

CONSOLIDATED EDISON CO OF NEW YORK INC  
Form 10-K  
February 22, 2011  
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**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, 2010**

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 1-14514**

**CONSOLIDATED EDISON, INC.**

**Exact name of registrant as specified in its charter**

New York  
(State of Incorporation)

13-3965100  
(I.R.S. Employer

ID. Number)

4 Irving Place,

New York, New York 10003

(principal office address)

(212) 460-4600

(telephone number)

Commission File Number 1-1217

# CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

Exact name of registrant as specified in its charter

New York  
(State of Incorporation)

13-5009340  
(I.R.S. Employer

ID. Number)

4 Irving Place,

New York, New York 10003

(principal office address)

(212) 460-4600

(telephone number)

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

Title of each class	Name of each exchange on which registered
<b>Consolidated Edison, Inc.,</b> Common Shares (\$.10 par value)	New York Stock Exchange
<b>Consolidated Edison Company of New York, Inc.,</b> \$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)

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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 <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Consolidated Edison Company of New York, Inc. (CECONY)	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>

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 <input type="checkbox"/>	No <input checked="" type="checkbox"/>
CECONY	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

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 <input checked="" type="checkbox"/>	No <input type="checkbox"/>
CECONY	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>

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

Con Edison	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
CECONY	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>

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. \_\_\_\_\_

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 "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Con Edison	Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
CECONY	Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input checked="" type="checkbox"/>	Smaller reporting company <input type="checkbox"/>

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

Con Edison	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
CECONY	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

The aggregate market value of the common equity of Con Edison held by non-affiliates of Con Edison, as of June 30, 2010, was approximately \$12.2 billion.

As of January 31, 2011, Con Edison had outstanding 291,968,911 Common Shares (\$.10 par value).

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

### **Documents Incorporated By Reference**

Portions of Con Edison's definitive proxy statement and CECONY's definitive information statement, for their respective Annual Meetings of Stockholders to be held on May 16, 2011, to be filed with the Commission pursuant to Regulation 14A and Regulation 14C, respectively, not later than 120 days after December 31, 2010, 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. (CECONY). CECONY is a subsidiary of Con Edison and, as such, the information in this report about CECONY also applies to Con Edison. As used in this report, the term the "Companies" refers to Con Edison and CECONY. However, CECONY makes no representation as to the information contained in this report relating to Con Edison or the subsidiaries of Con Edison other than itself.

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**Glossary of Terms**

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

**Con Edison Companies**

Con Edison	Consolidated Edison, Inc.
CECONY	Consolidated Edison Company of New York, Inc.
Con Edison Development	Consolidated Edison Development, Inc.
Con Edison Energy	Consolidated Edison Energy, 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 CECONY
The Utilities	CECONY and O&R

**Regulatory Agencies, Government Agencies, and Quasi-governmental Not-for-Profits**

EPA	U.S. Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
IRS	Internal Revenue Service
ISO-NE	ISO New England Inc.
NJBPU	New Jersey Board of Public Utilities
NJDEP	New Jersey Department of Environmental Protection
NYAG	New York State Attorney General
NYISO	New York Independent System Operator
NYPA	New York Power Authority
NYSDEC	New York State Department of Environmental Conservation
NYSERDA	New York State Energy Research and Development Authority
NYSpsc	New York State Public Service Commission
NYSRC	New York State Reliability Council, LLC
PAPUC	Pennsylvania Public Utility Commission
PJM	PJM Interconnection LLC
SEC	U.S. Securities and Exchange Commission

**Accounting**

ABO	Accumulated Benefit Obligation
ASU	Accounting Standards Update
FASB	Financial Accounting Standards Board
LILO	Lease In/Lease Out
OCI	Other Comprehensive Income
SFAS	Statement of Financial Accounting Standards
SSCM	Simplified service cost method
VIE	Variable interest entity

**Environmental**

CO <sub>2</sub>	Carbon dioxide
GHG	Greenhouse gases
MGP Sites	Manufactured gas plant sites
PCBs	Polychlorinated biphenyls
PRP	Potentially responsible party
SO <sub>2</sub>	Sulfur dioxide
Superfund	Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 and similar state statutes

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**Glossary of Terms**

*continued*

**Units of Measure**

dths	Dekatherms
kV	Kilovolts
kWh	Kilowatt-hour
mdths	Thousand dekatherms
MMlbs	Million pounds
MVA	Megavolt amperes
MW	Megawatts or thousand kilowatts
MWH	Megawatt hour

**Other**

AFDC	Allowance for funds used during construction
COSO	Committee of Sponsoring Organizations of the Treadway Commission
EMF	Electric and magnetic fields
ERRP	East River Repowering Project
Fitch	Fitch Ratings
LTIP	Long Term Incentive Plan
Moody's	Moody's Investors Service
S&P	Standard & Poor's Rating Services
VaR	Value-at-Risk

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**Table of Contents****Introduction**

*This introduction contains certain information about Con Edison and its subsidiaries, including, CECONY, and is qualified in its entirety by reference to the more detailed information appearing elsewhere or incorporated by reference in this report.*

Con Edison's mission is to provide energy services to our customers safely, reliably, efficiently, and in an environmentally sound manner; to provide a workplace that allows employees to realize their full potential; to provide a fair return to our investors; and to improve the quality of life in the communities we serve.

Con Edison is a holding company that owns:

CECONY, which delivers electricity, natural gas and steam to customers in New York City and Westchester County;

O&R (together with CECONY referred to as the Utilities), which delivers electricity and natural gas to customers primarily located in southeastern New York, and northern New Jersey and northeastern Pennsylvania; and

Competitive energy businesses, which provide retail and wholesale electricity supply and energy services.

Con Edison anticipates that the Utilities, which are subject to extensive regulation, will continue to provide substantially all of its earnings over the next few years. The Utilities have approved rate plans that are generally designed to cover each company's cost of service, including the capital and other costs of the company's energy delivery systems. The Utilities recover from their full-service customers (generally, on a current basis) the cost the Utilities pay for the energy and charge all of their customers the cost of delivery service.

**Selected Financial Data****Con Edison**

<i>(millions of dollars, except per share amounts)</i>	<b>For the Year Ended December 31,</b>				
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Operating revenues	\$ 11,962	\$ 13,120	\$ 13,583	\$ 13,032	\$ 13,325
Energy costs	6,611	7,225	7,584	6,242	5,732
Operating income	1,628	1,847	1,920	1,899	2,120
Income from continuing operations	751	936	933	879	1,003
Total assets	26,699	28,262	33,498(a)	33,844(a)	36,146(b)
Long-term debt	8,298	7,611	9,232	9,854	10,671
Shareholders' equity	8,217	9,289	9,911	10,462	11,274
<b>Basic earnings per share</b>					
Continuing operations	\$ 2.97	\$ 3.48	\$ 3.37	\$ 3.16	\$ 3.49
<b>Diluted earnings per share</b>					
Continuing operations	\$ 2.96	\$ 3.46	\$ 3.36	\$ 3.14	\$ 3.47
Cash dividends per common share	\$ 2.30	\$ 2.32	\$ 2.34	\$ 2.36	\$ 2.38
<b>Book value per share</b>	\$ 31.11	\$ 33.39	\$ 35.43	\$ 36.82	\$ 37.95
Average common shares outstanding (millions)	249	266	273	275	284
Stock price low	\$ 41.17	\$ 43.10	\$ 34.11	\$ 32.56	\$ 41.52
Stock price high	\$ 49.28	\$ 52.90	\$ 49.30	\$ 46.35	\$ 51.03

(a)

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Reflects a \$1,130 million decrease in 2009 and a \$3,519 million increase in 2008 in regulatory assets for unrecognized pension and other retirement costs. See Notes E and F to the financial statements in Item 8.

- (b) Reflects a \$1,399 million increase in net plant, a \$303 million increase in regulatory assets environmental remediation costs and a \$210 million increase in prepayments. See Liquidity and Capital Resources Other Changes in Assets and Liabilities in Item 7.

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<i>(millions of dollars)</i>	<b>For the Year Ended December 31,</b>				
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Operating revenues	\$ 9,288	\$ 9,885	\$ 10,424	\$ 10,036	<b>\$ 10,573</b>
Energy costs	4,479	4,580	4,844	3,904	<b>3,693</b>
Operating income	1,465	1,669	1,667	1,716	<b>1,922</b>
Net income for common stock	686	844	783	781	<b>893</b>
Total assets	22,816	24,504	30,415(a)	30,461(a)	<b>32,435(b)</b>
Long-term debt	6,925	7,172	8,494	9,038	<b>9,743</b>
Shareholder s equity	7,345	8,299	9,204	9,560	<b>10,136</b>

- (a) Reflects a \$1,076 million decrease in 2009 and a \$3,392 million increase in 2008 in regulatory assets for unrecognized pension and other retirement costs. See Notes E and F to the financial statements in Item 8.
- (b) Reflects a \$1,257 million increase in net plant, a \$241 million increase in regulatory assets environmental remediation costs and a \$125 million increase in accounts receivable from affiliated companies. See Liquidity and Capital Resources Other Changes in Assets and Liabilities in Item 7.

**Significant 2010 Developments**

CECONY delivered 58,693 millions of kWhs of electricity (3.6 percent increase from prior year), 123,972 mdths of gas (0.7 percent decrease from prior year) and 23,030 MMlbs of steam to its customers (0.1 percent increase from prior year). The company s electric and gas rate plans include revenue decoupling mechanisms pursuant to which delivery revenues are not generally affected by changes in delivery volumes from levels assumed in the rate plans. See Results of Operations in Item 7.

CECONY invested \$1,866 million to upgrade and reinforce its energy delivery systems. O&R invested \$135 million in its energy delivery systems. See Capital Requirements and Resources in Item 1.

CECONY s electric, gas and steam rates increased (on an annual basis) \$420.4 million (April 2010), \$47.1 million (October 2010) and \$49.5 million (October 2010), respectively. O&R s electric and gas rates increased (on an annual basis) \$15.6 million and \$9.0 million, respectively (July and November 2010). See Note B to the financial statements in Item 8.

Con Edison issued \$305 million of common stock, in addition to stock issued under its dividend reinvestment and employee stock plans. CECONY issued \$925 million of debentures. O&R issued \$170 million of debentures. See Liquidity and Capital Resources Cash Flows from Financing Activities in Item 7.

**Available Information**

Con Edison and CECONY 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 CECONY) 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 CECONY s is at: <http://www.coned.com>.

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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

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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.

**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 including, but not limited to, those discussed under Risk Factors, in Item 1A.

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**Part I**

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Information in any item 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 Item 1 at the place such term is used the information to which such reference is made.

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### **Item 1: Business**

#### **Overview**

Consolidated Edison, Inc. (Con Edison), incorporated in New York State in 1997, is a holding company which owns all of the outstanding common stock of Consolidated Edison Company of New York, Inc. (CECONY), Orange and Rockland Utilities, Inc. (O&R) and the competitive energy businesses. As used in this report, the term the Companies refers to Con Edison and CECONY.

CECONY's principal business operations are its regulated electric, gas and steam delivery businesses. O&R's principal business operations are its regulated electric and gas delivery businesses. The competitive energy businesses sell electricity to wholesale and retail customers, provide certain energy-related services, and participate in energy infrastructure projects. Con Edison is evaluating additional opportunities to invest in electric and gas-related businesses.

Con Edison's strategy is to provide reliable energy services, maintain public and employee safety, promote energy efficiency, and develop cost-effective ways of performing its business. Con Edison seeks to be a responsible steward of the environment and enhance its relationships with customers, regulators and members of the communities it serves.

#### **CECONY**

##### **Electric**

CECONY provides electric service to approximately 3.3 million customers 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.

##### **Gas**

CECONY delivers gas to approximately 1.1 million customers in Manhattan, the Bronx and parts of Queens and Westchester County.

##### **Steam**

CECONY operates the largest steam distribution system in the United States by producing and delivering more than 23,000 MMlbs of steam annually to approximately 1,760 customers in parts of Manhattan.

#### **O&R**

##### **Electric**

O&R and its utility subsidiaries, Rockland Electric Company (RECO) and Pike County Power & Light Company (Pike) (together referred to herein as O&R) provide electric service to approximately 0.3 million customers in southeastern New York and in adjacent areas of northern New Jersey and northeastern Pennsylvania, an approximately 1,350 square mile service area.



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### **Gas**

O&R delivers gas to over 0.1 million customers in southeastern New York and adjacent areas of northeastern Pennsylvania.

### **Competitive Energy Businesses**

Con Edison pursues competitive energy opportunities through three wholly-owned subsidiaries: Con Edison Solutions, Con Edison Energy and Con Edison Development. These businesses include the sales and related hedging of electricity to wholesale and retail customers, sales of certain energy-related products and services, and participation in energy infrastructure projects. At December 31, 2010, Con Edison's equity investment in its competitive energy businesses was \$337 million and their assets amounted to \$807 million.

In 2008, Con Edison Development and its subsidiary, CED/SCS Newington, LLC, completed the sale of their ownership interests in electricity generating plants with an aggregate capacity of approximately 1,706 MW. See Note U to the financial statements in Item 8.

### **Utility Regulation**

#### **State Utility Regulation**

#### **Regulators**

The Utilities are subject to regulation by the New York State Public Service Commission (NYSPSC), which under the New York Public Service Law, is authorized to set the terms of service and the rates the Utilities charge for providing service in New York. It also approves the issuance of the Utilities' securities. It exercises jurisdiction over the siting of the Utilities' electric transmission lines and approves mergers or other business combinations involving New York utilities. O&R's New Jersey subsidiary, RECO, is subject to similar regulation by the New Jersey Board of Public Utilities (NJBPU). O&R's Pennsylvania subsidiary, Pike, is subject to similar regulation by the Pennsylvania Public Utility Commission (PAPUC). The NYSPSC, together with the NJBPU and the PAPUC, are referred to herein as state utility regulators.

#### **Utility Industry Restructuring In New York**

In the 1990s, the NYSPSC restructured the electric utility industry in the state. In accordance with NYSPSC orders, the Utilities sold all of their electric generating facilities other than those that also produce steam for CECONY's steam business (see Electric Operations' Electric Facilities below) and provided all of their customers the choice to buy electricity or gas from the Utilities or other suppliers (see Electric Operations' Electric Sales and Deliveries and Gas Operations' Gas Sales and Deliveries below).

Following adoption of NYSPSC industry restructuring, there were several utility mergers as a result of which substantially all of the electric and gas delivery service in New York State is now provided by one of three investor-owned utility companies—Con Edison, National Grid plc and Iberdrola, S.A.—or one of two state authorities—New York Power Authority (NYPA) or Long Island Power Authority.

#### **Rate Plans**

Investor-owned utilities in the United States provide service to customers according to the terms of tariffs approved by the appropriate state utility regulator. The tariffs include schedules of rates for service that are designed to permit the utilities to recover from their customers the approved anticipated costs, including capital costs, of providing service to customers as defined by the tariff. The tariffs implement rate plans, that result from rate orders, settlements, or joint proposals developed during rate proceedings. The utilities' earnings depend on the rate levels authorized in the rate plans and their ability to operate their businesses in a manner consistent with their rate plans.

The utilities' rate plans each cover specified periods, but rates determined pursuant to a plan generally continue in effect until a new rate plan is approved by the state utility regulator. In New York, either the utility or the NYSPSC can commence a proceeding for a new rate plan, and a new rate plan filed by the utility will take effect automatically in 11 months unless prior to such time the NYSPSC approves a rate plan.

In each rate proceeding, rates are determined by the state utility regulator following the submission by the utility of testimony and supporting information, which are subject to review by the staff of the regulator. Other parties with an interest in the proceeding can



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also review the utility's proposal and become involved in the rate case. The review process is overseen by an Administrative Law Judge. After an Administrative Law Judge issues a decision, that generally considers the interests of the utility, the regulatory staff, other parties, and legal requisites, the regulator will issue a rate order. The utility and the regulator's staff and interested parties may enter into a settlement agreement or joint proposal prior to the completion of this administrative process, in which case the agreement would be subject to approval of the regulator.

For each rate plan, the revenues needed to provide the utility a return on invested capital is determined by multiplying the utility's forecasted rate base by the utility's pre-tax weighted average cost of capital. In general, rate base is the amount of the utility's net plant, deferred taxes and working capital. The NYSPSC uses a forecast of rate base for the rate year. The weighted average cost of capital is determined based on the forecasted amounts and costs of long-term debt and preferred equity, the forecasted amount of common equity and an allowed return on common equity determined by the state utility regulator. The NYSPSC's current methodology for determining the allowed return on common equity assigns a one-third weight to an estimate determined from a capital asset pricing model applied to a peer group of utility companies and a two-thirds weight to an estimate determined from a dividend discount model using stock prices and dividend forecasts for a peer group of utility companies.

Pursuant to the Utilities' rate plans, there generally can be no change to the charges to customers during the respective terms of the rate plans other than for recovery of the costs incurred for energy supply and specified adjustments provided for in the rate plans.

Common provisions of the Utilities' rate plans may include:

*Recoverable energy cost clauses* that allow the Utilities to recover on a current basis the costs for the energy they supply with no mark-up to their full-service customers.

*Other cost reconciliations* that reconcile pension and other postretirement costs, environmental remediation costs, and certain other costs to amounts reflected in delivery rates for such costs. Utilities generally retain the right to petition for recovery or accounting deferral of extraordinary and material cost increases and provision is sometimes made for the utility to retain a share of cost reductions, for example, property tax refunds.

*Revenue decoupling mechanisms* under which actual energy delivery revenues will be compared, on a periodic basis, with the authorized delivery revenues. The difference is accrued with interest for refund to, or recovery from customers, as applicable.

*Earnings sharing provisions* require the Utilities to defer for customer benefit earnings over specified rates of return on common equity. There is no symmetric mechanism for earnings below specified rates of return on common equity.

*Negative earnings adjustments* for failure to meet certain performance standards relating to service reliability, safety and other matters.

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The following table should be read in conjunction with, and is subject to, the more detailed discussion of the Utilities rate plans in Note B to the financial statements in Item 8 (which information is incorporated by reference herein).

Effective Period	Rate		Amortization To Income of Net Regulatory (Assets) and Liabilities	Authorized Return on Equity (ROE)	ROE Sharing Threshold Earnings Sharing Terms(a)  (Shareholders/ Customers)
	Increases <i>(millions of dollars, except percentages)</i>	Rate Base			
CECONY Electric(b) April 2010					Yr. 1 11.15% - 12.149%: 50/50
March 2013	Yr. 1 \$420.4	Yr. 1 \$14,887			
	Yr. 2 \$420.4	Yr. 2 \$15,987	\$(75)		12.15% - 13.149%: 25/75
	Yr. 3 \$286.9(c)	Yr. 3 \$16,826	over 3 yrs.	10.15%	> 13.149%: 10/90(d)
CECONY Gas(b) October 2010					Yr. 1 10.35% - 11.59%: 40/60
September 2013	Yr. 1 \$47.1	Yr. 1 \$3,027			
	Yr. 2 \$47.9	Yr. 2 \$3,245	\$(53)		11.6% - 12.59%: 25/75
	Yr. 3 \$46.7	Yr. 3 \$3,434	over 3 yrs.	9.6%	> 12.59%: 10/90(e)
CECONY Steam(b) October 2010					Yr. 1 10.35% - 11.59%: 40/60
September 2013	Yr. 1 \$49.5	Yr. 1 \$1,589			
	Yr. 2 \$49.5	Yr. 2 \$1,603	\$(20)		11.6% - 12.59%: 25/75
	Yr. 3 \$17.8(f)	Yr. 3 \$1,613	over 3 yrs.	9.6%	>12.59%:10/90(e)
O&R Electric (NY) July 2008					
June 2011	Yr. 1 \$15.6	Yr. 1 \$504			10.2% - 11.2% - 50/50
	Yr. 2 \$15.6	Yr. 2 \$567	\$(34)		
	Yr. 3 \$ 5.7(g)	Yr. 3 \$597	over 3 yrs.	9.4%	>11.2% - 25/75
O&R Gas (NY) November 2009					11.4% - 12.4% - 50/50
October 2012	Yr. 1 \$9.0	Yr. 1 \$280			
	Yr. 2 \$9.0	Yr. 2 \$296	\$(2)		12.4% - 14% - 35/65
	Yr. 3 \$4.6(h)	Yr. 3 \$309	over 3 yrs.	10.4%	>14% - 10/90

(a) Subject to limitation for cost reconciliations described in Note B to the financial statements in Item 8.

(b) Pursuant to NYSPSC orders, a portion of the company's revenues is being collected subject to refund. See Other Regulatory Matters in Note B to the financial statements in Item 8.

(c) The rate plan provides for a one-time surcharge of \$133.5 million in Year 3.

(d) In Yr. 2 and Yr. 3, 10.65% - 12.149%: 40/60, 12.15% - 13.149%: 25/75, and > 13.15%: 10/90.

- (e) In Yr. 2 and Yr. 3, 10.10% 11.59%; 40/60, 11.60% 12.59%; 25/75, and >12.6%: 10/90.
- (f) The rate plan provides for a one-time surcharge of \$31.7 million in Year 3.
- (g) The rate plan provides for a one-time surcharge of \$9.9 million in Year 3.
- (h) The rate plan provides for a one-time surcharge of \$4.3 million in Year 3.

#### **Liability for Service Interruptions and Other Non-rate Conditions of Service**

The tariff provisions under which CECONY provides electric, gas and steam service limit the company's liability to pay for damages resulting from service interruptions to circumstances resulting from its gross negligence or willful misconduct.

CECONY's tariff for electric service provides for reimbursement to electric customers for spoilage losses resulting from service interruptions in certain circumstances. In general, the company is obligated to reimburse affected residential and commercial customers for food spoilage of up to \$450 and \$9,000, respectively, and reimburse affected residential customers for prescription medicine spoilage losses without limitation on amount per claim. The company's maximum aggregate liability for such reimbursement for an incident is \$15 million. The company is not required to provide reimbursement to electric customers for outages attributable to generation or transmission system facilities or events beyond its control, such as storms, provided the company makes reasonable efforts to restore service as soon as practicable.

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### **Generic Proceedings**

The NYSPSC from time to time conducts generic proceedings to consider issues relating to all electric and gas utilities operating in New York State. Pending proceedings have included those relating to utilities exiting the service of selling electric energy and gas at retail (including an examination of utilities provider of last resort responsibility, the utilities vision for the smart grid, the implementation of energy efficiency and renewable energy programs and consumer protections) and addressing any rate disincentives to the promotion of energy efficiency and distributed generation. The Utilities are typically active participants in such proceedings. The Utilities do not expect that these pending generic proceedings will have a material adverse effect on their financial positions, results of operation or liquidity. In February 2011, the NYSPSC initiated a proceeding to examine the existing mechanisms pursuant to which utilities recover site investigation and remediation costs and possible alternatives. See Environmental Matters CECONY and Environmental Matters O&R, below, and Note G to the financial statements in Item 8.

### **Federal Utility Regulation**

The Federal Energy Regulatory Commission (FERC), among other things, regulates the transmission and wholesale sales of electricity in interstate commerce and the transmission and sale of natural gas for resale in interstate commerce. In addition, the FERC has the authority to impose penalties, which could be substantial, including penalties for the violation of reliability rules. Certain activities of the Utilities and the competitive energy businesses are subject to the jurisdiction of FERC. The Utilities are subject to regulation by the FERC with respect to electric transmission rates and to regulation by the NYSPSC with respect to electric and gas retail commodity sales and local delivery service. As a matter of practice, the NYSPSC has approved delivery service rates that include both distribution and transmission costs.

### **New York Independent System Operator (NYISO)**

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 the Utilities, as an integrated system and administers wholesale markets for electricity in New York State. In addition to operating the state's high voltage grid, the NYISO administers the energy, ancillary services and capacity markets. The New York State Reliability Council (NYSRC) promulgates reliability standards subject to FERC oversight. Pursuant to a requirement that is set annually by the 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 equal to the peak demand of their customers plus the applicable reserve margin. In addition, the NYISO has determined that entities that serve customers in New York City must have enough capacity that is electrically located in New York City to cover a substantial percentage (currently 80 percent; 81 percent effective May 2011) of the peak demands of their New York City customers. These requirements apply both to regulated utilities such as CECONY and O&R for the customers they supply under regulated tariffs and to companies such as Con Edison Solutions that supply customers on market terms. RECO, O&R's New Jersey subsidiary, provides electric service in an area that has a different independent system operator PJM Interconnection LLC (PJM).

### **Competition**

Competition from suppliers of oil and other sources of energy, including distributed generation (such as solar, fuel cells and micro-turbines), may provide alternatives for the Utilities delivery customers. See Rate Agreements in Note B and Recoverable Energy Costs in Note A to the financial statements in Item 8.

The Utilities do not consider it reasonably likely that another company would be authorized to provide utility delivery service of electricity, natural gas or steam where the company already provides service. Any such other company would need to obtain NYSPSC consent, satisfy applicable local requirements, install facilities to provide the service, meet applicable services standards, and charge customers comparable taxes and other fees and costs imposed on the service.

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A new delivery company would also be subject to extensive ongoing regulation by the NYSPSC.

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.

### **The Utilities**

#### **CECONY**

CECONY, incorporated in New York State in 1884, is a subsidiary of Con Edison and has no significant subsidiaries of its own. Its principal business segments are its regulated electric, gas and steam businesses.

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 Facilities***

CECONY's capitalized costs for utility plant, net of accumulated depreciation, for distribution facilities were \$12,549 million and \$11,824 million at December 31, 2010 and 2009, respectively. For its transmission facilities, the costs for utility plant, net of accumulated depreciation, were \$2,150 million and \$1,953 million at December 31, 2010 and 2009, respectively, and for its generation facilities, the costs for utility plant, net of accumulated depreciation, were \$396 million and \$392 million, at December 31, 2010 and 2009, respectively.

**Distribution Facilities.** CECONY owns 62 area distribution substations and various distribution facilities located throughout New York City and Westchester County. At December 31, 2010, the company's distribution system had a transformer capacity of 28,997 MVA, with 36,781 miles of overhead distribution lines and 96,324 miles of underground distribution lines. The underground distribution lines represent the single longest underground electric delivery system in the United States. To continue its commitment to upgrade and reinforce its energy delivery infrastructure so that it can continue to safely and reliably meet electric demand, the company added one new substation, Newtown, in Queens in 2010.

**Transmission Facilities.** The company's transmission facilities are located in New York City and Westchester, Orange, Rockland, Putnam and Dutchess counties in New York State. At December 31, 2010, CECONY owned or jointly owned 438 miles of overhead circuits operating at 138, 230, 345 and 500 kV and 740 miles of underground circuits operating at 69, 138 and 345 kV. The company's 38 transmission substations and 62 area stations are supplied by circuits operated at 69 kV and above. In 2011, the company expects to complete a 9 1/2 mile transmission line connecting its Sprainbrook substation in Westchester County with the new Academy substation being constructed in upper Manhattan.

CECONY's transmission facilities interconnect with those of National Grid, Central Hudson Gas & Electric Corporation, O&R, Iberdrola USA, Connecticut Light and Power Company, Long Island Power Authority, NYPA and Public Service Electric and Gas Company.

**Generating Facilities.** CECONY's electric generating facilities consist of plants located in Manhattan with an aggregate capacity of 698 MW. The company expects to have sufficient amounts of gas and fuel oil available in 2011 for use in these facilities.

##### ***Electric Sales and Deliveries***

CECONY delivers electricity to its full service customers who purchase electricity from the company. The company also delivers electricity to its customers who purchase electricity from other suppliers through the company's retail access plan. In addition, the company delivers electricity to state and municipal customers of NYPA and economic development customers of municipal electric agencies.

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The company charges all customers in its service area for the delivery of electricity. The company generally recovers, on a current basis, the cost of the electricity that it buys and then sells to its full-service customers. It does not make any margin or profit on the electricity it sells. Effective April 2008, CECONY's electric revenues became subject to a revenue decoupling mechanism. As a result, its electric delivery revenues are generally not affected by changes in delivery volumes from levels assumed when rates were approved. CECONY's electric sales and deliveries, excluding off-system sales, for the last five years were:

	Year Ended December 31,				
	2006	2007	2008	2009	2010
<b>Electric Energy Delivered (millions of kWh)</b>					
CECONY full service customers	26,101	25,314	24,640	23,483	<b>24,142</b>
Delivery service for retail access customers	19,256	21,532	22,047	21,859	<b>23,098</b>
Delivery service to NYPA customers and others	10,227	10,692	10,918	10,650	<b>10,834</b>
Delivery service for municipal agencies	724	723	718	675	<b>619</b>
<b>Total Deliveries in Franchise Area</b>	<b>56,308</b>	<b>58,261</b>	<b>58,323</b>	<b>56,667</b>	<b>58,693</b>
<b>Electric Energy Delivered (\$ in millions)</b>					
CECONY full service customers	\$ 5,108	\$ 5,158	\$ 5,569	\$ 5,040	<b>\$ 5,546</b>
Delivery service for retail access customers	1,040	1,334	1,507	1,855	<b>2,123</b>
Delivery service to NYPA customers and others	276	309	378	423	<b>516</b>
Delivery service for municipal agencies	17	17	20	&nb	