plan ($30 million). Con Edison of New York s revenues from gas sales are subject to a weather normalization clause that moderates, but does not eliminate, the effect of weather-related changes on net income. Other gas operating revenues generally reflect changes in regulatory assets and liabilities in accordance with the company s rate plans. See Note B to the financial statements.

Con Edison of New York s sales and transportation volumes for firm customers decreased 8.2 percent in 2006 compared with 2005 reflecting primarily the impact of the milder winter and spring weather in 2006. After adjusting for variations, principally weather and billing days, firm gas sales and transportation volumes in the company s service area increased 1.3 percent in 2006. Con Edison of New York s revenues from gas sales are subject to a weather normalization clause that moderates, but does not eliminate, the effect of weather-related changes on net income.

Con Edison of New York s purchased gas cost decreased $63 million in 2006 compared with 2005 due to lower sendout ($206 million), offset in part by higher unit costs ($143 million).

Con Edison of New York s gas operating income increased $16 million in 2006 compared with 2005. The increase reflects primarily higher net revenues ($46 million), offset in part by higher operations and maintenance expense ($15 million), taxes other than income taxes ($6 million, principally property taxes), income taxes ($5 million) and depreciation ($4 million).

Steam

Con Edison of New York s steam sales and deliveries in 2006 compared with 2005 were:

	Millions of Pounds Delivered				Revenues in Millions			
	Twelve Months Ended				Twelve Months Ended			
Description	**December 31, 2006**	**December 31, 2005**	**Variation**	**Percent Variation**	**December 31, 2006**	**December 31, 2005**	**Variation**	**Percent Variation**
General	515	655	(140)	(21.4)%	$ 21	$ 22	$ (1)	(4.5)%
Apartment house	6,774	7,748	(974)	(12.6)	174	173	1	0.6
Annual power	15,961	18,474	(2,513)	(13.6)	405	417	(12)	(2.9)
Other operating revenues	-	-	-	-	23	37	(14)	(37.8)
Total	**23,250**	**26,877**	**(3,627)**	**(13.5)%**	**$ 623**	**$ 649**	**$ (26)**	**(4.0)%**

55

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(COMBINED FOR CON EDISON AND CON EDISON OF NEW YORK) CONTINUED

Con Edison of New York s steam operating revenues decreased $26 million in 2006 compared with 2005 due primarily to the milder weather in 2006 ($38 million) net purchased power, fuel costs and timing of fuel recoveries ($23 million), offset in part by the net increase in rates under the steam rate plan ($30 million). Other steam operating revenues generally reflect changes in regulatory assets and liabilities in accordance with the company s rate plans. See Note B to the financial statements.

Steam sales and delivery volumes decreased 13.5 percent in 2006 compared with 2005, reflecting primarily the impact of weather. After adjusting for variations, principally weather and billing days, steam sales and deliveries decreased 0.6 percent in 2006.

Con Edison of New York s steam purchased power costs increased $16 million in 2006 compared with 2005 due primarily to increased purchased volumes. Steam fuel costs decreased $53 million due primarily to lower sendout volumes ($41 million) and lower unit costs ($12 million).

Steam operating income decreased $1 million in 2006 compared with 2005 reflecting higher depreciation expense ($11 million), income taxes ($10 million), operations and maintenance costs ($5 million) and taxes other than income taxes ($3 million, principally property taxes), offset in part by higher net revenues ($10 million) and recovery of costs related to the East River Repowering Project ($19 million).

Taxes Other Than Income Taxes

At over $1 billion, taxes other than income taxes remain one of Con Edison of New York s largest operating expenses. The principal components of, and variations in, taxes other than income taxes were:

(Millions of Dollars)	2006	2005	Increase/ (Decrease)
Property taxes	$ 869	$ 796	$ 73
State and local taxes related to revenue receipts	253	267	(14)
Payroll taxes	54	52	2
Other taxes	7	(1)	8
Total	**$ 1,183(a)**	**$ 1,114(a)**	**$ 69**

(a) Including sales tax on customers bills, total taxes other than income taxes billed to customers in both 2006 and 2005 were $1.5 billion.

Income Taxes

Operating income taxes increased $26 million in 2006 compared with 2005 due principally to higher income in the 2006 period.

Net Interest Expense

Net interest expense increased $82 million in 2006 compared with 2005 due principally to $28 million of interest accrued for the potential repayment of tax benefits from the timing of tax deductions of certain construction related costs (see Note L to the financial statements), new debt issuances since December 31, 2005, higher interest rates on variable-rate debt and higher interest rates on and principal amounts of commercial paper.

O&R

Electric

O&R s electric sales and deliveries, excluding off-system sales, in 2006 compared with 2005 were:

	Millions of kWhs Delivered				Revenues in Millions			
	Twelve Months Ended				Twelve Months Ended December 31,			
Description	**December 31, 2006**	**December 31, 2005**	**Variation**	**Percent Variation**	**December 31, 2006**	**2005**	**Variation**	**Percent Variation**
Residential/Religious	1,803	1,905	(102)	(5.4)%	$ 252	$ 254	$ (2)	(0.8)%
Commercial/Industrial	2,094	2,276	(182)	(8.0)	237	248	(11)	(4.4)
Retail access customers	1,765	1,836	(71)	(3.9)	76	81	(5)	(6.2)
Public authorities	114	114	-	-	14	14	-	-
Other operating revenues	-	-	-	-	3	(1)	4	Large
Total	**5,776**	**6,131**	**(355)**	**(5.8)%**	**$ 582**	**$ 596**	**$ (14)**	**(2.3)%**

56

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(COMBINED FOR CON EDISON AND CON EDISON OF NEW YORK) CONTINUED

O&R s electric operating revenues decreased $14 million in 2006 compared with 2005 due primarily to decreased recoverable purchased power costs ($14 million). O&R s purchased power costs decreased $14 million in 2006 compared with 2005 due to a decrease in purchased volumes associated with milder 2006 weather. Other electric operating revenues generally reflect changes in regulatory assets and liabilities in accordance with the company s electric rate plan. See Note B to the financial statements.

Electric delivery volumes in O&R s service area decreased 5.8 percent in 2006 compared with 2005 primarily as a result of the milder weather in 2006. After adjusting for weather variations and unbilled revenues, electric delivery volumes in O&R s service area increased 0.1 percent in 2006 compared with 2005.

Electric operating income decreased by $1 million in 2006 compared with 2005.

Gas

O&R s gas sales and deliveries, excluding off-system sales, in 2006 compared with 2005 were:

	Thousands of dths Delivered				Revenues in Millions			
	Twelve Months Ended				Twelve Months Ended			
Description	December 31, 2006	December 31, 2005	Variation	Percent Variation	December 31, 2006	December 31, 2005	Variation	Percent Variation
Residential	7,758	9,307	(1,549)	(16.6)%	$ 135	$ 131	$ 4	3.1%
General	1,892	2,269	(377)	(16.6)	31	30	1	3.3
Firm transportation	9,058	9,841	(783)	(8.0)	32	32	-	-
Total firm sales and transportation	**18,708**	**21,417**	**(2,709)**	**(12.6)**	**198**	**193**	**5**	**2.6**
Interruptible sales	5,856	6,458	(602)	(9.3)	28	29	(1)	(3.5)
Generation plants	3,036	1,434	1,602	Large	3	2	1	50.0
Other	939	1,072	(133)	(12.4)	-	-	-	-
Other gas revenues	-	-	-	-	7	4	3	75.0
Total	**28,539**	**30,381**	**(1,842)**	**(6.1)%**	**$ 236**	**$ 228**	**$ 8**	**3.5%**

O&R s gas operating revenues increased $8 million in 2006 compared with 2005. The increase is due primarily to higher costs of gas purchased for resale in 2006.

Sales and transportation volumes for firm customers decreased 12.6 percent in 2006 compared with 2005 reflecting the impact of the milder winter and spring weather in 2006. After adjusting for weather and other variations, total firm sales and transportation volumes were 2.8 percent lower in 2006 compared with 2005 partially due to reduced customer usage. O&R s revenues from gas sales are subject to a weather normalization clause that moderates, but does not eliminate, the effect of weather-related changes on net income.

Non-firm transportation of customer-owned gas to electric generating plants increased in 2006 compared with 2005 because certain facilities resumed burning gas to generate electricity. The increase in gas burned had minimal impact on earnings because most revenues from these customers result from a fixed demand charge for local transportation.

Gas operating income decreased by $1 million in 2006 compared with 2005.

MANAGEMENT S DISCUSSIONAND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(COMBINED FOR CON EDISON AND CON EDISON OF NEW YORK) CONTINUED

Taxes Other Than Income Taxes

Taxes, other than income taxes, were the same in 2006 compared with 2005. The principal components of taxes, other than income taxes, were:

(Millions of Dollars)	2006	2005	Increase/ (Decrease)
Property taxes	$ 30	$ 30	$ -
State and local taxes related to revenue receipts	13	13	-
Payroll taxes	4	4	-
Total	**$ 47(a)**	**$ 47(a)**	**$ -**

(a) Including sales tax on customers bills, total taxes other than income taxes, billed to customers in 2006 and 2005 were $73 million and $68 million, respectively.

Income Taxes

Operating income taxes decreased by $6 million in 2006 compared with 2005 due principally to lower income in the 2006 period.

Other Income (Deductions)

Other income (deductions) increased $3 million in 2006 compared with 2005 due primarily to the sale of non-utility property and increased interest income.

Net Interest Expense

Net interest expense increased $4 million in 2006 compared with 2005 due principally to higher interest rates on and principal amounts of commercial paper and new debt issuances in the 2006 period.

Competitive Energy Businesses

The competitive energy businesses operating income and earnings from continuing operations increased $28 million and $27 million, respectively, in 2006 compared with 2005 due primarily to higher operating revenues and gross margins on wholesale and retail electric sales, offset in part by higher mark-to-market losses.

Operating revenues increased $629 million in 2006 compared with 2005, primarily due to higher electric wholesale and retail revenues offset in part by decreased generation and other revenues and increased net mark-to-market losses. Electric wholesale revenues increased $602 million, of which $564 million was due to higher sales volume and $38 million was due to an increase in unit prices. Electric retail revenues increased $124 million in 2006 as compared with 2005, of which $71 million was due to higher sales volumes and $53 million was due to an increase in unit prices. While electric retail revenues increased more than 12 percent from 2005 to 2006, gross margins increased at a greater rate as more customers shifted from indexed contracts to fixed-price contracts as energy prices declined during the year. Renewal rates for customers have remained above 90 percent for the past two years. Revenue from the sale of electricity from the competitive energy businesses generation facilities was $49 million lower, reflecting lower unit prices and volumes, partially offset by reliability-related capacity payments for two of its Massachusetts generating facilities. The development of capacity markets in New England and PJM is expected to result in more predictable capacity revenues. Net mark-to-market losses increased $12 million in 2006 as compared with 2005 due primarily to lower prices on natural gas contracts, which were economic hedges that supported retail obligations (but did not qualify for cash flow hedge accounting). Other revenue, primarily wholesale revenue and intercompany revenue, decreased $36 million.

Operating expenses excluding income taxes increased $583 million in 2006 compared with 2005, reflecting increased purchased power ($624 million) and other operations and maintenance costs ($19 million), offset in part by lower fuel costs ($42 million), gas purchased for resale costs ($17 million) and taxes other than income taxes ($1 million).

Income taxes increased $19 million in 2006 as compared with 2005, reflecting primarily higher income.

Other income (deductions) decreased $1 million in 2006 compared with 2005 due primarily to an impairment of $6 million on an equity investment (see Impairments in Note A to the financial statements), offset in part by higher interest income.

Discontinued Operations

Losses from discontinued operations were $23 million lower in 2006 as compared with 2005 due primarily to losses from Con Edison Communications in 2005 ($13 million) and higher margins from certain Con Edison Development generation projects in 2006 ($10 million). See Notes T and U to the financial statements.

Other

For Con Edison, Other in 2006 reflects a $9 million expense (which will not be recoverable under the Utilities rate plans) for a charitable commitment to the World Trade Center Memorial Foundation and a $9 million expense to effectively reclassify from retained earnings to additional paid-in capital the tax benefits from the exercise of stock options that had been recognized in income in prior years. For Con Edison, Other also includes inter-company eliminations relating to operating revenues and operating expenses.

Table of Contents

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Con Edison

For information about Con Edison s primary market risks associated with activities in derivative financial instruments, other financial instruments and derivative commodity instruments, see Financial and Commodity Market Risks in Item 7 (which information is incorporated herein by reference).

Con Edison of New York

For information about Con Edison of New York s primary market risks associated with activities in derivative financial instruments, other financial instruments and derivative commodity instruments, see Financial and Commodity Market Risks in Item 7 (which information is incorporated herein by reference).

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

All other schedules are omitted because they are not applicable or the required information is shown in financial statements or notes thereto.

Table of Contents

Supplementary Financial Information

Selected Quarterly Financial Data for the years ended December 31, 2007 and 2006 (Unaudited)

Con Edison	2007 First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(Millions of Dollars, except per share amounts)			
Operating revenues	$ 3,357	$ 2,956	$ 3,579	$ 3,228
Operating income	376	267	419	333
Income from continuing operations	258	151	310	206
(Loss)/Income from discontinued operations	(2)	3	2	1
Net income	256	154	312	207
Continuing operations	$ 1.00	$ 0.57	$ 1.14	$ 0.76
Discontinued operations	$ (0.01)	$ 0.01	$ 0.01	-
Basic earnings per common share	$ 0.99	$ 0.58	$ 1.15	$ 0.76
Continuing operations	$ 1.00	$ 0.57	$ 1.14	$ 0.76
Discontinued operations	$ (0.01)	$ 0.01	$ 0.01	-
Diluted earnings per common share	$ 0.99	$ 0.58	$ 1.15	$ 0.76

Con Edison	2006 First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(Millions of Dollars, except per share amounts)			
Operating revenues	$ 3,248	$ 2,533	$ 3,386	$ 2,795
Operating income	298	241	358	324
Income from continuing operations	183	129	225	203
(Loss)/Income from discontinued operations	(2)	(5)	6	(2)
Net income	181	124	231	201
Continuing operations	$ 0.75	$ 0.52	$ 0.90	$ 0.78
Discontinued operations	$ (0.01)	$ (0.02)	$ 0.03	$ -
Basic earnings per common share	$ 0.74	$ 0.50	$ 0.93	$ 0.78
Continuing operations	$ 0.75	$ 0.51	$ 0.90	$ 0.78
Discontinued operations	$ (0.01)	$ (0.01)	$ 0.02	$ -
Diluted earnings per common share	$ 0.74	$ 0.50	$ 0.92	$ 0.78

In the opinion of Con Edison, these quarterly amounts include all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation.

Con Edison of New York	2007 First Quarter	Second Quarter	Third Quarter	Fourth Quarter
		(Millions of Dollars)		
Operating revenues	$ 2,673	$ 2,236	$ 2,578	$ 2,398
Operating income	346	242	396	293
Net income for common stock	236	139	284	185

Con Edison of New York	2006 First Quarter	Second Quarter	Third Quarter	Fourth Quarter
		(Millions of Dollars)		
Operating revenues	$ 2,645	$ 1,965	$ 2,562	$ 2,116
Operating income	297	218	321	274
Net income for common stock	202	116	199	169

In the opinion of Con Edison of New York, these quarterly amounts include all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation.

Table of Contents

Report of Management on Internal Control Over Financial Reporting

Management of Con Edison is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of the effectiveness of controls to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Management of Con Edison assessed the effectiveness of internal control over financial reporting as of December 31, 2007, using the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework*. Based on that assessment, management has concluded that Con Edison had effective internal control over financial reporting as of December 31, 2007.

The effectiveness of Con Edison s internal control over financial reporting as of December 31, 2007, has been audited by PricewaterhouseCoopers LLP, Con Edison s independent registered public accounting firm, as stated in their report which appears on the following page of this Annual Report on Form 10-K.

Kevin Burke
Chairman, President and Chief Executive Officer

Robert Hoglund
Senior Vice President and Chief Financial Officer

February 15, 2008

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of

Consolidated Edison, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Consolidated Edison, Inc. and its subsidiaries at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Notes E and F to the consolidated financial statements, the Company changed its method of accounting for defined benefit pension and other postretirement benefit plans in 2006.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

New York, New York

February 15, 2008

Table of Contents

Consolidated Edison, Inc.

Consolidated Balance Sheet

(Millions of Dollars)	At December 31, 2007	2006
Assets		
Utility Plant, At Original Cost (note A)		
Electric	**$ 15,979**	$ 14,775
Gas	**3,403**	3,233
Steam	**1,755**	1,691
General	**1,732**	1,635
Total	**22,869**	21,334
Less: Accumulated depreciation	**4,784**	4,583
Net	**18,085**	16,751
Construction work in progress	**1,028**	872
Net Utility Plant	**19,113**	17,623
Non-utility Plant (note A)		
Generating assets, less accumulated depreciation of $127 in 2006	**-**	785
Non-utility property, less accumulated depreciation of $36 in 2007 and 2006	**18**	34
Non-utility property held for sale (Note U)	**778**	-
Construction work in progress	**5**	3
Net Plant	**19,914**	18,445
Current Assets		
Cash and temporary cash investments (Note A)	**210**	94
Restricted cash	**1**	18
Accounts receivable customers, less allowance for uncollectible accounts of $47 and $45 in 2007 and 2006, respectively	**970**	825
Accrued unbilled revenue (Note A)	**149**	122
Other receivables, less allowance for uncollectible accounts of $6 and $4 in 2007 and 2006, respectively	**405**	649
Fuel oil, at average cost	**44**	56
Gas in storage, at average cost	**215**	253
Materials and supplies, at average cost	**146**	157
Prepayments	**119**	157
Fair value of derivative assets	**36**	122
Recoverable energy costs (Notes A and B)	**213**	235
Deferred derivative losses	**45**	237
Current assets held for sale (Note U)	**40**	-
Other current assets	**12**	12
Total Current Assets	**2,605**	2,937
Investments (note A)	**378**	366
Deferred Charges, Regulatory Assets And Noncurrent Assets		
Goodwill (Note K)	**408**	406
Intangible assets, less accumulated amortization of $1 and $34 in 2007 and 2006, respectively (Note K)	**2**	80
Regulatory assets (Note B)	**4,531**	4,179
Noncurrent assets held for sale (Note U)	**88**	-
Other deferred charges and noncurrent assets	**417**	286
Total Deferred Charges, Regulatory Assets And Noncurrent Assets	**5,446**	4,951
Total Assets	**$ 28,343**	$ 26,699

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

Table of Contents

Consolidated Edison, Inc.

Consolidated Balance Sheet

(Millions of Dollars)	At December 31, 2007	2006
Capitalization and Liabilities		
Capitalization		
Common shareholders equity (See Statement of Common Shareholders Equity)	**$ 9,076**	$ 8,004
Preferred stock of subsidiary (See Statement of Capitalization)	**213**	213
Long-term debt (See Statement of Capitalization)	**7,611**	8,298
Total Capitalization	**16,900**	16,515
Minority Interests	**43**	41
Noncurrent Liabilities		
Obligations under capital leases (Note J)	**22**	26
Provision for injuries and damages (Note G)	**161**	155
Pensions and retiree benefits	**938**	737
Superfund and other environmental costs (Note G)	**327**	292
Uncertain income taxes	**155**	-
Asset retirement obligations (Note Q)	**110**	97
Fair value of derivative liabilities	**52**	97
Noncurrent liabilities held for sale (Note U)	**61**	-
Other noncurrent liabilities	**95**	93
Total Noncurrent Liabilities	**1,921**	1,497
Current Liabilities		
Long-term debt due within one year	**809**	374
Notes payable	**840**	117
Accounts payable	**1,187**	1,126
Customer deposits	**249**	228
Accrued taxes	**26**	36
Accrued interest	**149**	139
Accrued wages	**82**	79
Fair value of derivative liabilities	**118**	395
Deferred derivative gains (Note B)	**10**	6
Deferred income taxes recoverable energy costs (Note L)	**86**	96
Current liabilities held for sale (Note U)	**28**	-
Other current liabilities	**311**	276
Total Current Liabilities	**3,895**	2,872
Deferred Credits and Regulatory Liabilities		
Deferred income taxes and investment tax credits (Notes A and L)	**4,465**	4,095
Regulatory liabilities (Note B)	**1,097**	1,657
Other deferred credits	**22**	22
Total Deferred Credits and Regulatory Liabilities	**5,584**	5,774
Total Capitalization and Liabilities	**$ 28,343**	$ 26,699

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

Table of Contents

Consolidated Edison, Inc.

Consolidated Income Statement

(Millions of Dollars/Except Share Data)	For the Years Ended December 31, 2007	2006	2005
Operating Revenues (Note A)			
Electric	**$ 8,110**	$ 7,634	$ 7,543
Gas	**2,025**	1,849	1,858
Steam	**686**	623	649
Non-utility	**2,299**	1,856	1,293
Total Operating Revenues	**13,120**	11,962	11,343
Operating Expenses			
Purchased power	**5,428**	4,976	4,700
Fuel	**624**	553	596
Gas purchased for resale	**1,173**	1,082	1,155
Other operations and maintenance	**2,080**	1,879	1,661
Depreciation and amortization (Note A)	**645**	595	558
Taxes, other than income taxes	**1,323**	1,249	1,180
Income taxes (Notes A and L)	**452**	407	367
Total Operating Expenses	**11,725**	10,741	10,217
Operating Income	**1,395**	1,221	1,126
Other Income (Deductions)			
Investment and other income (Note A)	**58**	39	37
Allowance for equity funds used during construction (Note A)	**8**	6	9
Preferred stock dividend requirements of subsidiary	**(11)**	(11)	(11)
Other deductions	**(23)**	(23)	(13)
Income taxes (Notes A and L)	**15**	18	19
Total Other Income (Deductions)	**47**	29	41
Interest Expense			
Interest on long-term debt	**470**	441	402
Other interest	**57**	75	27
Allowance for borrowed funds used during construction (Note A)	**(10)**	(6)	(7)
Net Interest Expense	**517**	510	422
Income From Continuing Operations	**925**	740	745
Income/(Loss) From Discontinued Operations (Net of Income Tax Expense/(Benefit) of $1, $(13) and $(11) in 2007, 2006 and 2005, respectively) (Notes T and U)	**4**	(3)	(26)
Net Income	**$ 929**	$ 737	$ 719
Earnings Per Common Share Basic			
Continuing operations	**$ 3.48**	$ 2.97	$ 3.05
Discontinued operations	**0.01**	(0.01)	(0.10)
Net income	**$ 3.49**	$ 2.96	$ 2.95
Earnings Per Common Share Diluted			
Continuing operations	**$ 3.46**	$ 2.96	$ 3.04
Discontinued operations	**0.01**	(0.01)	(0.10)
Net income	**$ 3.47**	$ 2.95	$ 2.94
Dividends Declared Per Share of Common Stock	**$ 2.32**	$ 2.30	$ 2.28
Average Number of Shares Outstanding Basic (in Millions)	**266.3**	249.3	243.9
Average Number of Shares Outstanding Diluted (in Millions)	**267.3**	250.3	244.7

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

66

Table of Contents

Consolidated Edison, Inc.

Consolidated Statement of Comprehensive Income

(Millions of Dollars)	For the Years Ended December 31, 2007	2006	2005
Net Income	**$ 929**	$ 737	$ 719
Other Comprehensive Income/(Loss), Net of Taxes			
Pension plan liability adjustments, net of $(3) taxes in 2006 and 2005	**-**	(5)	(5)
Unrealized gains/(losses) on derivatives qualified as cash flow hedges, net of $2, $(69) and $27 taxes in 2007, 2006 and 2005, respectively	**3**	(99)	39
Less: Reclassification adjustment for gains/(losses) included in net income, net of $(25), $(50) and $41 taxes in 2007, 2006 and 2005, respectively	**(37)**	(71)	59
Total Other Comprehensive Income/(Loss), Net of Taxes	**40**	(33)	(25)
Comprehensive Income	**$ 969**	$ 704	$ 694

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

Table of Contents

Consolidated Edison, Inc.

Consolidated Statement of Common Shareholders Equity

(Millions of Dollars/Except Share Data)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Capital Stock Expense	Accumulated Other Comprehensive Income/(Loss)	Total
Balance as of December 31, 2004	242,514,183	$ 26	$ 2,642	$ 5,451	23,210,700	$ (1,001)	$ (55)	$ (9)	$ 7,054
Net income				719					719
Common stock dividends				(556)					(556)
Issuance of common shares dividend reinvestment and employee stock plans	2,771,875	1	126	(9)					118
Other comprehensive loss								(25)	(25)
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				737					737
Common stock dividends				(573)					(573)
Issuance of common shares public offering	9,715,000	1	449				(3)		447
Issuance of common shares dividend reinvestment and employee stock plans	2,455,245		120						120
Stock options			(23)	35					12
Other comprehensive loss								(33)	(33)
Adjustment to initially apply FASB Statement No. 158, net of tax (Notes E and F)								(16)	(16)
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				929					929
Common stock dividends				(620)					(620)
Issuance of common shares public offering	11,000,000	1	559				(2)		558
Issuance of common shares dividend reinvestment and employee stock plans	3,568,571		165						165
Other comprehensive income								40	40
Balance as of December 31, 2007	272,024,874	$ 29	$ 4,038	$ 6,113	23,210,700	$ (1,001)	$ (60)	$ (43)	$ 9,076

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

Table of Contents

Consolidated Edison, Inc.

Consolidated Statement of Cash Flows

(Millions of Dollars)	For the Twelve Months Ended December 31, 2007	2006	2005
Operating Activities			
Net Income	**$ 929**	$ 737	$ 719
Principal Non-Cash Charges/(Credits) to Income			
Depreciation and amortization	**667**	620	584
Deferred income taxes	**335**	338	(79)
Rate case amortization and accruals	**(316)**	(218)	(93)
Net transmission and distribution reconciliation	**(187)**	(115)	(38)
Common equity component of allowance for funds used during construction	**(8)**	(6)	(9)
Prepaid pension costs (net of capitalized amounts)	**(13)**	(23)	(43)
Impairment charge	**-**	-	9
Net derivative losses	**8**	37	4
Other non-cash items (net)	**72**	69	(2)
Changes in Assets and Liabilities			
Accounts receivable customers, less allowance for uncollectibles	**(150)**	200	(284)
Materials and supplies, including fuel oil and gas in storage	**45**	(41)	(100)
Other receivables and other current assets	**217**	(262)	(147)
Prepayments	**38**	277	(341)
Recoverable energy costs	**16**	51	(88)
Accounts payable	**64**	(108)	317
Pensions and retiree benefits	**(21)**	7	16
Accrued taxes	**(3)**	(58)	58
Accrued interest	**10**	37	7
Deferred charges, noncurrent assets and other regulatory assets	**(66)**	(208)	(119)
Deferred credits and other regulatory liabilities	**(173)**	(27)	118
Other assets	**(19)**	13	125
Other liabilities	**110**	34	176
Net Cash Flows from Operating Activities	**1,555**	1,354	790
Investing Activities			
Utility construction expenditures (excluding capitalized support costs of $(63), $(45) and $(11) in 2007, 2006 and 2005, respectively)	**(1,928)**	(1,847)	(1,617)
Cost of removal less salvage	**(190)**	(167)	(184)
Non-utility construction expenditures	**(6)**	(6)	(19)
Common equity component of allowance for funds used during construction	**8**	6	9
Decrease/(increase) in restricted cash	**-**	(3)	3
Proceeds from sale of properties	**30**	60	534
Proceeds from sale of Con Edison Communications	**-**	39	-
Net Cash Flows Used in Investing Activities	**(2,086)**	(1,918)	(1,274)
Financing Activities			
Net proceeds from/(payments of) short-term debt	**723**	(638)	598
Retirement of long-term debt	**(699)**	(523)	(597)
Issuance of long-term debt	**525**	1,775	991
Issuance of common stock	**685**	510	78
Debt issuance costs	**(5)**	(14)	(13)
Common stock dividends	**(582)**	(533)	(518)
Net Cash Flows from Financing Activities	**647**	577	539
Cash and Temporary Cash Investments:			
Net Change for the Period	**116**	13	55
Balance at Beginning of Period	**94**	81	26
Balance at End of Period	**$ 210**	$ 94	$ 81
Supplemental Disclosure of Cash Flow Information			

Cash paid during the period for:			
Interest	**$ 463**	$ 451	$ 429
Income taxes	**$ 234**	$ 67	$ 283

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

Table of Contents

Consolidated Edison, Inc.

Consolidated Statement of Capitalization

(Millions of Dollars)	Shares outstanding December 31, 2007	Shares outstanding December 31, 2006	At December 31, 2007	At December 31, 2006
Total Common Shareholders Equity Less Accumulated Other Comprehensive Loss	**272,024,874**	257,456,303	**$ 9,119**	$ 8,087
Accumulated Other Comprehensive Loss				
Pension plan liability adjustments, net of $(10) taxes in 2006			**(17)**	(17)
Adjustment to initially apply FASB Statement No. 158, net of $(23) taxes in 2006 (Notes E and F)			**(16)**	(16)
Unrealized gains/(losses) on derivatives qualified as cash flow hedges, net of $(31) and $(33) taxes in 2007 and 2006, respectively			**(44)**	(47)
Less: Reclassification adjustment for gains/(losses) included in net income, net of $(24) and $1 taxes in 2007 and 2006, respectively			**(34)**	3
Total Accumulated Other Comprehensive Loss, Net of Taxes			**(43)**	(83)
Total Common Shareholders Equity (See Statement of Common Shareholders Equity And Note C)			**9,076**	8,004
Preferred Stock Of Subsidiary (Note C)				
$5 Cumulative Preferred, without par value, authorized 1,915,319 shares	**1,915,319**	1,915,319	**175**	175
Cumulative Preferred, $100 par value, authorized 6,000,000 shares				
4.65% Series C	**153,296**	153,296	**16**	16
4.65% Series D	**222,330**	222,330	**22**	22
Total Preferred Stock			**$ 213**	$ 213

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

Table of Contents

Consolidated Edison, Inc.

Consolidated Statement of Capitalization

Long-Term Debt (Note C) (Millions of Dollars)			At December 31,	
Maturity	**Interest Rate**	**Series**	**2007**	**2006**
Debentures:				
2007	6.45%	1997B	**$ -**	$ 330
2008	6.25	1998A	**180**	180
2008	6.15	1998C	**100**	100
2008	3.625	2003A	**200**	200
2009	7.15	1999B	**200**	200
2009	4.70	2004C	**275**	275
2010	8.125	2000A	**325**	325
2010	7.50	2000A	**55**	55
2010	7.50	2000B	**300**	300
2012	5.625	2002A	**300**	300
2013	4.875	2002B	**500**	500
2013	3.85	2003B	**200**	200
2014	4.70	2004A	**200**	200
2015	5.375	2005C	**350**	350
2015	5.30	2005A	**40**	40
2016	5.45	2006A	**75**	75
2016	5.50	2006C	**400**	400
2016	5.30	2006D	**250**	250
2027	6.50	1997F	**80**	80
2028	7.10	1998B	**105**	105
2028	6.90	1998D	**75**	75
2029	7.00	1999G	**45**	45
2033	5.875	2003A	**175**	175
2033	5.10	2003C	**200**	200
2034	5.70	2004B	**200**	200
2035	5.30	2005A	**350**	350
2035	5.25	2005B	**125**	125
2036	5.85	2006A	**400**	400
2036	6.20	2006B	**400**	400
2036	5.70	2006E	**250**	250
2037	6.30	2007A	**525**	-
2042	7.25	2002A	**-**	325
Total Debentures			**6,880**	7,010
Transition Bonds:				
2019	5.22%	2004-1	**40**	42
Total Transition Bonds			**40**	42
Tax-Exempt Debt Notes issued to New York State Energy Research and Development Authority for Facilities Revenue Bonds*:				
2014	3.37% (Note O)	1994**	**55**	55
2015	3.37	1995**	**44**	44
2032	3.763	2004B Series 1	**127**	127
2034	4.467	1999A	**293**	293
2035	4.60	2004B Series 2	**20**	20
2036	4.70 (Note O)	2001A	**225**	222
2036	4.50	2001B	**98**	98
2039	4.23	2004A	**98**	98
2039	3.433	2004C	**99**	99
2039	3.363	2005A	**126**	126
Total Tax-Exempt Debt			**1,185**	1,182

Long-term debt Newington (Note P)	**326**	330
Other long-term debt	**9**	128
Unamortized debt discount	**(20)**	(20)
Total	**8,420**	8,672
Less: long-term debt due within one year	**809**	374
Total Long-Term Debt	**7,611**	8,298
Total Capitalization	**$ 16,900**	$ 16,515

* Other than Series 2001A, rates reset weekly or by auction held every 35 days; December 31, 2007 rates shown.
** Issued for O&R pollution control financing.

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

Table of Contents

Report of Management on Internal Control over Financial Reporting

Management of Con Edison of New York is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of the effectiveness of controls to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Management of Con Edison of New York assessed the effectiveness of internal control over financial reporting as of December 31, 2007, using the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework*. Based on that assessment, management has concluded that Con Edison of New York had effective internal control over financial reporting as of December 31, 2007.

The effectiveness of Con Edison of New York s internal control over financial reporting as of December 31, 2007, has been audited by PricewaterhouseCoopers LLP, Con Edison of New York s independent registered public accounting firm, as stated in their report which appears on the following page of this Annual Report on Form 10-K.

Kevin Burke
Chairman and Chief

Executive Officer

Robert Hoglund
Senior Vice President and Chief

Financial Officer
February 15, 2008

72

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Stockholder and Board of Trustees of Consolidated Edison Company of New York, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Consolidated Edison Company of New York, Inc. and its subsidiaries at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company s internal control over financial reporting based on our audits (which was an integrated audit in 2007). We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Notes E and F to the consolidated financial statements, the Company changed its method of accounting for defined benefit pension and other postretirement benefit plans in 2006.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

New York, New York

February 15, 2008

Table of Contents

Consolidated Edison Company of New York, Inc.

Consolidated Balance Sheet

(Millions of Dollars)	At December 31, 2007	2006
Assets		
Utility Plant, at Original Cost (Note A)		
Electric	**$ 15,027**	$ 13,872
Gas	**2,999**	2,848
Steam	**1,755**	1,691
General	**1,599**	1,510
Total	**21,380**	19,921
Less: Accumulated depreciation	**4,360**	4,173
Net	**17,020**	15,748
Construction work in progress	**973**	832
Net Utility Plant	**17,993**	16,580
Non-Utility Property (Note A)		
Non-utility property, less accumulated depreciation of $18 and $17 in 2007 and 2006, respectively	**12**	15
Net Plant	**18,005**	16,595
Current Assets		
Cash and temporary cash investments (Note A)	**121**	47
Accounts receivable customers, less allowance for uncollectible accounts of $43 and $40 in 2007 and 2006, respectively	**832**	716
Other receivables, less allowance for uncollectible accounts of $3 in 2007 and 2006	**251**	375
Accounts receivable from affiliated companies	**96**	138
Fuel oil, at average cost	**44**	47
Gas in storage, at average cost	**170**	193
Materials and supplies, at average cost	**138**	126
Prepayments	**81**	84
Fair value of derivative assets	**3**	-
Recoverable energy costs (Notes A and B)	**190**	213
Deferred derivative losses	**44**	213
Other current assets	**5**	4
Total Current Assets	**1,975**	2,156
Investments	**111**	91
Deferred Charges, Regulatory Assets and Noncurrent Assets		
Regulatory assets (Note B)	**4,123**	3,764
Other deferred charges and noncurrent assets	**345**	210
Total Deferred Charges, Regulatory Assets and Noncurrent Assets	**4,468**	3,974
Total Assets	**$ 24,559**	$ 22,816

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

Table of Contents

Consolidated Edison Company of New York, Inc.

Consolidated Balance Sheet

(Millions of Dollars)	At December 31, 2007	2006
Capitalization and Liabilities		
Capitalization		
Common shareholder s equity (See Statement of Common Shareholder s Equity)	**$ 8,086**	$ 7,132
Preferred stock (See Statement of Capitalization)	**213**	213
Long-term debt (See Statement of Capitalization)	**7,172**	6,925
Total Capitalization	**15,471**	14,270
Noncurrent Liabilities		
Obligations under capital leases (Note J)	**22**	26
Provision for injuries and damages (Note G)	**154**	148
Pensions and retiree benefits	**638**	449
Superfund and other environmental costs (Note G)	**271**	243
Uncertain income taxes	**142**	-
Asset retirement obligations (Note Q)	**110**	96
Fair value of derivative liabilities	**17**	35
Other noncurrent liabilities	**77**	72
Total Noncurrent Liabilities	**1,431**	1,069
Current Liabilities		
Long-term debt due within one year	**280**	330
Notes payable	**555**	-
Accounts payable	**899**	866
Accounts payable to affiliated companies	**19**	14
Customer deposits	**234**	214
Accrued taxes	**30**	118
Accrued interest	**134**	121
Accrued wages	**74**	71
Fair value of derivative liabilities	**63**	193
Deferred derivative gains (Note B)	**5**	5
Deferred income taxes recoverable energy costs (Note L)	**77**	87
Other current liabilities	**275**	233
Total Current Liabilities	**2,645**	**2,252**
Deferred Credits and Regulatory Liabilities		
Deferred income taxes and investment tax credits (Notes A and L)	**4,018**	3,682
Regulatory liabilities (Note B)	**976**	1,524
Other deferred credits	**18**	19
Total Deferred Credits and Regulatory Liabilities	**5,012**	5,225
Total Capitalization and Liabilities	**$ 24,559**	$ 22,816

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

Table of Contents

Consolidated Edison Company of New York, Inc.

Consolidated Income Statement

(Millions of Dollars)	For the Years Ended December 31, 2007	2006	2005
Operating Revenues (Note A)			
Electric	**$ 7,440**	$ 7,052	$ 6,948
Gas	**1,759**	1,613	1,630
Steam	**686**	623	649
Total Operating Revenues	**9,885**	9,288	9,227
Operating Expenses			
Purchased power	**3,014**	3,052	3,322
Fuel	**588**	525	526
Gas purchased for resale	**978**	902	965
Other operations and maintenance	**1,780**	1,616	1,421
Depreciation and amortization (Note A)	**593**	545	509
Taxes, other than income taxes	**1,263**	1,183	1,114
Income taxes (Notes A and L)	**392**	355	329
Total Operating Expenses	**8,608**	8,178	8,186
Operating Income	**1,277**	1,110	1,041
Other Income (Deductions)			
Investment and other income (Note A)	**41**	34	31
Allowance for equity funds used during construction (Note A)	**7**	5	9
Other deductions	**(12)**	(12)	(11)
Income taxes (Notes A and L)	**-**	6	(1)
Total Other Income (Deductions)	**36**	33	28
Interest Expense			
Interest on long-term debt	**428**	386	350
Other interest	**39**	65	21
Allowance for borrowed funds used during construction (Note A)	**(9)**	(5)	(7)
Net Interest Expense	**458**	446	364
Net Income	**855**	697	705
Preferred Stock Dividend Requirements	**11**	11	11
Net Income for Common Stock	**$ 844**	$ 686	$ 694

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

76

Table of Contents

Consolidated Edison Company of New York, Inc.

Consolidated Statement of Comprehensive Income

	For the Years Ended December 31,		
(Millions of Dollars)	**2007**	**2006**	**2005**
Net Income	**$ 855**	$ 697	$ 705
Other Comprehensive Income/(Loss), Net of Taxes			
Pension plan liability adjustments, net of $(3) and $(2) taxes in 2006 and 2005, respectively	**-**	(5)	(4)
Unrealized losses on derivatives qualified as cash flow hedges, net of $(1) taxes in 2006	**-**	(1)	-
Less: Reclassification adjustment for gains included in net income, net of $1 taxes in 2005	**-**	-	1
Total Other Comprehensive Loss, Net Of Taxes	**-**	(6)	(5)
Comprehensive Income	**$ 855**	$ 691	$ 700

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

77

Table of Contents

Consolidated Edison Company of New York, Inc.

Consolidated Statement of Common Shareholder s Equity

(Millions of Dollars/Except Share Data)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Repurchased Con Edison Stock	Capital Stock Expense	Accumulated Other Comprehensive Income/(Loss)	Total
Balance as of December 31, 2004	235,488,094	$ 589	$ 1,802	$ 4,748	$ (962)	$ (55)	$ (6)	$ 6,116
Net income				705				705
Common stock dividend to parent				(368)				(368)
Cumulative preferred dividends				(11)				(11)
Other comprehensive loss							(5)	(5)
Balance as of December 31, 2005	235,488,094	$ 589	$ 1,802	$ 5,074	$ (962)	$ (55)	$ (11)	$ 6,437
Net income				697				697
Common stock dividend to parent				(440)				(440)
Capital contribution by parent			450			(3)		447
Cumulative preferred dividends				(11)				(11)
Other comprehensive loss							(6)	(6)
Adjustment to initially apply FASB Statement No. 158, net of tax (Notes E and F)							8	8
Balance as of December 31, 2006	235,488,094	$ 589	$ 2,252	$ 5,320	$ (962)	$ (58)	$ (9)	$ 7,132
Net income				855				855
Common stock dividend to parent				(548)				(548)
Capital contribution by parent			660			(2)		658
Cumulative preferred dividends				(11)				(11)
Balance as of December 31, 2007	**235,488,094**	**$ 589**	**$ 2,912**	**$ 5,616**	**$ (962)**	**$ (60)**	**$ (9)**	**$ 8,086**

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

78

Table of Contents

Consolidated Edison Company of New York, Inc.

Consolidated Statement of Cash Flows

(Millions of Dollars)	For the Twelve Months Ended December 31, 2007	2006	2005
Operating Activities			
Net income	**$ 855**	$ 697	$ 705
Principal Non-Cash Charges/(Credits) to Income			
Depreciation and amortization	**593**	545	509
Deferred income taxes	**320**	312	(112)
Rate case amortization and accruals	**(316)**	(218)	(93)
Net transmission and distribution reconciliation	**(187)**	(115)	(38)
Common equity component of allowance for funds used during construction	**(7)**	(5)	(9)
Prepaid pension costs (net of capitalized amounts)	**(13)**	(23)	(43)
Other non-cash items (net)	**(17)**	(1)	(4)
Changes in Assets and Liabilities			
Accounts receivable customers, less allowance for uncollectibles	**(116)**	164	(215)
Materials and supplies, including fuel oil and gas in storage	**14**	(51)	(72)
Other receivables and other current assets	**198**	(248)	(35)
Prepayments	**3**	333	(343)
Recoverable energy costs	**28**	44	(88)
Accounts payable	**38**	(142)	263
Pensions and retiree benefits	**(39)**	14	13
Accrued taxes	**(82)**	15	45
Accrued interest	**13**	34	7
Deferred charges, noncurrent assets and other regulatory assets	**(138)**	(197)	(113)
Deferred credits and other regulatory liabilities	**(2)**	(27)	118
Other assets	**-**	-	145
Other liabilities	**106**	32	178
Net Cash Flows from Operating Activities	**1,251**	1,163	818
Investing Activities			
Utility construction expenditures (excluding capitalized support costs of $(63), $(45) and $(11) in 2007, 2006 and 2005, respectively)	**(1,816)**	(1,737)	(1,530)
Cost of removal less salvage	**(187)**	(167)	(180)
Common equity component of allowance for funds used during construction	**7**	5	9
Loan to affiliate	**(55)**	-	-
Proceeds from sale of properties	**30**	60	534
Net Cash Flows Used in Investing Activities	**(2,021)**	(1,839)	(1,167)
Financing Activities			
Net proceeds from/(payments of) short-term debt	**555**	(520)	420
Retirement of long-term debt	**(330)**	(500)	(578)
Issuance of long-term debt	**525**	1,700	951
Debt issuance costs	**(5)**	(14)	(13)
Capital contribution by parent	**658**	447	-
Dividend to parent	**(548)**	(440)	(369)
Preferred stock dividends	**(11)**	(11)	(11)
Net Cash Flows from Financing Activities	**844**	662	400
Cash and Temporary Cash Investments:			
Net Change for the Period	**74**	(14)	51
Balance at Beginning of Period	**47**	61	10
Balance at End of Period	**$ 121**	$ 47	$ 61
Supplemental Disclosure of Cash Flow Information			
Cash paid during the period for:			
Interest	**$ 407**	$ 351	$ 330
Income taxes	**$ 307**	$ 89	$ 352

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

Table of Contents

Consolidated Edison Company of New York, Inc.

Consolidated Statement of Capitalization

(Millions of Dollars)	Shares outstanding December 31, 2007	Shares outstanding December 31, 2006	At December 31, 2007	At December 31, 2006
Total Common Shareholder s Equity Less Accumulated Other Comprehensive Loss	**235,488,094**	235,488,094	**$ 8,095**	$ 7,141
Accumulated Other Comprehensive Loss				
Pension plan liability adjustments, net of $(9) taxes in 2006			**(15)**	(15)
Adjustment to initially apply FASB Statement No. 158, net of $(4) taxes in 2006 (Notes E and F)			**8**	8
Unrealized gains on derivatives qualified as cash flow hedges, net of $(3) taxes in 2006			**(4)**	(4)
Less: Reclassification adjustment for gains included in net income			**(2)**	(2)
Total Accumulated Other Comprehensive Loss, Net of Taxes			**(9)**	(9)
Total Common Shareholder s Equity (See Statement of Common Shareholder s Equity and Note C)			**8,086**	7,132
Preferred Stock (Note C)				
$5 Cumulative Preferred, without par value, authorized 1,915,319 shares	**1,915,319**	1,915,319	**175**	175
Cumulative Preferred, $100 par value, authorized 6,000,000 shares				
4.65% Series C	**153,296**	153,296	**16**	16
4.65% Series D	**222,330**	222,330	**22**	22
Total Preferred Stock			**$ 213**	$ 213

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

80

Table of Contents

Consolidated Edison Company of New York, Inc.

Consolidated Statement of Capitalization

Long-Term Debt (Note C) (Millions of Dollars)			**At December 31,**	
Maturity	**Interest Rate**	**Series**	**2007**	**2006**
Debentures:				
2007	6.45%	1997B	**$ -**	$ 330
2008	6.25	1998A	**180**	180
2008	6.15	1998C	**100**	100
2009	7.15	1999B	**200**	200
2009	4.70	2004C	**275**	275
2010	8.125	2000A	**325**	325
2010	7.50	2000B	**300**	300
2012	5.625	2002A	**300**	300
2013	4.875	2002B	**500**	500
2013	3.85	2003B	**200**	200
2014	4.70	2004A	**200**	200
2015	5.375	2005C	**350**	350
2016	5.50	2006C	**400**	400
2016	5.30	2006D	**250**	250
2028	7.10	1998B	**105**	105
2028	6.90	1998D	**75**	75
2033	5.875	2003A	**175**	175
2033	5.10	2003C	**200**	200
2034	5.70	2004B	**200**	200
2035	5.30	2005A	**350**	350
2035	5.25	2005B	**125**	125
2036	5.70	2006E	**250**	250
2036	5.85	2006A	**400**	400
2036	6.20	2006B	**400**	400
2037	6.30	2007A	**525**	-
Total Debentures			**6,385**	6,190
Tax-Exempt Debt Notes issued to New York State Energy Research and Development Authority for Facilities Revenue Bonds*:				
2032	3.763%	2004B Series 1	**127**	127
2034	4.467	1999A	**293**	293
2035	4.60	2004B Series 2	**20**	20
2036	4.70 (Note O)	2001A	**225**	222
2036	4.50	2001B	**98**	98
2039	4.23	2004A	**98**	98
2039	3.433	2004C	**99**	99
2039	3.363	2005A	**126**	126
Total Tax-Exempt Debt			**1,086**	1,083
Unamortized debt discount			**(19)**	(18)
Total			**7,452**	7,255
Less: long-term debt due within one year			**280**	330
Total Long-Term Debt			**7,172**	6,925
Total Capitalization			**$ 15,471**	$ 14,270

* Other than Series 2001A, rates reset weekly or by auction held every 35 days; December 31, 2007 rates shown.

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

Table of Contents

Notes to the Financial Statements

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.

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 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. In December 2007, Con Edison Development and its subsidiary, CED/SCS Newington, LLC, agreed to sell their ownership interests in power generating projects with an aggregate capacity of approximately 1,706 megawatts. See Note U to the financial statements.

Note A Summary of Significant Accounting Policies

Principles of Consolidation

The Companies consolidated financial statements include the accounts of their respective majority-owned subsidiaries, and variable interest entities (see Note P), as required. All intercompany balances and transactions have been eliminated.

Accounting Policies

The accounting policies of Con Edison and its subsidiaries conform to accounting principles generally accepted in the United States of America. For the Utilities, these accounting principles include the Financial Accounting Standards Board s (FASB) Statement of Financial Accounting Standards (SFAS) No. 71, Accounting for the Effects of Certain Types of Regulation, and, in accordance with SFAS No. 71, the accounting requirements of the Federal Energy Regulatory Commission (FERC) and the state public utility regulatory commissions having jurisdiction.

SFAS No. 71 specifies the economic effects that result from the causal relationship of costs and revenues in the rate-regulated environment and how these effects are to be accounted for by a regulated enterprise. Revenues intended to cover some costs may be recorded either before or after the costs are incurred. If regulation provides assurance that incurred costs will be recovered in the future, these costs would be recorded as deferred charges or regulatory assets under SFAS No. 71. If revenues are recorded for costs that are expected to be incurred in the future, these revenues would be recorded as deferred credits or regulatory liabilities under SFAS No. 71.

The Utilities principal regulatory assets and liabilities are detailed in Note B. The Utilities are receiving or being credited with a return on all of their regulatory assets for which a cash outflow has been made, and are paying or being charged with a return on all of their regulatory liabilities for which a cash inflow has been received. The Utilities regulatory assets and liabilities will be recovered from customers, or applied for customer benefit, in accordance with rate provisions approved by the applicable public utility regulatory commission.

Other significant accounting policies of the Companies are referenced below in this Note A and in the notes that follow.

Plant and Depreciation

Utility Plant

Utility plant is stated at original cost. The cost of repairs and maintenance is charged to expense and the cost of betterments is capitalized. The capitalized cost of additions to utility plant includes indirect costs such as engineering, supervision, payroll taxes, pensions, other benefits and an allowance for funds used during construction (AFDC). The original cost of property is charged to expense over the estimated useful lives of the assets. Upon retirement, the original cost of property is charged to accumulated depreciation. See Note Q.

Rates used for AFDC include the cost of borrowed funds and a reasonable rate of return on the Utilities own funds when so used, determined in accordance with regulations of the FERC or the state public utility regulatory authority having jurisdiction. The rate is compounded semiannually, and the amounts applicable to

Table of Contents

Notes to the Financial Statements Continued

borrowed funds are treated as a reduction of interest charges, while the amounts applicable to the Utilities own funds are credited to other income (deductions). The AFDC rates for Con Edison of New York were 7.3 percent, 6.7 percent and 7.4 percent for 2007, 2006 and 2005, respectively. The AFDC rates for O&R were 5.2 percent, 5.0 percent and 3.9 percent for 2007, 2006 and 2005, respectively.

The Utilities generally compute annual charges for depreciation using the straight-line method for financial statement purposes, with rates based on average service lives and net salvage factors. The average depreciation rate for Con Edison of New York was 2.9 percent for 2007, 2006 and 2005. The average depreciation rates for O&R were 2.8 percent for 2007 and 2006 and 2.9 percent for 2005.

The estimated lives for utility plant for Con Edison of New York range from 5 to 80 years for electric, 5 to 85 years for gas, 5 to 70 years for steam and 5 to 50 years for general plant. For O&R, the estimated lives for utility plant range from 5 to 65 years for electric, 5 to 75 years for gas and 5 to 55 years for general plant.

At December 31, 2007 and 2006, the capitalized cost of the Companies utility plant, net of accumulated depreciation, was as follows:

	Con Edison		Con Edison of New York	
(Millions of Dollars)	**2007**	**2006**	**2007**	**2006**
Electric				
Generation	$ 344	$ 319	$ 344	$ 319
Transmission	1,857	1,675	1,733	1,564
Distribution	10,498	9,612	9,954	9,095
Gas*	2,729	2,599	2,424	2,307
Steam	1,458	1,430	1,458	1,430
General	1,142	1,069	1,055	990
Held for future use	57	47	52	43
Construction work in progress	1,028	872	973	832
Net utility plant	$ 19,113	$ 17,623	$ 17,993	$ 16,580

* Primarily distribution.

Non-Utility Plant

Non-utility plant is stated at original cost. For the Utilities, non-utility plant consists primarily of land and telecommunication facilities that are currently not used within electric, gas or steam utility operations. For Con Edison s competitive energy businesses, non-utility plant consists primarily of electric generating facilities. Depreciation on these assets is computed using the straight-line method for financial statement purposes over their estimated useful lives, which range from 3 to 75 years. See Note U.

The average non-utility plant depreciation rates for Con Edison Development were 2.5 percent for 2007 and 2.8 percent for 2006 and 2005.

Goodwill

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, Con Edison is required to test goodwill for impairment annually. Goodwill is tested for impairment using a two-step approach. The first step of the goodwill impairment test compares the estimated fair value of a reporting unit with its carrying value, including goodwill. If the estimated fair value of a reporting unit exceeds its carrying value, goodwill of the reporting unit is considered not impaired. If the carrying value exceeds the estimated fair value of the reporting unit, the second step is performed to measure the amount of impairment loss, if any. The second step requires a calculation of the implied fair value of goodwill. See Note K.

Impairments

In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the Companies evaluate the impairment of long-lived assets, based on projections of undiscounted future cash flows, whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. In the event an evaluation indicates that such cash flows cannot be expected to be sufficient to fully recover the assets, the assets are written down to their estimated fair value.

In accordance with Accounting Principles Board Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock, Con Edison Development recognized pre-tax impairment charges of $7 million and $6 million in 2007 and 2006, respectively related to its equity investment in a 29 MW electric generating plant in Michigan. Con Edison also wrote-off its cost-based investment of $6 million in 2007 related to a supply chain services company due to a decline in the investment s value that was deemed to be other than temporary.

Revenues

The Utilities and Con Edison Solutions recognize revenues for electric, gas and steam service on a monthly billing cycle basis. The Utilities defer over a 12-month period net interruptible gas revenues, other than those authorized by the New York State Public Service Commission (PSC) to be retained by the Utilities, for refund to firm gas sales and transportation customers. O&R and Con Edison Solutions accrue revenues at the end of each month for estimated energy service not yet billed to customers, while Con Edison of New York does not accrue such revenues, in accordance with current regulatory agreements. Unbilled revenues included in Con Edison s balance sheet at December 31, 2007 and 2006 were $149 million and $122

Table of Contents

Notes to the Financial Statements Continued

million, respectively. Con Edison of New York estimates its unbilled revenues at December 31, 2007 and 2006 to be approximately $410 million and $357 million, respectively.

The PSC requires utilities to record gross receipts tax revenues and expenses on a gross income statement presentation basis (i.e., included in both revenue and expense). The recovery of these taxes is generally provided for in the revenue requirement within each of the respective PSC approved rate plans.

Recoverable Energy Costs

The Utilities generally recover all of their prudently incurred fuel, purchased power and gas costs, including hedging gains and losses, in accordance with rate provisions approved by the applicable state public utility commissions. If the actual energy supply costs for a given month are more or less than the amounts billed to customers for that month, the difference in most cases is recoverable from or refundable to customers. Differences between actual and billed electric and steam supply costs are generally deferred for charge or refund to customers during the next billing cycle (normally within one or two months). In addition, Con Edison of New York recovers the costs of its electric demand management program, in excess of the costs reflected in rates, as part of recoverable energy costs. For the Utilities gas costs, differences between actual and billed gas costs during the 12-month period ending each August are charged or refunded to customers during a subsequent 12-month period.

New York Independent System Operator (NYISO)

The Utilities purchase electricity through the wholesale electricity market administered by the NYISO. The difference between purchased power and related costs initially billed to the Utilities by the NYISO and the actual cost of power subsequently calculated by the NYISO is refunded by the NYISO to the Utilities, or paid to the NYISO by the Utilities. The reconciliation payments or receipts are recoverable from or refundable to the Utilities customers. See Regulatory Assets and Liabilities in Note B.

Certain other payments to or receipts from the NYISO are also subject to reconciliation, with shortfalls or amounts in excess of specified rate allowances recoverable from or refundable to customers. These include proceeds from the sale through the NYISO of transmission rights on Con Edison of New York s transmission system (Transmission Congestion Contracts or TCCs). See Regulatory Assets and Liabilities in Note B.

Sulfur Dioxide Allowances

In accordance with the federal Clean Air Act, Con Edison of New York has been allocated sulfur dioxide (SO_2) emission allowances which the company may sell, trade or hold for future use. Generally, Con Edison of New York defers its proceeds from the sale of SO_2 allowances as regulatory liabilities to be applied for customer benefit. See Regulatory Assets and Liabilities in Note B. For the competitive energy businesses, sales of SO_2 allowances are reflected in earnings in the periods in which the sales occur. The proceeds received from the sale of SO_2 allowances are included in net cash flows from operating activities in the Companies consolidated statements of cash flows.

Temporary Cash Investments

Temporary cash investments are short-term, highly-liquid investments that generally have maturities of three months or less at the date of purchase. They are stated at cost, which approximates market. The Companies consider temporary cash investments to be cash equivalents.

Investments

Investments consist primarily of the investments of Con Edison s competitive energy businesses, which are accounted for under the equity method (depending on the subsidiaries percentage ownership) or accounted for as leveraged leases in accordance with SFAS No. 13, Accounting for Leases. See Note J for a discussion of investments in Lease In/Lease Out transactions. Utilities investments are recorded at either cost or cash surrender value and include deferred income plan s and supplemental retirement income plans trust owned life insurance assets.

Federal Income Tax

In accordance with SFAS No. 109, Accounting for Income Taxes, the Companies have recorded an accumulated deferred federal income tax liability for temporary differences between the book and tax bases of assets and liabilities at current tax rates. In accordance with rate agreements, the Utilities have recovered amounts from customers for a portion of the tax liability they will pay in the future as a result of the reversal or turn-around of these temporary differences. As to the remaining tax liability, in accordance with SFAS No. 71, the Utilities have established regulatory assets for the net revenue requirements to be recovered from customers for the related future tax expense. See Notes B and L. In 1993, the PSC issued a Policy Statement approving accounting procedures consistent with SFAS No. 109 and providing assurances that these future increases in taxes will be recoverable in rates. In January 2007, the Companies adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). This interpretation clarifies the accounting for uncertain tax positions in accordance with FASB Statement No. 109. See Note L.

Accumulated deferred investment tax credits are amortized ratably over the lives of the related properties and applied as a reduction to future federal income tax expense.

Table of Contents

Notes to the Financial Statements Continued

Con Edison and its subsidiaries file a consolidated federal income tax return. The consolidated income tax liability is allocated to each member of the consolidated group using the separate return method. Each member pays or receives an amount based on its own taxable income or loss in accordance with tax sharing agreements between the members of the consolidated group.

State Income Tax

Con Edison and its subsidiaries file a combined New York State Corporation Business Franchise Tax Return. Similar to a federal consolidated income tax return, the income of all entities in the combined group is subject to New York State taxation, after adjustments for differences between federal and New York law and apportionment of income among the states in which the company does business. Each member of the group pays or receives an amount based on its own New York State taxable income or loss.

Research and Development Costs

Generally research and development costs are charged to operating expenses as incurred. Research and development costs were as follows:

	For the Years Ended December 31,		
(Millions of Dollars)	**2007**	**2006**	**2005**
Con Edison	$ 15	$ 14	$ 14
Con Edison of New York	$ 14	$ 13	$ 14

Reclassification

Certain prior year amounts have been reclassified to conform with the current year presentation.

Earnings Per Common Share

In accordance with SFAS No. 128, Earnings per 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. See Note M.

Basic and diluted EPS for Con Edison are calculated as follows:

	For the Years Ended December 31,		
(Millions of Dollars, except per share amounts/Shares in Millions)	**2007**	**2006**	**2005**
Income from continuing operations	$ 925	$ 740	$ 745
Gain/(Loss) from discontinued operations, net of tax	4	(3)	(26)

Net income	**$ 929**	**$ 737**	**$ 719**
Weighted average common shares outstanding Basic	266.3	249.3	243.9
Add: Incremental shares attributable to effect of potentially dilutive securities	1.0	1.0	0.8
Adjusted weighted average common shares outstanding Diluted	267.3	250.3	244.7
Earnings per Common Share Basic			
Continuing operations	$ 3.48	$ 2.97	$ 3.05
Discontinued operations	0.01	(0.01)	(0.10)
Net income	**$ 3.49**	**$ 2.96**	**$ 2.95**
Earnings per Common Share Diluted			
Continuing operations	$ 3.46	$ 2.96	$ 3.04
Discontinued operations	0.01	(0.01)	(0.10)
Net income	**$ 3.47**	**$ 2.95**	**$ 2.94**

The computation of diluted earnings per share does not exclude any Con Edison common shares for the year ended December 31, 2007 because the exercise prices on the options did not exceed the average closing market price during this period. The computation of diluted earnings per share excludes 0.1 million and 0.9 million Con Edison common shares for the years ended December 31, 2006 and 2005, respectively, because the exercise prices on the options exceeded the average closing market price during these periods.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Table of Contents

Notes to the Financial Statements Continued

Note B Regulatory Matters

Rate Agreements

Con Edison of New York Electric

In March 2005, the PSC approved a Joint Proposal by Con Edison of New York, the staff of the PSC and other parties with respect to the rates the company can charge its customers for electric delivery service (the 2005 Electric Rate Agreement). The 2005 Electric Rate Agreement covers the three-year period April 2005 through March 2008, pursuant to which Con Edison of New York s electric base rates were increased $104.6 million, effective April 1, 2005, and were increased an additional $220.4 million (of which $60 million was accrued over the period beginning April 1, 2006 to March 31, 2007), effective April 1, 2007. In addition, the company retains the first $60 million of auction proceeds from the sale of transmission rights on the company s transmission system in each of the three years. The rate increases also include the amortization of certain regulatory assets and liabilities. The net effect of this amortization is a non-cash increase in electric revenues of $128 million, $173 million and $249 million in the first, second and third rate years, respectively.

The 2005 Electric Rate Agreement provides for annual reconciliations of the differences between the actual amount of transmission and distribution utility plant, net of depreciation (Net T&D) and the actual amount of certain operating costs experienced over the term of the agreement, as compared in each case to the amounts reflected in electric rates.

If the actual Net T&D is greater than the Net T&D reflected in rates, the company will accrue a regulatory asset and increase its revenues by the revenue requirement impact of such difference (i.e., a return on investment, depreciation and income taxes). If the actual Net T&D is less than the Net T&D reflected in rates, the company will accrue a regulatory liability and decrease its revenues by the revenue requirement impact of such difference. For the period from April 1, 2005 through December 31, 2007, actual Net T&D has exceeded the Net T&D reflected in rates by $1.4 billion. The company accrued revenues of $187 million, $115 million and $38 million in 2007, 2006 and 2005, respectively, to reflect the revenue requirement impact of the Net T&D difference. In accordance with the 2005 Electric Rate Agreement, the accrued revenues were offset at the end of each rate year with a like amount of regulatory liabilities.

Under the 2005 Electric Rate Agreement, if the actual amount of pension or other postretirement benefit costs, environmental remediation costs and, if the variation exceeds 2.5 percent, property taxes or the cost of moving facilities to avoid interfering with government projects is greater than the respective amount for each such cost reflected in rates, the company will accrue a regulatory asset for the difference and defer recognition in income of the difference. If the actual amount is less than the amount reflected in electric rates, the company will accrue a regulatory liability for the difference and defer recognition in income of the difference. As a result of the cost reconciliations, in 2007, 2006 and 2005, the company deferred expenses of $35 million, $30 million and $17 million, respectively.

Under the 2005 Electric Rate Agreement, for each rate year, any earnings attributable to the company s electric business, excluding the effect of the incentives and revenue reductions discussed below, (Adjusted Earnings) between an 11.4 percent and a 13 percent return on equity (based on the company s actual capitalization, subject to a maximum ratio of 50 percent) are to be used to offset 50 percent of any regulatory asset to be recorded in that year resulting from the cost reconciliations. See Regulatory Assets and Liabilities, below in this Note B. The company can retain 50 percent of any remaining above-target Adjusted Earnings, with the balance being deferred for the benefit of customers. If Adjusted Earnings exceed a 13 percent return, no regulatory asset resulting from the cost reconciliations is to be accrued, but the company can retain 25 percent of the above-target Adjusted Earnings, with the balance being deferred for the benefit of customers.

In accordance with the 2005 Electric Rate Agreement, at December 31, 2005, Con Edison of New York estimated that its Adjusted Earnings for the rate year ending March 31, 2006 would exceed an 11.4 percent return on equity by $59 million, of which $47 million was accounted for as an offset to regulatory assets arising from the cost reconciliations and $6 million was reserved for customer benefit. Actual Adjusted Earnings for the rate year exceeded this target by $38 million. Accordingly, in the first quarter of 2006, the company reduced the regulatory asset offset by $9 million and eliminated the $6 million reserve for customer benefit (which had the effect of increasing revenues for 2006 by $15 million). At December 31, 2007 and 2006, Con Edison of New York estimated that its Adjusted Earnings for the rate years ending March 31, 2007 and March 31, 2008 would not exceed an 11.4 percent return on equity.

The 2005 Electric Rate Agreement also provides for the continuation of the rate provisions pursuant to which the company recovers its potential strandable costs and its purchased power and fuel costs from customers.

The 2005 Electric Rate Agreement includes potential positive earnings adjustments (incentives) if the company meets certain standards for its retail access and demand side management programs, and potential negative earnings adjustments (revenue reductions), which could be substantial, if it does not meet certain standards for (i) frequency and duration of service interruptions; (ii) major outages; (iii) repair, removal or

Table of Contents

Notes to the Financial Statements Continued

replacement of damaged poles, temporary shunts, street lights, traffic signals and circuit breakers; and (iv) customer service. In 2007, the company recorded an incentive for demand side management initiatives of $11 million. In 2007 and 2006, the company recorded incentives of $4 million and $6 million, respectively, associated with its efforts to promote retail access in its service territory. In 2007 and 2006, the company recorded revenue reductions of $9 million and $18 million, respectively, for not meeting certain standards for frequency and duration of service interruptions and in 2005, $8 million was recorded for duration of service interruptions. See Power Outage Proceedings below in Note B.

In accordance with the 2005 Electric Rate Agreement, the company recognized a $100 million pre-tax charge in 2004 to resolve certain issues raised in the proceeding, relating primarily to prior period pension credits.

In May 2007, Con Edison of New York filed a request with the PSC for an electric rate increase of $1,225 million effective April 1, 2008. The PSC is expected to rule on the company s request in March 2008.

In January 2008, PSC administrative law judges (ALJs) issued a decision recommending that the PSC grant the company an electric rate increase, effective April 1, 2008, of approximately $600 million. The ALJs also recommended that the PSC consider making up to $330 million of the rate increase, which relates to the company s construction expenditures, temporary and subject to refund to customers pending the results of a management and operations audit to be performed by an auditor to be selected by the PSC. Additionally, the ALJs recommended that a total of $200 million of regulatory assets relating to the Net T&D reconciliation that were offset against regulatory liabilities in 2006 and 2007 also be subject to refund pending the results of the audit. The ALJs recommended decision reflected the following major items:

- a return on common equity of 9.0 percent instead of the return on common equity of 11.5 percent requested by the company;

- increasing to $150 million from $60 million the level of revenues that, for purposes of setting rates, is assumed the company will receive and retain from the sale of transmission rights on the company s transmission system;

- a higher sales forecast, certain rate base reductions, decreases in advertising and certain other programs and longer amortization periods for certain regulatory assets;

- a one-year rate period, which would discontinue the provisions of the 2005 Electric Rate Agreement under which property taxes, environmental remediation expenses and costs to move facilities to avoid interfering with government projects are reconciled to amounts reflected in rates;

- that the potential negative earnings adjustment (revenue reductions) provisions of the 2005 Electric Rate Agreement be continued and expanded at amounts at or above current levels, to be determined by the PSC; and

- a revenue decoupling mechanism.

In general, revenue decoupling mechanisms are intended to promote energy efficiency by breaking the linkage between energy sales and utility revenues and/or profits and, thereby, eliminate the disincentive a utility would have to promote energy efficiency. Under a revenue decoupling mechanism, the utility s actual energy delivery revenues would be compared, on a periodic basis, with the authorized delivery revenues or revenues per customer, with the difference accrued, with interest, for refund to, or recovery from, customers, as applicable.

O&R Electric

In October 2003, the PSC approved an agreement among O&R, the staff of the PSC and other parties with respect to the rates O&R can charge to its New York customers for electric service. The electric agreement, which covered the period from July 2003 through October 2006, provided for no changes to electric base rates and provided for the amortization and offset of regulatory assets and liabilities, the net effect of which was to reduce electric operating income by a total of $11 million (pre tax) over the period covered by the agreement. The agreement provided for recovery of energy costs from customers on a current basis. It also provided for O&R to share equally with customers earnings above a 12.75 percent return on common equity during the three-year period from July 2003 through June 2006. Beginning July 2006, O&R was not subject to earnings sharing. Pursuant to these provisions, $3.6 million and $6.7 million was deferred for future customer benefit in 2006 and 2005, respectively.

In October 2007, the PSC issued an order that continues O&R s rates for electric service rendered in New York at current levels. The order, which is based on an allowed annual rate of return on common equity of 9.1 percent increased, effective July 1, 2007, by $13.1 million annually the amount recognized for pension and other postretirement benefit costs. Because O&R, in accordance with applicable New York regulatory provisions, defers the difference between the actual amount of such costs and the amounts for such costs reflected in rates, the effect of the increase was to decrease the company s deferrals of such costs and increase other operations and maintenance expense by a like amount. As required by the order, the company also reduced other operating revenues and recorded a regulatory liability of $3 million for earnings attributable to its New York electric business in excess of a 9.1 percent annual rate of return on

Table of Contents

Notes to the Financial Statements Continued

common equity applicable to the period March through June 2007. In June 2007, O&R commenced an action in New York State Supreme Court seeking to annul the March 2007 PSC order that initiated the proceeding in which the October 2007 order was issued.

In August 2007, O&R filed a request with the PSC for an increase in the rates it charges for electric service rendered in New York, effective July 2008, of $47.8 million. The filing reflects a return on common equity of 11.5 percent and a common equity ratio of 48.6 percent. The filing proposes continuation of the current provisions with respect to recovery from customers of the cost of purchased power, and the reconciliation of actual expenses allocable to the electric business to the amounts for such costs reflected in electric rates for pension and other postretirement benefit costs, environmental and research and development costs. In October 2007, O&R submitted to the PSC a revenue decoupling proposal applicable to the company s electric service in New York. In November 2007, O&R updated its rate request to reflect the impact of applying all available credits, including $3.3 million of earnings above the 9.1 percent allowed ROE during March through June 2007, as directed by the PSC in its October 2007 Order. The impact of this and other changes reduced the requested rate increase to $43.7 million. In December 2007, PSC Staff submitted direct testimony and exhibits supporting a $17.5 million rate increase, based on a return on equity of 8.9 percent and an equity ratio of 48 percent. A decision in this case is expected in June 2008.

In July 2003, the New Jersey Board of Public Utilities (NJBPU) ruled on the petitions of Rockland Electric Company (RECO), O&R s New Jersey regulated utility subsidiary, for an increase in electric rates and recovery of deferred purchased power costs. The NJBPU ordered a $7 million decrease in RECO s electric base rates, effective August 2003, authorized RECO s recovery of approximately $83 million of previously deferred purchased power costs and associated interest and disallowed recovery of approximately $19 million of such costs and associated interest.

In July 2004, the NJBPU approved RECO s Phase II petition to increase base rates annually by $2.7 million, effective August 1, 2004. The Phase II decision provides for the recovery of carrying costs for two substation projects and specified additional reliability programs. Also in July 2004, a special purpose entity formed by RECO (which is included in the consolidated financial statements of Con Edison) issued $46 million of 5.22% Transition Bonds and used the proceeds thereof to purchase from RECO the right to be paid a Transition Bond Charge (TBC) and associated tax charges by its customers relating to the balance of previously deferred purchased power costs, discussed above.

In March 2007, the NJBPU approved a new three-year electric base rate plan for RECO that went into effect on April 1, 2007. The plan provides for a $6.4 million rate increase during the first year, with no further increase during the final two years. The plan reflects a return on common equity of 9.75 percent and a common equity ratio of 46.5 percent of capitalization.

Con Edison of New York Gas

In September 2004, the PSC approved a Joint Proposal by Con Edison of New York, the staff of the PSC and other parties with respect to the rates the company could charge its customers for gas and steam services. The approved gas rate plan covered the three-year period October 2004 through September 2007, and provided for an increase in gas base rates of $46.8 million, effective October 1, 2004, with deferral accounting to be used to allocate the income statement effect of the increase over the term of the agreement. The rate increase was net of a $17.5 million pre-tax charge to gas operating revenues, which the company recognized in 2004, to resolve certain issues raised in the proceeding, relating primarily to the treatment of prior period pension credits. In addition to this rate increase, the company retained the first $35 million of net revenues from non-firm customer transactions in each year of the plan. The rate increase also included the amortization of certain regulatory assets and liabilities. The net effect of this amortization was a non-cash increase in gas revenues of $41 million over the period of the three-year rate plan.

Additional provisions of the gas rate plan included: equal sharing with customers of earnings above an 11.75 percent return on common equity (earnings for the rate years ended September 2005, 2006 and 2007 were below this level); reconciliation of pension and other post-employment benefit costs allocable to the gas business to the amounts for such costs reflected in rates, with the difference deferred as a regulatory asset or liability, as the case may be, for future recovery from or refund to customers; opportunities to retain for shareholders a percentage of annual gas net revenues from non-firm customer transactions (20 percent of revenues between $35 million and $50 million, 25 percent between $50 million and $70 million and 10 percent over $70 million), and to earn an incentive of up to $8.5 million over the period of the rate plan depending upon the number of customers that migrate to retail access; continuation of provisions for the recovery from customers on a current basis of the cost of purchased gas and for the recovery of environmental remediation expenses; continuation of provisions pursuant to which the effects of weather on gas income are moderated; and continuation of the deferral as a regulatory asset or liability, subject to certain limitations, of differences between actual costs and amounts reflected in rates for property taxes and interference costs.

In September 2007, the PSC approved the Joint Proposal that Con Edison of New York had entered into in June 2007 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 had provided for rate increases of $84.6 million, $32.7 million and $42.7 million, effective October 1, 2007, 2008 and 2009, respectively, along with annual funding for new energy efficiency programs of $14 million. The PSC modified the Joint Proposal to provide for levelized annual rate increases of $67.5 million in each year of the three year rate plan, by accruing, over the first rate year as gas service is provided, $31.1 million of revenues and a related regulatory asset, which, together with interest, will be billed to customers in the second and third rate years.

The Joint Proposal continues the previous gas rate plan provisions with respect to recovery from customers of the cost of purchased gas and environmental remediation expenses; continuation of provisions pursuant to which the effects of weather on gas income are moderated; and the reconciliation of actual expenses allocable to the gas business to the amounts for such costs reflected in gas rates for pension and other postretirement benefit costs, property taxes and interference costs. Additional provisions of the gas rate plan include: a revenue decoupling mechanism and equal sharing with customers of earnings above a 10.7 percent return on common equity (earnings for the year ended December 31, 2007 include a $10 million regulatory liability for earnings above the 10.7 percent threshold for the rate year ending September 30, 2008).

O&R Gas

In October 2003, the PSC approved a gas rate agreement among O&R, the PSC staff and other parties. This agreement, which covered the period November 2003 through October 2006, provided for annual increases in gas base rates of $9 million effective November 2003, $9 million effective November 2004 and $5 million effective November 2005. The agreement provided for O&R to share equally with customers earnings in excess of an 11 percent return on common equity. Earnings for the rate years ended October 2004, 2005 and 2006 were below this level. The rate agreement also included the amortization of certain regulatory assets and liabilities. The net effect of this amortization was a non-cash increase in gas revenues of $2 million over the period of the three-year rate plan.

In October 2006, the PSC approved the June 2006 settlement agreement among O&R, the staff of the PSC and other parties. The settlement agreement establishes a rate plan that covers the three-year period November 1, 2006 through October 31, 2009. The rate plan provides for rate increases in base rates of $12 million in the first year, $0.7 million in the second year and $1.1 million in the third year. To phase-in the effect of the increase for customers, the rate plan provides for O&R to accrue revenues for, but defer billing to customers of, $5.5 million of the first rate year rate increase by establishing a regulatory asset which, together with interest, will be billed to customers in the second and third years. As a result, O&R s billings to customers will increase $6.5 million in each of the first two years and $6.3 million in the third. The first year rate increase includes $2.3 million relating to a change in the way customers are provided the benefit of non-firm revenue from sales of pipeline transportation capacity. Under the prior rate plan, base rates were reduced to reflect the assumption that the company would realize these revenues. Under the new rate plan, such revenues will be used to offset the cost of gas to be recovered from customers. The rate plan continues the provisions pursuant to which the company recovers its cost of purchasing gas and the provisions pursuant to which the effects of weather on gas income are moderated.

The rate plan provides that if the actual amount of pension or other postretirement benefit costs, environmental remediation costs, property taxes and certain other costs vary from the respective amount for each such cost reflected in gas rates (cost reconciliations), the company will defer recognition of the variation in income and, as the case may be, establish a regulatory asset or liability for recovery from, or refund to, customers of the variation (86 percent of the variation, in the case of property tax differences due to assessment changes).

Earnings attributable to its gas business excluding any revenue reductions (O&R Adjusted Earnings) up to an 11 percent annual return on common equity (based upon the actual average common equity ratio, subject to a maximum 50 percent of capitalization) are retained by the company. O&R Adjusted Earnings above an 11 percent return are to be used to offset up to one-half of any regulatory asset to be recorded in that year resulting from the cost reconciliations (discussed in the preceding paragraph). One-half of any remaining O&R Adjusted Earnings between 11 and 12 percent return are retained by the company, with the balance being deferred for the benefit of customers. Thirty-five percent of any remaining O&R Adjusted Earnings between a 12 and 14 percent return are retained by the company, with the balance deferred for the benefit of customers. Any remaining O&R Adjusted Earnings above a 14 percent return are to be deferred for the benefit of customers. For purposes of these earnings sharing provisions, if in any rate year O&R Adjusted Earnings is less than 11 percent, the shortfall will be deducted from O&R Adjusted Earnings for the other rate years. The earnings sharing thresholds will each be reduced by 20 basis points if certain objectives relating to the company s retail choice program are not met. In 2007, O&R recorded a $1.3 million regulatory liability for earnings in excess of the 11 percent target return on equity for the rate year ended October 31, 2007.

The rate plan also includes up to $1 million of potential revenue reductions in the first year of the agreement, increasing up to

89

$1.2 million, if the company does not comply with certain requirements regarding safety and customer service. In 2007, O&R recorded a $0.2 million regulatory liability for not complying with certain requirements regarding safety and customer service for the rate year ended October 31, 2007.

Con Edison of New York Steam

In September 2004, the PSC approved a steam rate plan covering the two-year period October 2004 through September 2006. The plan provided for increases in steam base rates of $49.6 million, effective October 1, 2004, and $27.4 million, effective October 1, 2005. The increases were net of a $6.2 million pre-tax charge to steam operating revenues, which the company recognized in 2004 to resolve certain issues raised in the proceeding, relating primarily to the treatment of prior period pension credits. The rate increases also include the amortization of certain regulatory assets and liabilities. The net effect of this amortization was to decrease steam revenues by $3 million over the period of the two-year rate plan.

Additional provisions of the steam rate plan included: equal sharing with customers of earnings in excess of an 11.75 percent return on common equity (earnings for the rate years ended September 2005 and 2006 were below this level); reconciliation of pension and other post-employment benefit costs allocable to the steam business to the amounts for such costs reflected in rates, with the difference deferred as a regulatory asset or liability, as the case may be, for future recovery from or refund to customers; continuation of provisions for the recovery from customers on a current basis of the cost of fuel and purchased steam and for the recovery of environmental remediation expenses; and continuation of the deferral as a regulatory asset or liability, subject to certain limitations, of differences between actual costs and amounts reflected in rates for property taxes and interference costs.

In September 2006, the PSC approved the June 2006 settlement agreement among Con Edison of New York, the staff of the PSC and other parties. The settlement agreement establishes a rate plan that covers the two-year period October 1, 2006 through September 30, 2008. The rate plan provides for no changes in base rates or in the rate provisions pursuant to which the company recovers its fuel and purchased steam costs (the fuel adjustment clause), except for changes in the manner in which certain costs are recovered.

The rate plan provides that if the actual amount of pension or other postretirement benefit costs, environmental remediation costs, property taxes or interference costs is greater than the respective amount for each such cost reflected in steam rates, the company will recognize a regulatory asset for the difference (90 percent of the difference, in the case of property taxes and interference costs) and defer recognition in expense of the difference. If the actual amount of such costs is less than the amount reflected in steam rates, the company will recognize a regulatory liability for the difference and decrease its revenues by the amount of such difference (90 percent of the difference, in the case of property taxes and interference costs).

Earnings attributable to the steam business, excluding the net revenue effect of steam sales related to colder-than-normal weather and certain other items, (Steam Adjusted Earnings) for a rate year up to 11 percent return on common equity (based upon the actual average common equity ratio, subject to a maximum of 50 percent of capitalization) are retained by the company. Steam Adjusted Earnings between 11 and 12 percent are to be used first to offset up to one-half of any regulatory asset recorded in the year resulting from the cost reconciliations (discussed in the preceding paragraph) for the rate year. The company then retains one-half of any remaining such Steam Adjusted Earnings, with the balance being deferred for the benefit of customers. Any Steam Adjusted Earnings in excess of a 12 percent return on common equity are to be used first to offset any regulatory asset resulting from the cost reconciliations, with the company retaining one-quarter of any remaining Steam Adjusted Earnings and the balance being deferred for the benefit of customers. The earnings sharing thresholds would each be reduced by 20 basis points if certain requirements are not met. Earnings for the rate year ended September 30, 2007 were below the 11 percent return on common equity.

The rate plan also includes up to approximately $4 million of potential revenue reductions if the company does not comply with certain requirements regarding steam business development and certain other matters. There were no revenue reductions recorded for the rate year ending September 30, 2007.

In November 2007, the company filed with the PSC for an increase in steam base rates of $127 million, or 19 percent overall, effective October 1, 2008. The filing reflects a return on common equity of 11.5 percent and a common equity ratio of 48.4 percent.

The filing also includes a proposal for a three-year rate plan, with additional increases of $22 million and $15 million effective October 1, 2009 and 2010, respectively. The company also proposed to implement a steam revenue adjustment mechanism, new energy efficiency and demand reduction programs, and to continue business development programs.

In February 2008, the PSC initiated a proceeding to determine the prudence of the company s actions and practices relating to the July 2007 steam main rupture and, if the company was not prudent, whether and to what extent the expenses and capital expenditures the company has incurred, or in the future will incur, as result of the July 2007 steam main rupture should be borne by the company s ratepayers or whether additional remedies would be appropriate. See Manhattan Steam Main Rupture in Note H.

Table of Contents

Notes to the Financial Statements   Continued

Regulatory Assets and Liabilities

Regulatory assets and liabilities at December 31, 2007 and 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	$ 2,106	$ 1,929	$ 1,956	$ 1,776
Future federal income tax	1,112	995	1,057	941
Environmental remediation costs	378	318	312	255
Pension and other postretirement benefits deferrals	152	157	96	98
World Trade Center restoration costs	154	147	154	147
Net T&D reconciliation	142	94	142	94
Revenue taxes	77	68	75	67
O&R transition bond charges	63	67	-	-
Recoverable energy costs	50	55	50	55
Unbilled gas revenue	44	44	44	44
Workers compensation	41	42	41	42
Other retirement program costs	16	20	16	20
Electric rate increase accrual	14	44	14	44
Asbestos-related costs	10	10	10	10
Deferred derivative losses long-term	5	18	4	15
Other	167	171	152	156
Regulatory assets	4,531	4,179	4,123	3,764
Deferred derivative losses current	45	237	44	213
Recoverable energy costs current	213	235	190	213
Total Regulatory Assets	**$ 4,789**	**$ 4,651**	**$ 4,357**	**$ 4,190**
Regulatory liabilities				
Allowance for cost of removal less salvage	$ 422	$ 492	$ 362	$ 432
Gain on sale of First Avenue properties	124	144	124	144
Prior year deferred tax amortization	51	81	51	81
NYS tax law changes	42	38	41	28
Interest on federal income tax refund	41	41	41	41
Property tax reconciliation	41	39	41	39
Transmission congestion contracts	40	96	40	96
Net electric deferrals	33	164	33	164
O&R refundable energy costs	29	40	-	-
Net steam deferrals	21	48	21	48
Deferred derivative gains long-term	21	2	8	1
EPA SO_2 allowance proceeds electric and steam	18	106	18	106
2004 electric, gas and steam one-time rate agreement charges	16	85	16	85
Gain on sale of W. 24th St. property	10	46	10	