

CONSOLIDATED EDISON INC  
 Form 10-Q  
 August 03, 2006  
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**Form 10-Q**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934  
**For the quarterly period ended JUNE 30, 2006**

OR

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

**Commission**

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

Indicate by check mark whether each 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, and (2) has been subject to such filing requirements for the past 90 days. Yes  No  (See Filing Format on next page)

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

|                        |   |  |   |
|------------------------|---|--|---|
| Con Edison             | Large accelerated filer <input checked="" type="checkbox"/> | Accelerated filer <input type="checkbox"/> | Non-accelerated filer <input type="checkbox"/>            |
| Con Edison of New York | Large accelerated filer <input type="checkbox"/>            | Accelerated filer <input type="checkbox"/> | Non-accelerated filer <input checked="" type="checkbox"/> |

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

Con Edison Yes  No

Con Edison of New York Yes  No

As of the close of business on July 31, 2006 Con Edison had outstanding 246,466,627 Common Shares (\$.10 par value). Con Edison owns all of the outstanding common equity of Con Edison of New York.

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**Filing Format**

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

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**GLOSSARY OF TERMS**

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

**Con Edison Companies**

|                           |   |
|---------------------------|---|
| Con Edison                | Consolidated Edison, Inc.                     |
| Con Edison Communications | Con Edison Communications, LLC                |
| Con Edison Development    | Consolidated Edison Development, Inc.         |
| Con Edison Energy         | Consolidated Edison Energy, Inc.              |
| Con Edison of New York    | Consolidated Edison Company of New York, Inc. |
| Con Edison Solutions      | Consolidated Edison Solutions, Inc.           |
| O&R                       | Orange and Rockland Utilities, Inc.           |
| Pike                      | Pike County Light & Power Company             |
| RECO                      | Rockland Electric Company                     |
| The Companies             | Con Edison and Con Edison of New York         |
| The Utilities             | Con Edison of New York and O&R                |

**Regulatory and State Agencies**

|         |  |
|---------|--|
| DEC     | New York State Department of Environmental Conservation  |
| ECAR    | East Central Area Reliability Council                    |
| 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                     |
| NYISO   | New York Independent System Operator                     |
| NYPA    | New York Power Authority                                 |
| NYSERDA | New York State Energy Research and Development Authority |
| 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 <sub>2</sub> | Carbon dioxide   |
| COSO            | Committee of Sponsoring Organizations of the Treadway Commission       |
| DIG             | Derivatives Implementation Group                                       |
| District Court  | The United States District Court for the Southern District of New York |
| dths            | Dekatherms   |
| EITF            | Emerging Issues Task Force   |
| EMF             | Electric and magnetic fields   |
| ERRP            | East River Repowering Project  |
| FASB            | Financial Accounting Standards Board                                   |
| FIN             | FASB Interpretation No.  |

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**Other**

|                          |   |
|--------------------------|---|
| First Quarter Form 10-Q  | The Companies' combined Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006             |
| Fitch                    | Fitch Ratings   |
| Form 10-K                | The Companies' combined Annual Report on Form 10-K for the year ended December 31, 2005                         |
| FSP                      | FASB Staff Position   |
| GHG                      | Greenhouse gases  |
| kV                       | Kilovolts   |
| kWh                      | Kilowatt-hour   |
| LILLO                    | 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   |
| NYAG                     | New York Attorney General   |
| NUGs                     | Non-utility generators  |
| OCI                      | Other Comprehensive Income  |
| PCBs                     | Polychlorinated biphenyls   |
| PPA                      | Power purchase agreement  |
| PRP                      | Potentially responsible party   |
| RCN                      | RCN Corporation   |
| S&P                      | Standard & Poor's Rating Services   |
| SFAS                     | Statement of Financial Accounting Standards   |
| SO <sub>2</sub>          | Sulfur dioxide  |
| SSCM                     | Simplified service cost method  |
| Second Quarter Form 10-Q | The Companies' combined Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006              |
| Superfund                | Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 and similar state statutes |
| VaR                      | Value-at-Risk   |
| VIE                      | Variable interest entity  |

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## Consolidated Edison, Inc.

**CONSOLIDATED BALANCE SHEET**

(UNAUDITED)

|  | <i>June 30, 2006</i>         | <i>December 31, 2005</i> |
|--|------------------------------|--------------------------|
|  | <i>(Millions of Dollars)</i> |                          |
| <b>ASSETS</b>  |                              |                          |
| UTILITY PLANT, AT ORIGINAL COST  |                              |                          |
| Electric   | \$ 14,088                    | \$ 13,586                |
| Gas  | 3,133                        | 3,044                    |
| Steam  | 1,662                        | 1,624                    |
| General  | 1,585                        | 1,541                    |
| TOTAL  | 20,468                       | 19,795                   |
| Less: Accumulated depreciation   | 4,513                        | 4,355                    |
| Net  | 15,955                       | 15,440                   |
| Construction work in progress  | 915                          | 771                      |
| NET UTILITY PLANT  | 16,870                       | 16,211                   |
| NON-UTILITY PLANT  |                              |                          |
| Unregulated generating assets, less accumulated depreciation of \$115 and \$102 in 2006 and 2005, respectively             | 797                          | 810                      |
| Non-utility property, less accumulated depreciation of \$34 and \$31 in 2006 and 2005, respectively                        | 35                           | 38                       |
| Non-utility property held for sale   |                              | 52                       |
| Construction work in progress  | 1                            | 1                        |
| NET PLANT  | 17,703                       | 17,112                   |
| CURRENT ASSETS   |                              |                          |
| Cash and temporary cash investments  | 63                           | 81                       |
| Restricted cash  | 18                           | 15                       |
| Accounts receivable - customers, less allowance for uncollectible accounts of \$40 and \$39 in 2006 and 2005, respectively | 678                          | 1,025                    |
| Accrued unbilled revenue   | 111                          | 116                      |
| Other receivables, less allowance for uncollectible accounts of \$5 and \$6 in 2006 and 2005, respectively                 | 388                          | 350                      |
| Fuel oil, at average cost  | 60                           | 47                       |
| Gas in storage, at average cost  | 205                          | 248                      |
| Materials and supplies, at average cost  | 138                          | 130                      |
| Prepayments  | 148                          | 434                      |
| Fair value of derivative assets  | 107                          | 331                      |
| Recoverable energy costs   | 200                          | 221                      |
| Current assets held for sale   |                              | 8                        |
| Deferred derivative losses   | 77                           | 9                        |
| Other current assets   | 217                          | 147                      |
| TOTAL CURRENT ASSETS   | 2,410                        | 3,162                    |
| INVESTMENTS  | 269                          | 265                      |
| DEFERRED CHARGES, REGULATORY ASSETS AND NONCURRENT ASSETS  |                              |                          |
| Goodwill   | 406                          | 406                      |
| Intangible assets, less accumulated amortization of \$29 and \$24 in 2006 and 2005, respectively                           | 85                           | 90                       |
| Prepaid pension costs  | 1,437                        | 1,474                    |
| Regulatory assets  | 2,066                        | 2,017                    |

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|   |           |    |        |
|---|-----------|----|--------|
| Other deferred charges and noncurrent assets                    | 278       |    | 324    |
| TOTAL DEFERRED CHARGES, REGULATORY ASSETS AND NONCURRENT ASSETS | 4,272     |    | 4,311  |
| TOTAL ASSETS  | \$ 24,654 | \$ | 24,850 |

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

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**Table of Contents****Consolidated Edison, Inc.****CONSOLIDATED BALANCE SHEET****(UNAUDITED)**

|  | <i>June 30, 2006</i>         | <i>December 31, 2005</i> |
|--|------------------------------|--------------------------|
|  | <i>(Millions of Dollars)</i> |                          |
| <b>CAPITALIZATION AND LIABILITIES</b>                                      |                              |                          |
| <b>CAPITALIZATION</b>  |                              |                          |
| Common shareholders' equity (See Statement of Common Shareholders' Equity) | \$ 7,375                     | \$ 7,310                 |
| Preferred stock of subsidiary  | 213                          | 213                      |
| Long-term debt   | 8,063                        | 7,398                    |
| <b>TOTAL CAPITALIZATION</b>  | <b>15,651</b>                | <b>14,921</b>            |
| <b>MINORITY INTERESTS</b>  | <b>42</b>                    | <b>42</b>                |
| <b>NONCURRENT LIABILITIES</b>  |                              |                          |
| Obligations under capital leases   | 28                           | 30                       |
| Provision for injuries and damages   | 166                          | 167                      |
| Pensions and retiree benefits  | 284                          | 223                      |
| Superfund and other environmental costs                                    | 264                          | 238                      |
| Asset retirement obligations   | 97                           | 94                       |
| Noncurrent liabilities held for sale                                       |                              | 9                        |
| Other noncurrent liabilities   | 104                          | 64                       |
| <b>TOTAL NONCURRENT LIABILITIES</b>  | <b>943</b>                   | <b>825</b>               |
| <b>CURRENT LIABILITIES</b>   |                              |                          |
| Long-term debt due within one year   | 44                           | 22                       |
| Notes payable  | 352                          | 755                      |
| Accounts payable   | 963                          | 1,236                    |
| Customer deposits  | 224                          | 229                      |
| Accrued taxes  | 31                           | 94                       |
| Accrued interest   | 125                          | 102                      |
| Accrued wages  | 85                           | 77                       |
| Fair value of derivative liabilities                                       | 260                          | 133                      |
| Deferred derivative gains  | 14                           | 224                      |
| Deferred income taxes - recoverable energy costs                           | 82                           | 90                       |
| Current liabilities held for sale  |                              | 12                       |
| Other current liabilities  | 258                          | 349                      |
| <b>TOTAL CURRENT LIABILITIES</b>   | <b>2,438</b>                 | <b>3,323</b>             |
| <b>DEFERRED CREDITS AND REGULATORY LIABILITIES</b>                         |                              |                          |
| Deferred income taxes and investment tax credits                           | 3,726                        | 3,644                    |
| Regulatory liabilities   | 1,831                        | 2,062                    |
| Other deferred credits   | 23                           | 33                       |
| <b>TOTAL DEFERRED CREDITS AND REGULATORY LIABILITIES</b>                   | <b>5,580</b>                 | <b>5,739</b>             |
| <b>TOTAL CAPITALIZATION AND LIABILITIES</b>                                | <b>\$ 24,654</b>             | <b>\$ 24,850</b>         |

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

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## Consolidated Edison, Inc.

**CONSOLIDATED INCOME STATEMENT****(UNAUDITED)**

|   | <i>For the Three Months<br/>Ended June 30,</i> |                 | <i>For the Six Months<br/>Ended June 30,</i> |                 |
|---|--|-----------------|--|-----------------|
|   | <i>2006</i>                                    | <i>2005</i>     | <i>2006</i>                                  | <i>2005</i>     |
|   | <i>(Millions of Dollars/Except Share Data)</i> |                 |  |                 |
| <b>OPERATING REVENUES</b>   |  |                 |  |                 |
| Electric  | \$ 1,666                                       | \$ 1,640        | \$ 3,425                                     | \$ 3,144        |
| Gas   | 349  | 354             | 1,192  | 1,082           |
| Steam   | 106  | 96              | 381  | 363             |
| Non-utility   | 434  | 305             | 874  | 597             |
| <b>TOTAL OPERATING REVENUES</b>                                     | <b>2,555</b>                                   | <b>2,395</b>    | <b>5,872</b>                                 | <b>5,186</b>    |
| <b>OPERATING EXPENSES</b>   |  |                 |  |                 |
| Purchased power   | 1,019  | 958             | 2,203  | 1,888           |
| Fuel  | 145  | 139             | 400  | 331             |
| Gas purchased for resale  | 189  | 201             | 745  | 653             |
| Other operations and maintenance                                    | 437  | 405             | 877  | 819             |
| Depreciation and amortization                                       | 153  | 146             | 305  | 287             |
| Taxes, other than income taxes                                      | 299  | 281             | 617  | 551             |
| Income taxes  | 65   | 39              | 169  | 149             |
| <b>TOTAL OPERATING EXPENSES</b>                                     | <b>2,307</b>                                   | <b>2,169</b>    | <b>5,316</b>                                 | <b>4,678</b>    |
| <b>OPERATING INCOME</b>   | <b>248</b>                                     | <b>226</b>      | <b>556</b>                                   | <b>508</b>      |
| <b>OTHER INCOME (DEDUCTIONS)</b>                                    |  |                 |  |                 |
| Investment and other income   | 8  | 11              | 20   | 17              |
| Allowance for equity funds used during construction                 | 1  |                 | 2  | 8               |
| Preferred stock dividend requirements of subsidiary                 | (3)  | (3)             | (6)  | (6)             |
| Other deductions  | (4)  | (4)             | (9)  | (10)            |
| Income taxes  | 6  | 2               | (2)  | 6               |
| <b>TOTAL OTHER INCOME (DEDUCTIONS)</b>                              | <b>8</b>                                       | <b>6</b>        | <b>5</b>                                     | <b>15</b>       |
| <b>INTEREST EXPENSE</b>   |  |                 |  |                 |
| Interest on long-term debt  | 119  | 113             | 232  | 219             |
| Other interest  | 12   | 1               | 25   | 10              |
| Allowance for borrowed funds used during construction               | (1)  |                 | (2)  | (6)             |
| <b>NET INTEREST EXPENSE</b>   | <b>130</b>                                     | <b>114</b>      | <b>255</b>                                   | <b>223</b>      |
| <b>INCOME FROM CONTINUING OPERATIONS</b>                            | <b>126</b>                                     | <b>118</b>      | <b>306</b>                                   | <b>300</b>      |
| <b>INCOME FROM DISCONTINUED OPERATIONS (NET OF INCOME TAXES)</b>    | <b>(2)</b>                                     | <b>(3)</b>      | <b>(1)</b>                                   | <b>(3)</b>      |
| <b>NET INCOME</b>   | <b>\$ 124</b>                                  | <b>\$ 115</b>   | <b>\$ 305</b>                                | <b>\$ 297</b>   |
| <b>EARNINGS PER COMMON SHARE - BASIC</b>                            |  |                 |  |                 |
| Continuing operations   | \$ 0.51  | \$ 0.48         | \$ 1.24                                      | \$ 1.23         |
| Discontinued operations   | (0.01)   | (0.01)          |  | (0.01)          |
| <b>Net income</b>   | <b>\$ 0.50</b>                                 | <b>\$ 0.47</b>  | <b>\$ 1.24</b>                               | <b>\$ 1.22</b>  |
| <b>EARNINGS PER COMMON SHARE - DILUTED</b>                          |  |                 |  |                 |
| Continuing operations   | \$ 0.51  | \$ 0.48         | \$ 1.24                                      | \$ 1.23         |
| Discontinued operations   | (0.01)   | (0.01)          |  | (0.01)          |
| <b>Net income</b>   | <b>\$ 0.50</b>                                 | <b>\$ 0.47</b>  | <b>\$ 1.24</b>                               | <b>\$ 1.22</b>  |
| <b>DIVIDENDS DECLARED PER SHARE OF COMMON STOCK</b>                 | <b>\$ 0.575</b>                                | <b>\$ 0.570</b> | <b>\$ 1.150</b>                              | <b>\$ 1.140</b> |
| <b>AVERAGE NUMBER OF SHARES OUTSTANDING - BASIC (IN MILLIONS)</b>   | <b>245.9</b>                                   | <b>243.4</b>    | <b>245.7</b>                                 | <b>243.1</b>    |
| <b>AVERAGE NUMBER OF SHARES OUTSTANDING - DILUTED (IN MILLIONS)</b> | <b>246.7</b>                                   | <b>244.2</b>    | <b>246.7</b>                                 | <b>243.8</b>    |

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

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## Consolidated Edison, Inc.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME****(UNAUDITED)**

|  | <i>For the Three Months<br/>Ended June 30,</i> |             | <i>For the Six Months<br/>Ended June 30,</i> |             |
|--|--|-------------|--|-------------|
|  | <i>2006</i>                                    | <i>2005</i> | <i>2006</i>                                  | <i>2005</i> |
|  | <i>(Millions of Dollars)</i>                   |             |  |             |
| NET INCOME   | \$ 124   | \$ 115      | \$ 305                                       | \$ 297      |
| OTHER COMPREHENSIVE INCOME/(LOSS), NET OF TAXES  |  |             |  |             |
| Supplemental pension plan minimum liability adjustments, net of \$0, \$0, \$(3) and \$(2) taxes in 2006 and 2005, respectively                       |  |             | (4)  | (3)         |
| Unrealized gains/(losses) on derivatives qualified as cash flow hedges, net of \$(8), \$(3), \$(40) and \$18 taxes in 2006 and 2005, respectively    | (11)   | (3)         | (57)   | 27          |
| Less: Reclassification adjustment for gains/(losses) included in net income, net of \$(10), \$4, \$(28) and \$7 taxes in 2006 and 2005, respectively | (14)   | 6           | (40)   | 11          |
| TOTAL OTHER COMPREHENSIVE INCOME/(LOSS), NET OF TAXES  | 3  | (9)         | (21)   | 13          |
| COMPREHENSIVE INCOME   | \$ 127   | \$ 106      | \$ 284                                       | \$ 310      |

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

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## Consolidated Edison, Inc.

**CONSOLIDATED STATEMENT OF COMMON SHAREHOLDERS' EQUITY**

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005

(UNAUDITED)

|  | Common Stock |        |                            | Retained Earnings | Treasury Stock |            | Accumulated           |                                   | Total    |
|--|--------------|--------|----------------------------|-------------------|----------------|------------|-----------------------|-----------------------------------|----------|
|  | Shares       | Amount | Additional Paid-In Capital |                   | Shares         | Amount     | Capital Stock Expense | Other Comprehensive Income/(Loss) |          |
| <i>(Millions of Dollars/Except Share Data)</i>                                   |              |        |                            |                   |                |            |                       |                                   |          |
| 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   |              |        |                            | 181               |                |            |                       |                                   | 181      |
| Common stock dividends   |              |        |                            | (138)             |                |            |                       |                                   | (138)    |
| Issuance of common shares -<br>dividend reinvestment and<br>employee stock plans | 476,235      |        | 20                         |                   |                |            |                       |                                   | 20       |
| Other comprehensive income   |              |        |                            |                   |                |            |                       | 22                                | 22       |
| BALANCE AS OF<br>MARCH 31, 2005  | 242,990,418  | \$ 26  | \$ 2,662                   | \$ 5,494          | 23,210,700     | \$ (1,001) | \$ (55)               | \$ 13                             | \$ 7,139 |
| Net income   |              |        |                            | 115               |                |            |                       |                                   | 115      |
| Common stock dividends   |              |        |                            | (139)             |                |            |                       |                                   | (139)    |
| Issuance of common shares -<br>dividend reinvestment and<br>employee stock plans | 948,465      | 1      | 43                         | (4)               |                |            |                       |                                   | 40       |
| Other comprehensive loss   |              |        |                            |                   |                |            |                       | (9)                               | (9)      |
| BALANCE AS OF<br>JUNE 30, 2005   | 243,938,883  | \$ 27  | \$ 2,705                   | \$ 5,466          | 23,210,700     | \$ (1,001) | \$ (55)               | \$ 4                              | \$ 7,146 |
| BALANCE AS OF<br>DECEMBER 31, 2005   | 245,286,058  | \$ 27  | \$ 2,768                   | \$ 5,605          | 23,210,700     | \$ (1,001) | \$ (55)               | \$ (34)                           | \$ 7,310 |
| Net income   |              |        |                            | 181               |                |            |                       |                                   | 181      |
| Common stock dividends   |              |        |                            | (141)             |                |            |                       |                                   | (141)    |
| Issuance of common shares -<br>dividend reinvestment and<br>employee stock plans | 456,347      |        | 24                         |                   |                |            |                       |                                   | 24       |
| Stock options  |              |        | (23)                       | 35                |                |            |                       |                                   | 12       |
| Other comprehensive loss   |              |        |                            |                   |                |            |                       | (24)                              | (24)     |
| BALANCE AS OF<br>MARCH 31, 2006  | 245,742,405  | \$ 27  | \$ 2,769                   | \$ 5,680          | 23,210,700     | \$ (1,001) | \$ (55)               | \$ (58)                           | \$ 7,362 |
| Net income   |              |        |                            | 124               |                |            |                       |                                   | 124      |
| Common stock dividends   |              |        |                            | (142)             |                |            |                       |                                   | (142)    |
| Issuance of common shares -<br>dividend reinvestment and<br>employee stock plans | 491,822      |        | 28                         |                   |                |            |                       |                                   | 28       |
| Other comprehensive income   |              |        |                            |                   |                |            |                       | 3                                 | 3        |
| BALANCE AS OF<br>JUNE 30, 2006   | 246,234,227  | \$ 27  | \$ 2,797                   | \$ 5,662          | 23,210,700     | \$ (1,001) | \$ (55)               | \$ (55)                           | \$ 7,375 |

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

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## Consolidated Edison, Inc.

**CONSOLIDATED STATEMENT OF CASH FLOWS**

(UNAUDITED)

|  | <i>For the Six Months<br/>Ended June 30,</i> |              |
|--|--|--------------|
|  | 2006   | 2005         |
|  | <i>(Millions of Dollars)</i>                 |              |
| <b>OPERATING ACTIVITIES</b>  |  |              |
| Net Income   | \$ 305                                       | \$ 297       |
| <b>PRINCIPAL NON-CASH CHARGES/(CREDITS) TO INCOME</b>  |  |              |
| Depreciation and amortization  | 305  | 287          |
| Deferred income taxes  | 11   | (85)         |
| Rate case amortization and accruals  | (137)  | (37)         |
| Common equity component of allowance for funds used during construction  | (2)  | (8)          |
| Prepaid pension costs (net of capitalized amounts)   | 15   | (21)         |
| Other non-cash items (net)   | 122  | 9            |
| <b>CHANGES IN ASSETS AND LIABILITIES</b>   |  |              |
| Accounts receivable - customers, less allowance for uncollectibles   | 347  | 6            |
| Materials and supplies, including fuel oil and gas in storage  | 22   | 39           |
| Other receivables and other current assets   | (104)  | (31)         |
| Prepayments  | 286  | (695)        |
| Recoverable energy costs   | 89   |              |
| Accounts payable   | (273)  | 31           |
| Pensions and retiree benefits  | 61   | 60           |
| Accrued taxes  | (63)   | 153          |
| Accrued interest   | 23   | 6            |
| Deferred charges and other regulatory assets   | (125)  | (127)        |
| Deferred credits and other regulatory liabilities  | (9)  | (58)         |
| Other assets   | 8  | 140          |
| Other liabilities  | (78)   | 72           |
| <b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>  | <b>803</b>                                   | <b>38</b>    |
| <b>INVESTING ACTIVITIES</b>  |  |              |
| Utility construction expenditures (excluding capitalized support costs of \$(22) and \$(5) in 2006 and 2005, respectively) | (872)  | (715)        |
| Cost of removal less salvage   | (83)   | (92)         |
| Non-utility construction expenditures  | (2)  | (9)          |
| Common equity component of allowance for funds used during construction  | 2  | 8            |
| Increase in restricted cash  | (3)  | (126)        |
| Proceeds from sale of properties   | 60   | 534          |
| Proceeds from sale of CEC  | 39   |              |
| <b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>   | <b>(859)</b>                                 | <b>(400)</b> |
| <b>FINANCING ACTIVITIES</b>  |  |              |
| Net payments of short-term debt  | (403)  | 20           |
| Increase in other payable  |  | 734          |
| Retirement of long-term debt   | (109)  | (11)         |
| Issuance of long-term debt   | 800  | 642          |
| Issuance of common stock   | 20   | 41           |
| Debt issuance costs  | (7)  | (15)         |
| Common stock dividends   | (263)  | (257)        |

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|  |        |        |
|--|--------|--------|
| NET CASH FLOWS FROM FINANCING ACTIVITIES         | 38     | 1,154  |
| CASH AND TEMPORARY CASH INVESTMENTS:             |        |        |
| NET CHANGE FOR THE PERIOD                        | (18)   | 792    |
| BALANCE AT BEGINNING OF PERIOD                   | 81     | 26     |
| BALANCE AT END OF PERIOD                         | \$ 63  | \$ 818 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION |        |        |
| Cash paid during the period for:                 |        |        |
| Interest   | \$ 212 | \$ 208 |
| Income taxes                                     | \$ 171 | \$ 60  |

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



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## Consolidated Edison Company of New York, Inc.

**CONSOLIDATED BALANCE SHEET**

(UNAUDITED)

|  | <i>June 30, 2006</i>         | <i>December 31, 2005</i> |
|--|------------------------------|--------------------------|
|  | <i>(Millions of Dollars)</i> |                          |
| <b>ASSETS</b>  |                              |                          |
| UTILITY PLANT, AT ORIGINAL COST  |                              |                          |
| Electric   | \$ 13,215                    | \$ 12,740                |
| Gas  | 2,763                        | 2,683                    |
| Steam  | 1,662                        | 1,624                    |
| General  | 1,461                        | 1,418                    |
| TOTAL  | 19,101                       | 18,465                   |
| Less: Accumulated depreciation   | 4,111                        | 3,960                    |
| Net  | 14,990                       | 14,505                   |
| Construction work in progress  | 879                          | 739                      |
| NET UTILITY PLANT  | 15,869                       | 15,244                   |
| NON-UTILITY PROPERTY   |                              |                          |
| Non-utility property, less accumulated depreciation of \$16 and \$14 in 2006 and 2005, respectively        | 16                           | 19                       |
| NET PLANT  | 15,885                       | 15,263                   |
| CURRENT ASSETS   |                              |                          |
| Cash and temporary cash investments  | 39                           | 61                       |
| Accounts receivable - customers, less allowance for uncollectible accounts of \$35 in 2006 and 2005        | 572                          | 880                      |
| Other receivables, less allowance for uncollectible accounts of \$3 and \$5 in 2006 and 2005, respectively | 232                          | 226                      |
| Accounts receivable from affiliated companies  | 56                           | 34                       |
| Fuel oil, at average cost  | 49                           | 32                       |
| Gas in storage, at average cost  | 155                          | 183                      |
| Materials and supplies, at average cost  | 107                          | 100                      |
| Prepayments  | 67                           | 417                      |
| Fair value of derivative assets  |                              | 175                      |
| Recoverable energy costs   | 185                          | 192                      |
| Deferred derivative losses   | 67                           | 9                        |
| Other current assets   | 93                           | 73                       |
| TOTAL CURRENT ASSETS   | 1,622                        | 2,382                    |
| INVESTMENTS  |                              |                          |
|  | 3                            | 3                        |
| DEFERRED CHARGES, REGULATORY ASSETS AND NONCURRENT ASSETS  |                              |                          |
| Prepaid pension costs  | 1,437                        | 1,474                    |
| Regulatory assets  | 1,818                        | 1,773                    |
| Other deferred charges and noncurrent assets   | 205                          | 251                      |
| TOTAL DEFERRED CHARGES, REGULATORY ASSETS AND NONCURRENT ASSETS  | 3,460                        | 3,498                    |
| TOTAL ASSETS   | \$ 20,970                    | \$ 21,146                |

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



**Table of Contents****Consolidated Edison Company of New York, Inc.****CONSOLIDATED BALANCE SHEET****(UNAUDITED)**

|  | <i>June 30, 2006</i>         | <i>December 31, 2005</i> |
|--|------------------------------|--------------------------|
|  | <i>(Millions of Dollars)</i> |                          |
| <b>CAPITALIZATION AND LIABILITIES</b>                                      |                              |                          |
| <b>CAPITALIZATION</b>  |                              |                          |
| Common shareholder s equity (See Statement of Common Shareholder s Equity) | \$ 6,522                     | \$ 6,437                 |
| Preferred stock  | 213                          | 213                      |
| Long-term debt   | 6,752                        | 6,055                    |
| <b>TOTAL CAPITALIZATION</b>  | <b>13,487</b>                | <b>12,705</b>            |
| <b>NONCURRENT LIABILITIES</b>  |                              |                          |
| Obligations under capital leases   | 28                           | 30                       |
| Provision for injuries and damages   | 161                          | 160                      |
| Pensions and retiree benefits  | 157                          | 122                      |
| Superfund and other environmental costs                                    | 215                          | 186                      |
| Asset retirement obligations   | 96                           | 93                       |
| Other noncurrent liabilities   | 37                           | 32                       |
| <b>TOTAL NONCURRENT LIABILITIES</b>  | <b>694</b>                   | <b>623</b>               |
| <b>CURRENT LIABILITIES</b>   |                              |                          |
| Notes payable  | 197                          | 520                      |
| Accounts payable   | 715                          | 1,015                    |
| Accounts payable to affiliated companies                                   | 27                           | 23                       |
| Customer deposits  | 211                          | 215                      |
| Accrued taxes  | 9                            | 103                      |
| Accrued interest   | 110                          | 87                       |
| Accrued wages  | 80                           | 70                       |
| Fair value of derivative liabilities                                       | 77                           | 9                        |
| Deferred derivative gains  |                              | 170                      |
| Deferred income taxes - recoverable energy costs                           | 76                           | 78                       |
| Other current liabilities  | 225                          | 323                      |
| <b>TOTAL CURRENT LIABILITIES</b>   | <b>1,727</b>                 | <b>2,613</b>             |
| <b>DEFERRED CREDITS AND REGULATORY LIABILITIES</b>                         |                              |                          |
| Deferred income taxes and investment tax credits                           | 3,334                        | 3,258                    |
| Regulatory liabilities   | 1,709                        | 1,924                    |
| Other deferred credits   | 19                           | 23                       |
| <b>TOTAL DEFERRED CREDITS AND REGULATORY LIABILITIES</b>                   | <b>5,062</b>                 | <b>5,205</b>             |
| <b>TOTAL CAPITALIZATION AND LIABILITIES</b>                                | <b>\$ 20,970</b>             | <b>\$ 21,146</b>         |

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

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## Consolidated Edison Company of New York, Inc.

**CONSOLIDATED INCOME STATEMENT****(UNAUDITED)**

|   | <i>For the Three Months<br/>Ended June 30,</i> |               | <i>For the Six Months<br/>Ended June 30,</i> |               |
|---|--|---------------|--|---------------|
|   | <i>2006</i>                                    | <i>2005</i>   | <i>2006</i>                                  | <i>2005</i>   |
|   | <i>(Millions of Dollars)</i>                   |               |  |               |
| <b>OPERATING REVENUES</b>                             |  |               |  |               |
| Electric  | \$ 1,543                                       | \$ 1,517      | \$ 3,176                                     | \$ 2,900      |
| Gas   | 316  | 320           | 1,052  | 951           |
| Steam   | 106  | 96            | 381  | 363           |
| <b>TOTAL OPERATING REVENUES</b>                       | <b>1,965</b>                                   | <b>1,933</b>  | <b>4,609</b>                                 | <b>4,214</b>  |
| <b>OPERATING EXPENSES</b>                             |  |               |  |               |
| Purchased power                                       | 642  | 686           | 1,417  | 1,383         |
| Fuel  | 100  | 92            | 293  | 226           |
| Gas purchased for resale                              | 169  | 177           | 628  | 556           |
| Other operations and maintenance                      | 364  | 342           | 739  | 693           |
| Depreciation and amortization                         | 135  | 127           | 268  | 249           |
| Taxes, other than income taxes                        | 282  | 264           | 581  | 517           |
| Income taxes  | 55   | 36            | 168  | 135           |
| <b>TOTAL OPERATING EXPENSES</b>                       | <b>1,747</b>                                   | <b>1,724</b>  | <b>4,094</b>                                 | <b>3,759</b>  |
| <b>OPERATING INCOME</b>                               | <b>218</b>                                     | <b>209</b>    | <b>515</b>                                   | <b>455</b>    |
| <b>OTHER INCOME (DEDUCTIONS)</b>                      |  |               |  |               |
| Investment and other income                           | 5  | 9             | 15   | 17            |
| Allowance for equity funds used during construction   | 1  |               | 2  | 7             |
| Other deductions                                      | (3)  | (3)           | (7)  | (7)           |
| Income taxes  | 3  | (2)           | 2  | (2)           |
| <b>TOTAL OTHER INCOME (DEDUCTIONS)</b>                | <b>6</b>                                       | <b>4</b>      | <b>12</b>                                    | <b>15</b>     |
| <b>INTEREST EXPENSE</b>                               |  |               |  |               |
| Interest on long-term debt                            | 96   | 89            | 185  | 172           |
| Other interest  | 10   |               | 20   | 7             |
| Allowance for borrowed funds used during construction | (1)  |               | (2)  | (6)           |
| <b>NET INTEREST EXPENSE</b>                           | <b>105</b>                                     | <b>89</b>     | <b>203</b>                                   | <b>173</b>    |
| <b>NET INCOME</b>                                     | <b>119</b>                                     | <b>124</b>    | <b>324</b>                                   | <b>297</b>    |
| PREFERRED STOCK DIVIDEND REQUIREMENTS                 | 3  | 3             | 6  | 6             |
| <b>NET INCOME FOR COMMON STOCK</b>                    | <b>\$ 116</b>                                  | <b>\$ 121</b> | <b>\$ 318</b>                                | <b>\$ 291</b> |

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

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## Consolidated Edison Company of New York, Inc.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME****(UNAUDITED)**

|  | <i>For the Three Months<br/>Ended June 30,</i> |             | <i>For the Six Months<br/>Ended June 30,</i> |             |
|--|--|-------------|--|-------------|
|  | <i>2006</i>                                    | <i>2005</i> | <i>2006</i>                                  | <i>2005</i> |
|  | <i>(Millions of Dollars)</i>                   |             | <i>(Millions of Dollars)</i>                 |             |
| NET INCOME   | \$ 119   | \$ 124      | \$ 324                                       | \$ 297      |
| OTHER COMPREHENSIVE INCOME/(LOSS), NET OF TAXES  |  |             |  |             |
| Supplemental pension plan minimum liability adjustments, net of \$0, \$0, \$(3) and \$(2) taxes in 2006 and 2005, respectively         |  |             | (4)  | (2)         |
| Unrealized losses on derivatives qualified as cash flow hedges, net of \$0, \$(11), \$0 and \$(5) taxes in 2006 and 2005, respectively |  | (16)        | (1)  | (8)         |
| Less: Reclassification adjustment for gains included in net income, net of \$1 taxes in 2005   |  |             |  | 1           |
| TOTAL OTHER COMPREHENSIVE INCOME/(LOSS), NET OF TAXES  |  | (16)        | (5)  | (11)        |
| COMPREHENSIVE INCOME   | \$ 119   | \$ 108      | \$ 319                                       | \$ 286      |

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

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## Consolidated Edison Company of New York, Inc.

**CONSOLIDATED STATEMENT OF COMMON SHAREHOLDERS EQUITY**

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005

(UNAUDITED)

|                                 | <i>Common Stock</i>                            |               | <i>Additional<br/>Paid-In<br/>Capital</i> | <i>Retained<br/>Earnings</i> | <i>Repurchased<br/>Con<br/>Edison<br/>Stock</i> | <i>Capital<br/>Stock<br/>Expense</i> | <i>Accumulated<br/>Other<br/>Comprehensive<br/>Loss</i> | <i>Total</i> |
|---------------------------------|--|---------------|---|------------------------------|---|--------------------------------------|---|--------------|
|                                 | <i>Shares</i>                                  | <i>Amount</i> |   |                              |   |                                      |   |              |
|                                 | <i>(Millions of Dollars/Except Share Data)</i> |               |   |                              |   |                                      |   |              |
| BALANCE AS OF DECEMBER 31, 2004 | 235,488,094                                    | \$ 589        | \$ 1,802                                  | \$ 4,748                     | \$ (962)  | \$ (55)                              | \$ (6)  | \$ 6,116     |
| Net income                      |  |               |   | 173                          |   |                                      |   | 173          |
| Common stock dividend to parent |  |               |   | (111)                        |   |                                      |   | (111)        |
| Cumulative preferred dividends  |  |               |   | (3)                          |   |                                      |   | (3)          |
| Other comprehensive income      |  |               |   |                              |   |                                      | 5   | 5            |
| BALANCE AS OF MARCH 31, 2005    | 235,488,094                                    | \$ 589        | \$ 1,802                                  | \$ 4,807                     | \$ (962)  | \$ (55)                              | \$ (1)  | \$ 6,180     |
| Net income                      |  |               |   | 124                          |   |                                      |   | 124          |
| Common stock dividend to parent |  |               |   | (52)                         |   |                                      |   | (52)         |
| Cumulative preferred dividends  |  |               |   | (3)                          |   |                                      |   | (3)          |
| Other comprehensive loss        |  |               |   |                              |   |                                      | (16)  | (16)         |
| BALANCE AS OF JUNE 30, 2005     | 235,488,094                                    | \$ 589        | \$ 1,802                                  | \$ 4,876                     | \$ (962)  | \$ (55)                              | \$ (17)   | \$ 6,233     |
| BALANCE AS OF DECEMBER 31, 2005 | 235,488,094                                    | \$ 589        | \$ 1,802                                  | \$ 5,074                     | \$ (962)  | \$ (55)                              | \$ (11)   | \$ 6,437     |
| Net income                      |  |               |   | 205                          |   |                                      |   | 205          |
| Common stock dividend to parent |  |               |   | (113)                        |   |                                      |   | (113)        |
| Cumulative preferred dividends  |  |               |   | (3)                          |   |                                      |   | (3)          |
| Other comprehensive loss        |  |               |   |                              |   |                                      | (5)   | (5)          |
| BALANCE AS OF MARCH 31, 2006    | 235,488,094                                    | \$ 589        | \$ 1,802                                  | \$ 5,163                     | \$ (962)  | \$ (55)                              | \$ (16)   | \$ 6,521     |
| Net income                      |  |               |   | 119                          |   |                                      |   | 119          |
| Common stock dividend to parent |  |               |   | (115)                        |   |                                      |   | (115)        |
| Cumulative preferred dividends  |  |               |   | (3)                          |   |                                      |   | (3)          |
| BALANCE AS OF JUNE 30, 2006     | 235,488,094                                    | \$ 589        | \$ 1,802                                  | \$ 5,164                     | \$ (962)  | \$ (55)                              | \$ (16)   | \$ 6,522     |

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

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## Consolidated Edison Company of New York, Inc.

**CONSOLIDATED STATEMENT OF CASH FLOWS**

(UNAUDITED)

|  | <i>For the Six Months<br/>Ended June 30,</i> |        |
|--|--|--------|
|  | 2006   | 2005   |
|  | <i>(Millions of Dollars)</i>                 |        |
| <b>OPERATING ACTIVITIES</b>  |  |        |
| Net income   | \$ 324                                       | \$ 297 |
| <b>PRINCIPAL NON-CASH CHARGES/(CREDITS) TO INCOME</b>  |  |        |
| Depreciation and amortization  | 268  | 249    |
| Deferred income taxes  | 31   | (105)  |
| Rate case amortization and accruals  | (137)  | (37)   |
| Common equity component of allowance for funds used during construction  | (2)  | (7)    |
| Prepaid pension costs (net of capitalized amounts)   | 15   | (21)   |
| Other non-cash items (net)   | (1)  | 4      |
| <b>CHANGES IN ASSETS AND LIABILITIES</b>   |  |        |
| Accounts receivable - customers, less allowance for uncollectibles   | 308  | 33     |
| Materials and supplies, including fuel oil and gas in storage  | 4  | 31     |
| Other receivables and other current assets   | (39)   | (72)   |
| Prepayments  | 350  | (694)  |
| Recoverable energy costs   | 85   | 5      |
| Accounts payable   | (289)  | (4)    |
| Pensions and retiree benefits  | 35   | 37     |
| Accrued taxes  | (94)   | 203    |
| Accrued interest   | 23   | 7      |
| Deferred charges and other regulatory assets   | (125)  | (122)  |
| Deferred credits and other regulatory liabilities  | (4)  | (54)   |
| Other assets   |  | 146    |
| Other liabilities  | (67)   | 71     |
| NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES   | 685  | (33)   |
| <b>INVESTING ACTIVITIES</b>  |  |        |
| Utility construction expenditures (excluding capitalized support costs of \$(22) and \$(5) in 2006 and 2005, respectively) | (823)  | (683)  |
| Cost of removal less salvage   | (82)   | (89)   |
| Common equity component of allowance for funds used during construction  | 2  | 7      |
| Increase in restricted cash  |  | (126)  |
| Proceeds from sale of properties   | 60   | 534    |
| NET CASH FLOWS USED IN INVESTING ACTIVITIES  | (843)  | (357)  |
| <b>FINANCING ACTIVITIES</b>  |  |        |
| Net (payments) proceeds from short-term debt   | (323)  | 22     |
| Increase in other payable  |  | 734    |
| Retirement of long-term debt   | (100)  |        |
| Issuance of long-term debt   | 800  | 600    |
| Debt issuance costs  | (7)  | (15)   |
| Dividend to parent   | (228)  | (163)  |
| Preferred stock dividends  | (6)  | (6)    |
| NET CASH FLOWS FROM FINANCING ACTIVITIES   | 136  | 1,172  |
| <b>CASH AND TEMPORARY CASH INVESTMENTS:</b>  |  |        |

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|  |        |        |
|--|--------|--------|
| NET CHANGE FOR THE PERIOD                        | (22)   | 782    |
| BALANCE AT BEGINNING OF PERIOD                   | 61     | 10     |
| BALANCE AT END OF PERIOD                         | \$ 39  | \$ 792 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION |        |        |
| Cash paid during the period for:                 |        |        |
| Interest   | \$ 161 | \$ 159 |
| Income taxes                                     | \$ 183 | \$ 112 |

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



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**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

**General**

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

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

The separate interim consolidated financial statements of each of the Companies are unaudited but, in the opinion of their respective managements, reflect all adjustments (which include only normally recurring adjustments) necessary for a fair presentation of the results for the interim periods presented. The Companies' separate interim consolidated financial statements should be read together with their separate audited financial statements (including the combined notes thereto) included in Item 8 of their combined Annual Report on Form 10-K for the year ended December 31, 2005 (the Form 10-K) and their separate unaudited financial statements (including the combined notes thereto) included in Part I, Item 1 of their combined Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006 (the First Quarter Form 10-Q). Certain prior period amounts have been reclassified to conform to the current period presentation. Results for interim periods are not necessarily indicative of results for the entire fiscal year.

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

Table of Contents**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) CONTINUED****Note A - Earnings Per Common Share**

Reference is made to Earnings per Common Share in Note A to the financial statements included in Item 8 of the Form 10-K. For the three and six months ended June 30, 2006 and 2005, Con Edison's basic and diluted EPS are calculated as follows:

| <i>(Millions of Dollars, except per share amounts/Shares in Millions)</i>         | <i>For the Three Months<br/>Ended June 30,</i> |             | <i>For the Six Months<br/>Ended June 30,</i> |             |
|---|--|-------------|--|-------------|
|   | <i>2006</i>                                    | <i>2005</i> | <i>2006</i>                                  | <i>2005</i> |
| Income from continuing operations   | \$ 126   | \$ 118      | \$ 306                                       | \$ 300      |
| Loss from discontinued operations, net of tax                                     | (2)  | (3)         | (1)  | (3)         |
| Net income  | 124  | 115         | 305  | 297         |
| Weighted average common shares outstanding - Basic                                | 245.9  | 243.4       | 245.7  | 243.1       |
| Add: Incremental shares attributable to effect of potentially dilutive securities | 0.8  | 0.8         | 1.0  | 0.7         |
| Adjusted weighted average common shares outstanding - Diluted                     | 246.7  | 244.2       | 246.7  | 243.8       |
| <b>EARNINGS PER COMMON SHARE - BASIC</b>  |  |             |  |             |
| Continuing operations   | \$ 0.51  | \$ 0.48     | \$ 1.24                                      | \$ 1.23     |
| Discontinued operations   | (0.01)   | (0.01)      |  | (0.01)      |
| Net income  | \$ 0.50  | \$ 0.47     | \$ 1.24                                      | \$ 1.22     |
| <b>EARNINGS PER COMMON SHARE - DILUTED</b>  |  |             |  |             |
| Continuing operations   | \$ 0.51  | \$ 0.48     | \$ 1.24                                      | \$ 1.23     |
| Discontinued operations   | (0.01)   | (0.01)      |  | (0.01)      |
| Net income  | \$ 0.50  | \$ 0.47     | \$ 1.24                                      | \$ 1.22     |

The computation of diluted earnings per share excludes 2.1 million and 0.9 million Con Edison common shares for the three months ended June 30, 2006 and 2005, respectively, and 1.7 million and 1.8 million common shares for the six months ended June 30, 2006 and 2005, respectively, because the exercise prices on the options exceeds the average closing market price during these periods.

**Note B - Regulatory Matters**

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

**Rate and Restructuring Agreements****Electric**

In June 2006, in accordance with Con Edison of New York's 2005 Electric Rate Agreement, the company settled \$141 million of regulatory liabilities against an equal amount of regulatory assets. The regulatory liabilities settled consisted primarily of Adjusted Earnings (as defined in Note B to the financial statements in Item 8 of the Form 10-K) for the rate year ending March 31, 2006 in excess of

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**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) CONTINUED**

the specified level, refunds received from the New York Independent System Operator, amounts collected from customers in excess of amounts reflected in rates for property taxes and the costs of moving facilities to avoid interfering with government projects (interference costs). The regulatory assets recovered consisted primarily of deferred pension and other postretirement benefit costs, environmental remediation costs and carrying charges for excess transmission and distribution charges.

In June 2006, Rockland Electric Company filed a request with the New Jersey Board of Public Utilities (NJBP) for an increase in the rates it charges for electric service, effective April 1, 2007, of \$13.2 million (7.5 percent). The filing reflected a return on common equity of 11 percent and a common equity ratio of 49.7 percent of capitalization. The NJBP is expected to render a decision in March 2007.

**Gas**

In June 2006, O&R entered into a settlement agreement with the staff of the New York State Public Service Commission (PSC) and other interested parties, which establishes a rate plan that covers the three-year period November 1, 2006 through October 31, 2009. The rate plan, which is subject to PSC approval, 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, a regulatory asset will be established for \$5.5 million of the first year increase which, together with interest, will be billed to customers in the second and third years. The agreement continues the provisions pursuant to which the company recovers its cost of purchasing gas.

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, 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).

The company may earn more in a rate year than the 9.8 percent return on common equity reflected in the rate plan. O&R Adjusted Earnings (as defined below) up to an 11 percent return on common equity (based upon the actual average common equity ratio, subject to a maximum common equity ratio of 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 resulting from the cost reconciliations for the rate year discussed in the preceding paragraph. The company will retain one-half of any remaining O&R Adjusted Earnings between 11 and 12 percent, with the balance being deferred for the benefit of customers. As to any remaining O&R Adjusted Earnings between a 12 and 14

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**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) CONTINUED**

percent return, 65 percent shall be deferred for the benefit of customers and the company can retain the balance. Any remaining O&R Adjusted Earnings above a 14 percent return is to be deferred for the benefit of customers. O&R Adjusted Earnings are the total earnings attributable to the gas business for the three rate years covered by the rate plan. The earnings sharing thresholds will be each reduced by 20 basis points if certain objectives relating to its retail choice program are not met.

The settlement agreement also includes up to \$1 million of potential penalties in the first year of the agreement, increasing up to \$1.2 million in the third year, if the company does not comply with certain requirements regarding safety and customer service.

### Steam

In June 2006, Con Edison of New York entered into a settlement agreement with the staff of the PSC and other interested parties, which covers the two-year period October 1, 2006 through September 30, 2008. The agreement, which is subject to PSC approval, 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. Currently, carrying costs (return on investment, depreciation and property and other taxes) for the East River Repowering Project (ERRP), which at June 30, 2006 had a book value, net of accumulated depreciation, of approximately \$726 million, are allocated between the company's electric and steam businesses, and the steam business share is recovered under the fuel adjustment clause. Beginning October 2007, the steam business share of allowed ERRP carrying charges will be recovered through base rates.

The settlement agreement provides that if the actual amount of pension or other postretirement benefit costs, environmental remediation costs and property taxes or the 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, however, 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).

The company may earn more than the 9.8 percent return on common equity reflected in the settlement agreement. Any Adjusted Earnings (as defined below) for a rate year up to 11 percent (10.8 percent, if certain requirements are not met) are retained by the company. Adjusted Earnings between an 11 and 12 percent (or 10.8 and 11.8 percent, if certain requirements are not met) return on common equity (based upon the actual average common equity ratio, subject to a maximum common equity

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**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) CONTINUED**

ratio of 50 percent of capitalization) are to be used to offset up to one-half of any regulatory asset resulting from the cost reconciliations (discussed in the preceding paragraph) for the rate year. The company can retain one-half of any remaining such Adjusted Earnings, with the balance being deferred for the benefit of customers. Any Adjusted Earnings in excess of a 12 percent return on common equity (11.8 percent, if certain requirements are not met) are to be used to offset any regulatory asset resulting from the cost reconciliations, with the company retaining one-quarter any remaining Adjusted Earnings and the balance being deferred for the benefit of customers. Adjusted Earnings are earnings attributable to the steam business excluding the net revenue effect of steam sales related to colder-than-normal weather and certain other items.

The settlement agreement also includes up to approximately \$4 million of potential penalties if the company does not comply with certain requirements regarding steam business development and certain other matters.

**Table of Contents****NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) CONTINUED****Regulatory Assets and Liabilities**

Regulatory assets and liabilities at June 30, 2006 and December 31, 2005 were comprised of the following items:

| <i>(Millions of Dollars)</i>                                | <i>Con Edison</i> |                 | <i>Con Edison of<br/>New York</i> |                 |
|---|-------------------|-----------------|-----------------------------------|-----------------|
|   | <i>2006</i>       | <i>2005</i>     | <i>2006</i>                       | <i>2005</i>     |
| <b>Regulatory assets</b>                                    |                   |                 |                                   |                 |
| Future federal income tax                                   | \$ 1,000          | \$ 952          | \$ 948                            | \$ 902          |
| Environmental remediation costs                             | 271               | 241             | 212                               | 182             |
| World Trade Center restoration costs                        | 137               | 127             | 137                               | 127             |
| Pension and other postretirement benefits deferrals         | 103               | 96              | 47                                | 46              |
| O&R transition bond charges                                 | 69                | 70              |                                   |                 |
| Revenue taxes   | 51                | 59              | 51                                | 59              |
| Unbilled gas revenue  | 44                | 44              | 44                                | 44              |
| Workers compensation  | 43                | 42              | 43                                | 42              |
| Recoverable energy costs                                    | 42                | 120             | 42                                | 120             |
| Net T&D reconciliation                                      | 30                | 38              | 30                                | 38              |
| Asbestos-related costs                                      | 25                | 25              | 25                                | 25              |
| Other retirement program costs                              | 22                | 24              | 22                                | 24              |
| Electric cost reconciliations                               |                   | (47)            |                                   | (47)            |
| Other   | 229               | 226             | 217                               | 211             |
| <b>Regulatory Assets</b>                                    | <b>2,066</b>      | <b>2,017</b>    | <b>1,818</b>                      | <b>1,773</b>    |
| Deferred derivative losses - current                        | 77                | 9               | 67                                | 9               |
| Recoverable energy costs - current                          | 200               | 221             | 185                               | 192             |
| <b>Total Regulatory Assets</b>                              | <b>\$ 2,343</b>   | <b>\$ 2,247</b> | <b>\$ 2,070</b>                   | <b>\$ 1,974</b> |
| <b>Regulatory liabilities</b>                               |                   |                 |                                   |                 |
| Allowance for cost of removal less salvage                  | \$ 522            | \$ 558          | \$ 464                            | \$ 501          |
| Net electric deferrals                                      | 267               | 288             | 267                               | 288             |
| Gain on sale of First Avenue properties                     | 254               | 256             | 254                               | 256             |
| 2004 electric, gas and steam one-time rate plan charges     | 107               | 121             | 107                               | 121             |
| EPA SO <sub>2</sub> allowance proceeds - electric and steam | 103               | 76              | 103                               | 76              |
| Prior year deferred tax amortization                        | 81                | 81              | 81                                | 81              |
| Transmission congestion contracts                           | 79                | 163             | 79                                | 163             |
| NYS tax law changes   | 44                | 51              | 33                                | 39              |
| Interest on federal income tax refund                       | 41                | 41              | 41                                | 41              |
| O&R refundable energy costs                                 | 30                | 40              |                                   |                 |
| Property tax reconciliation                                 | 22                | 31              | 22                                | 31              |
| Utilities hedging unrealized gains                          | 17                | 75              | 13                                | 59              |
| DC service incentive  | 16                | 17              | 16                                | 17              |
| Gas interference - cost sharing                             | 8                 | 9               | 8                                 | 9               |
| Gas interruptible sales credits                             | 7                 | 8               | 7                                 | 8               |
| Proceeds from sale of W. 24 <sup>th</sup> St. property      | 3                 |                 | 3                                 |                 |
| NYISO reconciliation  |                   | 20              |                                   | 20              |
| Earnings sharing reserve                                    |                   | 7               |                                   | 7               |
| Other   | 230               | 220             | 211                               | 207             |
| <b>Regulatory Liabilities</b>                               | <b>1,831</b>      | <b>2,062</b>    | <b>1,709</b>                      | <b>1,924</b>    |
| Deferred derivative gains - current                         | 14                | 224             |                                   | 170             |
| <b>Total Regulatory Liabilities</b>                         | <b>\$ 1,845</b>   | <b>\$ 2,286</b> | <b>\$ 1,709</b>                   | <b>\$ 2,094</b> |



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**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) CONTINUED**

Net electric deferrals represents the remaining unamortized balance of certain regulatory assets and liabilities of Con Edison of New York that were combined effective April 1, 2005 and are being amortized to income over the period April 2005 through March 2008, in accordance with Con Edison of New York's 2005 Electric Rate Agreement.

**Note C - Long-Term Debt**

Reference is made to Note C to the financial statements in Item 8 of the Form 10-K.

In March 2006, Con Edison of New York issued \$400 million of 5.85 percent, 30-year debentures. In June 2006, the company issued \$400 million of 6.2 percent, 30-year debentures, and refunded in advance of maturity \$100 million of 7.75 percent debentures.

**Note D - Short Term Borrowing and Credit Agreements**

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

In June 2006, Con Edison and the Utilities entered into an Amended and Restated Credit Agreement (the Credit Agreement). The Credit Agreement terminated the three-year credit agreement that was to expire in November 2006 and amended and restated the five-year credit agreement to provide loans and letters of credit, on a revolving credit basis, in an aggregate amount of up to \$2.25 billion, with a maximum of \$1.5 billion available to Con Edison of New York (subject to increase to the full amount if the necessary regulatory approvals are requested and obtained) and a maximum of \$1 billion available to Con Edison. The Credit Agreement, which expires in June 2011, supports the Companies commercial paper programs.

At June 30, 2006, Con Edison had \$352 million of commercial paper outstanding of which \$197 million was outstanding under Con Edison of New York's program. The weighted average interest rate for the six-month period was of 4.65 percent for each of Con Edison and Con Edison of New York. At June 30, 2006, no loans were outstanding under any of the credit agreements and \$14.6 million of letters of credit had been issued.

**Note E - Pension Benefits**

Reference is made to Note E to the financial statements in Item 8 of the Form 10-K.



Table of Contents**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) CONTINUED****Net Periodic Benefit Cost**

The components of the Companies' net periodic benefit costs for the three and six months ended June 30, 2006 and 2005 were as follows:

| <i>(Millions of Dollars)</i>                     | <i>For the Three Months Ended June 30,</i> |             |                               |             |
|--|--|-------------|-------------------------------|-------------|
|  | <i>Con Edison</i>                          |             | <i>Con Edison of New York</i> |             |
|  | <i>2006</i>                                | <i>2005</i> | <i>2006</i>                   | <i>2005</i> |
| Service cost - including administrative expenses | \$ 33                                      | \$ 28       | \$ 31                         | \$ 27       |
| Interest cost on projected benefit obligation    | 115  | 109         | 108                           | 102         |
| Expected return on plan assets                   | (155)                                      | (160)       | (149)                         | (154)       |
| Amortization of net actuarial loss               | 32   | 23          | 26                            | 19          |
| Amortization of prior service cost               | 4  | 4           | 3                             | 3           |
| NET PERIODIC BENEFIT COST                        | \$ 29                                      | \$ 4        | \$ 19                         | \$ (3)      |
| Amortization of regulatory asset*                | 1  | 1           | 1                             | 1           |
| TOTAL PERIODIC BENEFIT COST                      | \$ 30                                      | \$ 5        | \$ 20                         | \$ (2)      |
| Cost capitalized                                 | (9)  | (1)         | (7)                           |             |
| Cost deferred                                    | (28)                                       | (18)        | (24)                          | (14)        |
| Cost credited to operating expenses              | \$ (7)                                     | \$ (14)     | \$ (11)                       | \$ (16)     |

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

| <i>(Millions of Dollars)</i>                     | <i>For the Six Months Ended June 30,</i> |             |                               |             |
|--|--|-------------|-------------------------------|-------------|
|  | <i>Con Edison</i>                        |             | <i>Con Edison of New York</i> |             |
|  | <i>2006</i>                              | <i>2005</i> | <i>2006</i>                   | <i>2005</i> |
| Service cost - including administrative expenses | \$ 67                                    | \$ 59       | \$ 62                         | \$ 54       |
| Interest cost on projected benefit obligation    | 229                                      | 215         | 215                           | 201         |
| Expected return on plan assets                   | (310)                                    | (321)       | (298)                         | (309)       |
| Amortization of net actuarial loss               | 63                                       | 40          | 52                            | 32          |
| Amortization of prior service cost               | 7  | 7           | 6                             | 6           |
| NET PERIODIC BENEFIT COST                        | \$ 56                                    | \$ 2        | \$ 37                         | \$ (16)     |
| Amortization of regulatory asset*                | 2  | 2           | 2                             | 2           |
| TOTAL PERIODIC BENEFIT COST                      | \$ 58                                    | \$ 2        | \$ 39                         | \$ (14)     |
| Cost capitalized                                 | (17)                                     | 1           | (13)                          | 4           |
| Cost deferred                                    | (58)                                     | (23)        | (51)                          | (16)        |
| Cost credited to operating expenses              | \$ (17)                                  | \$ (20)     | \$ (25)                       | \$ (26)     |

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

**Expected Contributions**

Based on current estimates, the Companies are not required under funding regulations and laws to make any contributions to the pension plan during 2006. The Companies' policy however is to fund their accounting cost to the extent such funding is tax deductible. Con Edison and Con Edison of New



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York expect to make discretionary contributions of \$98 million and \$63 million, respectively, to the pension plan during 2006. The Companies 2006 funding level for the non-qualified supplemental pension plans has not been determined.

**Note F Other Postretirement Benefits**

Reference is made to Note F to the financial statements in Item 8 of the Form 10-K.

**Net Periodic Benefit Cost**

The components of the Companies net periodic postretirement benefit costs for the three and six months ended June 30, 2006 and 2005 were as follows:

| <i>(Millions of Dollars)</i>   | <i>For the Three Months Ended June 30,</i> |              |                                   |              |
|--|--|--------------|-----------------------------------|--------------|
|  | <i>Con Edison</i>                          |              | <i>Con Edison of<br/>New York</i> |              |
|  | <i>2006</i>                                | <i>2005</i>  | <i>2006</i>                       | <i>2005</i>  |
| Service cost   | \$ 5                                       | \$ 4         | \$ 4                              | \$ 3         |
| Interest cost on accumulated other postretirement benefit obligation | 22   | 24           | 19                                | 21           |
| Expected return on plan assets                                       | (20)                                       | (21)         | (18)                              | (19)         |
| Amortization of net actuarial loss                                   | 15   | 22           | 12                                | 19           |
| Amortization of prior service cost                                   | (4)  | (4)          | (4)                               | (4)          |
| Amortization of transition obligation                                | 1  | 1            | 1                                 | 1            |
| <b>NET PERIODIC POSTRETIREMENT BENEFIT COST</b>                      | <b>\$ 19</b>                               | <b>\$ 26</b> | <b>\$ 14</b>                      | <b>\$ 21</b> |
| Cost capitalized   | (5)  | (8)          | (4)                               | (7)          |
| Cost deferred  | (9)  | (11)         | (7)                               | (9)          |
| Cost charged to operating expenses                                   | \$ 5                                       | \$ 7         | \$ 3                              | \$ 5         |

| <i>(Millions of Dollars)</i>   | <i>For the Six Months Ended June 30,</i> |              |                                   |              |
|--|--|--------------|-----------------------------------|--------------|
|  | <i>Con Edison</i>                        |              | <i>Con Edison of<br/>New York</i> |              |
|  | <i>2006</i>                              | <i>2005</i>  | <i>2006</i>                       | <i>2005</i>  |
| Service cost   | \$ 9                                     | \$ 7         | \$ 7                              | \$ 5         |
| Interest cost on accumulated other postretirement benefit obligation | 43                                       | 42           | 38                                | 37           |
| Expected return on plan assets                                       | (39)                                     | (40)         | (36)                              | (37)         |
| Amortization of net actuarial loss                                   | 29                                       | 36           | 24                                | 31           |
| Amortization of prior service cost                                   | (7)                                      | (7)          | (7)                               | (7)          |
| Amortization of transition obligation                                | 2  | 2            | 2                                 | 2            |
| <b>NET PERIODIC POSTRETIREMENT BENEFIT COST</b>                      | <b>\$ 37</b>                             | <b>\$ 40</b> | <b>\$ 28</b>                      | <b>\$ 31</b> |
| Cost capitalized   | (11)                                     | (12)         | (9)                               | (10)         |
| Cost deferred  | (15)                                     | (11)         | (12)                              | (8)          |
| Cost charged to operating expenses                                   | \$ 11                                    | \$ 17        | \$ 7                              | \$ 13        |



Table of Contents**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) CONTINUED****Note G Environmental Matters****Superfund Sites**

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

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

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

The accrued liabilities and regulatory assets related to Superfund Sites at June 30, 2006 and December 31, 2005 were as follows:

| <i>(Millions of Dollars)</i> | <i>Con Edison</i> |             | <i>Con Edison of<br/>New York</i> |             |
|------------------------------|-------------------|-------------|-----------------------------------|-------------|
|                              | <i>2006</i>       | <i>2005</i> | <i>2006</i>                       | <i>2005</i> |
| <b>Accrued Liabilities</b>   |                   |             |                                   |             |
| Manufactured gas plant sites | \$ 193            | \$ 173      | \$ 145                            | \$ 121      |
| Other Superfund Sites        | 71                | 65          | 70                                | 65          |
| Total                        | \$ 264            | \$ 238      | \$ 215                            | \$ 186      |
| <b>Regulatory Assets</b>     | \$ 271            | \$ 241      | \$ 212                            | \$ 182      |

Most of the accrued Superfund Site liability relates to sites that have been investigated, in whole or in part. As investigations progress on these and other sites, the Utilities expect that additional liability will

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be accrued, the amount of which is not presently determinable but may be material. Under their current rate agreements, the Utilities are permitted to recover or defer as regulatory assets (for subsequent recovery through rates) certain site investigation and remediation costs.

Environmental remediation payments and insurance recoveries received related to the Superfund sites for the three and six months ended June 30, 2006 and 2005 were as follows:

| <i>(Millions of Dollars)</i>   | <i>For the Three Months Ended June 30,</i> |             |                               |             |
|--------------------------------|--|-------------|-------------------------------|-------------|
|                                | <i>Con Edison</i>                          |             | <i>Con Edison of New York</i> |             |
|                                | <i>2006</i>                                | <i>2005</i> | <i>2006</i>                   | <i>2005</i> |
| Remediation payments           | \$ 17                                      | \$ 11       | \$ 13                         | \$ 10       |
| Insurance recoveries received* | 3  | 2           | 3                             | 2           |

\* Reduced amount deferred for recovery from customers.

| <i>(Millions of Dollars)</i>   | <i>For the Six Months Ended June 30,</i> |             |                               |             |
|--------------------------------|--|-------------|-------------------------------|-------------|
|                                | <i>Con Edison</i>                        |             | <i>Con Edison of New York</i> |             |
|                                | <i>2006</i>                              | <i>2005</i> | <i>2006</i>                   | <i>2005</i> |
| Remediation payments           | \$ 29                                    | \$ 15       | \$ 24                         | \$ 13       |
| Insurance recoveries received* | 3  | 2           | 3                             | 2           |

\* Reduced amount deferred for recovery from customers.

In 2002, Con Edison of New York estimated that for its manufactured gas plant sites, most of which had not been investigated, its aggregate undiscounted potential liability for the investigation and remediation of coal tar and/or other manufactured gas plant-related environmental contaminants could range up to \$1.1 billion. In 2004, O&R estimated that for its manufactured gas plant sites, each of which has been investigated, the aggregate undiscounted potential liability for the remediation of such contaminants could range from approximately \$31 million to \$87 million. These estimates were based on the assumption that there is contamination at each of the sites and additional assumptions regarding the extent of contamination and the type and extent of remediation that may be required. Actual experience may be materially different.

**Asbestos Proceedings**

Suits have been brought in New York State and federal courts against the Utilities and many other defendants, wherein a large number of plaintiffs sought large amounts of compensatory and punitive damages for deaths and injuries allegedly caused by exposure to asbestos at various premises of the Utilities. The suits that have been resolved, which are many, have been resolved without any payment by the Utilities, or for amounts that were not, in the aggregate, material to them. The amounts specified in all the remaining thousands of suits total billions of dollars; however, the Utilities believe

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that these amounts are greatly exaggerated, based on the disposition of previous claims. In 2004, Con Edison of New York estimated that its aggregate undiscounted potential liability for these suits and additional suits that may be brought over the next 15 years is \$25 million. The estimate was based upon a combination of modeling, historical data analysis and risk factor assessment. Actual experience may be materially different.

In addition, certain current and former employees have claimed or are claiming workers' compensation benefits based on alleged disability from exposure to asbestos. Under its current rate agreements, Con Edison of New York is permitted to defer as regulatory assets (for subsequent recovery through rates) liabilities incurred for its asbestos lawsuits and workers' compensation claims.

The accrued liability for asbestos suits and workers' compensation proceedings (including those related to asbestos exposure) and the amounts deferred as regulatory assets for the Companies at June 30, 2006 and December 31, 2005 were as follows:

| <i>(Millions of Dollars)</i>              | <i>Con Edison</i> |             | <i>Con Edison of<br/>New York</i> |             |
|---|-------------------|-------------|-----------------------------------|-------------|
|   | <i>2006</i>       | <i>2005</i> | <i>2006</i>                       | <i>2005</i> |
| Accrued liability - asbestos suits        | \$ 25             | \$ 25       | \$ 25                             | \$ 25       |
| Regulatory assets - asbestos suits        | \$ 25             | \$ 25       | \$ 25                             | \$ 25       |
| Accrued liability - workers' compensation | \$ 118            | \$ 118      | \$ 114                            | \$ 113      |
| Regulatory assets - workers' compensation | \$ 43             | \$ 42       | \$ 43                             | \$ 42       |

**Note H - Other Material Contingencies****Northeast Utilities Litigation**

Con Edison and Northeast Utilities are pursuing claims against each other for damages as a result of the alleged breach of their agreement and plan of merger, dated as of October 13, 1999, as amended and restated as of January 11, 2000. The litigation, entitled Consolidated Edison, Inc. v. Northeast Utilities, was commenced in March 2001 and is pending in the United States District Court for the Southern District of New York. The parties are seeking to recover from each other fees and expenses each incurred in connection with the merger agreement and preparing for the merger. In addition, Con Edison is seeking to recover from Northeast Utilities compensation for synergies that were lost when the merger did not occur, together with the attorney's fees it has incurred in connection with the litigation.

In May 2004, the District Court determined that Northeast Utilities could not sue Con Edison for the claimed difference between the consideration Con Edison would have paid pursuant to the merger agreement and the unaffected trading price of Northeast Utilities' common stock prior to the announcement of the merger agreement (the so-called "lost premium"). In October 2005, the United States Court of Appeals for the Second Circuit held that Northeast Utilities' shareholders could not sue Con Edison for the so-called lost premium.

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**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) CONTINUED**

Con Edison does not expect that the lawsuit will have a material adverse effect on its financial position, results of operations or liquidity.

**Lease In/Lease Out Transactions**

The Internal Revenue Service (IRS) is reviewing transactions in which a taxpayer leases property and then immediately subleases it back to the lessor (termed Lease In/Lease Out, or LILO transactions). In 1997 and 1999, Con Edison Development entered into LILO transactions, involving gas distribution and electric generating facilities in the Netherlands, with a total investment of \$259 million. The transactions were financed with \$93 million of equity and \$166 million of non-recourse, long-term debt secured by the underlying assets. In accordance with Statement of Financial Accounting Standards (SFAS) No. 13, Accounting for Leases, Con Edison is accounting for the two LILO transactions as leveraged leases. Accordingly, the company's investment in these leases, net of non-recourse debt, is carried as a single amount in Con Edison's consolidated balance sheet and income is recognized pursuant to a method that incorporates a level rate of return for those years when net investment in the lease is positive, based upon the after-tax cash flows projected at the inception of the leveraged leases. At June 30, 2006 and December 31, 2005, the company's investment in these leveraged leases (\$229 million and \$225 million, respectively) net of deferred tax liabilities (\$198 million and \$187 million, respectively), amounted to \$31 million and \$38 million, respectively. The estimated tax savings from the two LILO transactions through June 30, 2006, in the aggregate, was \$145 million. On audit of Con Edison's tax return for 1997, the IRS disallowed the tax losses in connection with the 1997 LILO transaction.

Con Edison believes that its LILO's have been correctly reported. In December 2005, Con Edison paid a \$0.3 million income tax deficiency asserted by the IRS for the tax year 1997 with respect to the 1997 LILO transaction. In April 2006, the company paid interest of \$0.2 million associated with the deficiency and commenced an action in the United States Court of Federal Claims, entitled Consolidated Edison Company of New York, Inc. v. United States to obtain a refund of this tax payment and interest. See Note L for a discussion of a new accounting requirement regarding accounting for uncertainty in income taxes.

**Timing of Deduction of Construction-Related Costs**

In August 2005, the IRS issued Revenue Ruling 2005-53 with respect to when federal income tax deductions can be taken for certain construction-related costs. The Companies used the simplified service cost method (SSCM) to determine the extent to which these costs could be deducted in 2002, 2003 and 2004, and as a result reduced their current tax expense by \$263 million, of which \$239 million is attributable to Con Edison of New York. Under Revenue Ruling 2005-53, the Companies may be required to repay, with interest, a portion of their past SSCM tax benefits and to capitalize and



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depreciate over a period of years costs they previously deducted under SSCM. The interest could range from zero to approximately \$55 million. Repayment of the SSCM tax benefits would not otherwise affect the Utilities' results of operations because deferred taxes have been previously provided for the related temporary differences between the SSCM deductions taken for federal income tax purposes and the corresponding amounts charged to expense for financial reporting purposes. See Note L for a discussion of a new accounting requirement regarding accounting for uncertainty in income taxes.

**Lower Manhattan Restoration**

Con Edison of New York estimates that its costs for emergency response to the September 11, 2001 attack on the World Trade Center, and for resulting temporary and subsequent permanent restoration of electric, gas and steam transmission and distribution facilities damaged in the attack will total \$430 million, net of estimated insurance recoveries. Most of the costs, which are capital in nature, have already been incurred. At June 30, 2006, the company had received reimbursement for \$171 million of these costs (\$77 million under insurance policies and \$94 million from the federal government). The company expects to receive additional funds from insurance policies and federal reimbursement.

At June 30, 2006, the company had incurred capital costs of \$209 million and, pursuant to a petition it filed with the PSC in 2001, deferred non-capital costs of \$137 million as a regulatory asset (these amounts are net of reimbursements received). Non-capital costs include primarily the costs of moving facilities to avoid interfering with governmental projects (interference costs) and interest on capital and non-capital costs previously deferred. In Con Edison of New York's current electric and gas rate agreements the company recovers deferred non-capital costs associated with the World Trade Center at a rate of \$14.0 million and \$3.8 million per year, respectively. The company expects the PSC to permit recovery of all costs from customers, net of any federal reimbursement, insurance payments and tax savings.

Suits brought on behalf of several thousand plaintiffs alleged to have been working at the World Trade Center site following the attack are pending in the United States District Court for the Southern District of New York against numerous parties, including the City of New York, Con Edison and Con Edison of New York. The suits generally seek unspecified amounts of damages allegedly resulting from exposure to hazardous substances in connection with emergency response and restoration activities at the site. The Companies believe that their activities were prudent and in compliance with applicable laws. Neither of the Companies, however, is able to predict whether or not any proceedings or other actions relating to the activities will have a material adverse effect on its financial condition, results of operations or liquidity.

Based upon New York City's announced plans for improvement projects in lower Manhattan, the company anticipates that over the next five years it may incur up to \$250 million of costs to move its

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**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) CONTINUED**

facilities to avoid interfering with these projects. The company's rate plans include provisions for the recovery of such costs. See Note B to the financial statements in Item 8 of the Form 10-K.

**Mirant Litigation**

In June 1999, O&R completed the sale of all of its generating assets and Con Edison of New York completed the sale of its two-thirds interest in the Bowline Point generating facility to affiliates (Mirant Affiliates) of Mirant Corporation (Mirant, formerly Southern Energy, Inc.). The total gross proceeds from the sale amounted to \$476 million (\$343 million attributable to O&R and \$133 million attributable to Con Edison of New York). In 2003, Mirant and most of its subsidiaries filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code. In January 2006, Mirant and most of its subsidiaries, but not the Mirant affiliates emerged from bankruptcy.

In May 2006, Mirant, the Mirant Affiliates and another Mirant subsidiary (the Claimants) commenced a proceeding seeking, among other things, to void the sale of the generating assets and recover the amounts paid by the Mirant Affiliates in connection with the sale (which the Claimants allege exceeded the fair value of the assets), together with interest on such amounts. In addition, the Claimants seek damages, and a declaration that the Utilities defend and indemnify the Mirant Affiliates, in connection with certain environmental, operational and other matters relating to some of the assets, the costs of which could be substantial. The Claimants also object to the allowance of claims totaling approximately \$1 million filed by the Utilities in the bankruptcy proceeding.

In addition, Mirant has indicated in certain filings in its bankruptcy proceeding that under certain circumstances it would retire its Lovett generating units in 2007 and 2008. O&R is in the process of upgrading its transmission and distribution system to meet anticipated demand growth, and believes that by 2007 it would be able to meet existing transmission reliability criteria in the event that the Lovett units were shut down.

The Companies are unable to predict whether or not any Mirant related lawsuits or other actions will have a material adverse effect on their financial position, results of operations or liquidity.

**Queens Power Outage**

During a July 2006 heat wave, electric service to a number of customers in Con Edison of New York's Long Island City distribution network in Queens, New York was interrupted. The company is incurring substantial expenses to provide compensation to customers for spoilage of food and other perishables resulting from the outage. The company is also incurring substantial operating and capital costs in connection with the outage. The 2005 Electric Rate Agreement includes provisions for penalties, which could be substantial, relating to service interruptions. The PSC has established a proceeding to comprehensively investigate the outage, including the circumstances surrounding the

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outage, the company's response, communication and restoration efforts, the need for changes to the company's practices and procedures and the costs incurred by the company related to the outage. Other governmental authorities are also reviewing the outage. Lawsuits relating to the outage have been brought against the Companies, including two purported class actions relating to the outage, each of which seeks \$1 billion of compensatory and punitive damages for, among other things, negligence, gross negligence, breach of duty to provide electric service and public nuisance. The Companies are unable to predict whether the outage and any related proceedings will have a material adverse effect on their financial position, results of operation or liquidity.

**Guarantees**

Con Edison and its subsidiaries enter into various agreements providing financial or performance assurance primarily to third parties on behalf of their subsidiaries. In addition, a Con Edison Development subsidiary has issued a guarantee on behalf of an entity in which it has an equity interest. Maximum amounts guaranteed by Con Edison totaled \$1.2 billion and \$1.1 billion at June 30, 2006 and December 31, 2005, respectively.

A summary, by type and term, of Con Edison's total guarantees at June 30, 2006 is as follows:

| <i>Guarantee Type</i>      | <i>0 - 3 years</i>           | <i>4 - 10 years</i> | <i>&gt; 10 years</i> | <i>Total</i>    |
|----------------------------|------------------------------|---------------------|----------------------|-----------------|
|                            | <i>(Millions of Dollars)</i> |                     |                      |                 |
| Commodity transactions     | \$ 818                       | \$ 13               | \$ 258               | \$ 1,089        |
| Affordable housing program |                              | 29                  |                      | 29              |
| Intra-company guarantees   | 35                           |                     | 1                    | 36              |
| Other guarantees           | 32                           | 49                  |                      | 81              |
| <b>TOTAL</b>               | <b>\$ 885</b>                | <b>\$ 91</b>        | <b>\$ 259</b>        | <b>\$ 1,235</b> |

Other guarantees include \$47 million of guarantees issued by Con Edison in connection with the sale of Con Edison Communications to RCN Corporation's (RCN) lease payments for the right to use Con Edison of New York's conduit system in accordance with a tariff approved by the PSC and rent payment obligations under various lease agreements for office buildings. See Note U to the financial statements in Item 8 of the Form 10-K.

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

**Note I Stock-Based Compensation**

The Companies compensate employees and directors with, among other things, stock options, restricted stock units and contributions to a discount stock purchase plan. Shares of Con Edison common stock used to satisfy the Companies' obligations with respect to such compensation may be new (authorized, but unissued) shares, treasury shares or shares purchased on the open market. The shares used in 2006 have been new shares.



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In January 2006, Con Edison adopted SFAS No. 123(R), Share-Based Payment, applying the modified prospective approach. Pursuant to SFAS No. 123(R), the Companies have recognized the cost of stock based compensation as an expense using a fair value measurement method. The following table summarizes stock-based compensation expense recognized by the Companies in the three and six months ended June 30, 2006:

| <i>(Millions of Dollars)</i>       | <i>For the Three Months<br/>Ended June 30, 2006</i> |                       | <i>For the Six Months<br/>Ended June 30, 2006</i> |                       |
|------------------------------------|---|-----------------------|---|-----------------------|
|                                    | <i>Con</i>  | <i>Con<br/>Edison</i> | <i>Con</i>  | <i>Con<br/>Edison</i> |
|                                    | <i>Edison</i>                                       | <i>of New York</i>    | <i>Edison</i>                                     | <i>of New York</i>    |
| Stock options                      | \$ 3  | \$ 2                  | \$ 6  | \$ 5                  |
| Restricted stock units             | 1   | 1                     | 1   | 1                     |
| Performance-based restricted stock | 1   | 1                     | 9   | 8                     |

If the Companies had applied the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure An Amendment of Financial Accounting Standards Board (FASB) Statement No. 123, for the purposes of recognizing expense for stock-based compensation arrangements, the following table illustrates the effect on net income and earnings per share for the three and six months ended June 30, 2005:

| <i>(Millions of Dollars, except per share amounts/Shares in Millions)</i>   | <i>For the Three Months<br/>Ended June 30, 2005</i> |                       | <i>For the Six Months<br/>Ended June 30, 2005</i> |                       |
|---|---|-----------------------|---|-----------------------|
|   | <i>Con</i>  | <i>Con<br/>Edison</i> | <i>Con</i>  | <i>Con<br/>Edison</i> |
|   | <i>Edison*</i>                                      | <i>of New York</i>    | <i>Edison*</i>                                    | <i>of New York</i>    |
| Net income, as reported   | \$ 115  | \$ 124                | \$ 297  | \$ 297                |
| Add: Stock-based compensation expense included in reported net income,<br>net of related tax effects                            | 2   | 1                     | 3   | 2                     |
| Deduct: Total stock-based compensation expense determined under fair<br>value method for all awards, net of related tax effects | 3   | 2                     | 5   | 4                     |
| Pro forma net income  | \$ 114  | \$ 123                | \$ 295  | \$ 295                |
| Earnings per common share:  |   |                       |   |                       |
| Basic - as reported   | \$ 0.47   |                       | \$ 1.22   |                       |
| Basic - pro forma   | \$ 0.47   |                       | \$ 1.21   |                       |
| Diluted - as reported   | \$ 0.47   |                       | \$ 1.22   |                       |
| Diluted - pro forma   | \$ 0.47   |                       | \$ 1.21   |                       |

\* Represents the consolidated financial results of Con Edison and all of its subsidiaries.

**Stock Options**

For a description of the stock options, and the 1996 Stock Option Plan and the Long Term Incentive Plan (LTIP) under which the stock options have been awarded, reference is made to Note N to the financial statements in Item 8 of the Form 10-K. Pursuant to SFAS No. 123(R), the Companies

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generally recognize compensation expense (based on the fair value of stock option awards) over the continuous service period in which the options vest. Awards to employees currently eligible for retirement are expensed in the month awarded.

The outstanding options are equity awards because shares of Con Edison common stock are delivered upon exercise of the options. As equity awards, the fair value of the options is measured at the grant date. The weighted average fair value of options awarded in 2006 is \$3.81. This value was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

|                           |           |
|---------------------------|-----------|
|                           | 2006      |
| Risk-free interest rate   | 4.62%     |
| Expected term             | 4.6 years |
| Expected stock volatility | 13.41%    |
| Expected dividend yield   | 5.06%     |

The weighted average risk-free rate is calculated using the five-year U.S. Treasury securities rate on the grant date of each stock option and then weighted for the number of shares awarded. The expected life of the options is based on historical employee exercise behavior and post-vesting cancellations. The expected stock volatility is calculated using the quarterly closing prices of Con Edison stock over a period of five years, which approximates the expected term of the options. The expected dividend yield is calculated using the annualized dividend divided by the stock price on the date of grant.

A summary of changes in the status of stock options during the three and six months ended June 30, 2006 is as follows:

|                         | <i>Con Edison</i> |  | <i>Con Edison of<br/>New York</i> |  |
|-------------------------|-------------------|--|-----------------------------------|--|
|                         | <i>Options</i>    | <i>Weighted<br/>Average<br/>Exercise<br/>Price</i> | <i>Options</i>                    | <i>Weighted<br/>Average<br/>Exercise<br/>Price</i> |
| Outstanding at 12/31/05 | 7,867,151         | \$ 41.913  | 6,697,401                         | \$ 42.000  |
| Granted                 | 804,000           | 46.880   | 699,000                           | 46.880   |
| Exercised               | (67,500)          | 37.560   | (60,800)                          | 37.404   |
| Forfeited               | (20,900)          | 42.691   | (5,000)                           | 44.688   |
| Outstanding at 3/31/06  | 8,582,751         | \$ 42.412  | 7,330,601                         | \$ 42.503  |
| Granted                 | 859,900           | 43.500   | 711,700                           | 43.500   |
| Exercised               | (64,725)          | 35.935   | (55,725)                          | 35.538   |
| Forfeited               | (19,000)          | 44.353   | (13,000)                          | 44.765   |
| Outstanding at 6/30/06  | 9,358,926         | \$ 42.553  | 7,973,576                         | \$ 42.637  |

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The weighted average exercise price of options awarded in 2006 was \$45.13. The change in the fair value of all outstanding options from their grant dates to June 30, 2006 (aggregate intrinsic value) was \$18 million for Con Edison. The aggregate intrinsic value of options exercised in the three months ended June 30, 2006 was \$1 million and the cash received by Con Edison for payment of the exercise price was \$3 million. The weighted average remaining contractual life of options outstanding is six years as of June 30, 2006.

The following table summarizes stock options outstanding at June 30, 2006 for each plan year for the Companies:

| <i>Plan Year</i> | <i>Remaining Contractual Life</i> | <i>Options Outstanding</i> | <i>Con Edison</i>                      |                            | <i>Con Edison of New York</i> |  |                            |
|------------------|-----------------------------------|----------------------------|--|----------------------------|-------------------------------|--|----------------------------|
|                  |                                   |                            | <i>Weighted Average Exercise Price</i> | <i>Options Exercisable</i> | <i>Options Outstanding</i>    | <i>Weighted Average Exercise Price</i> | <i>Options Exercisable</i> |
| 2006             | 10                                | 1,660,400                  | 45.137                                 |                            | 1,407,200                     | 45.179                                 |                            |
| 2005             | 9                                 | 1,277,550                  | 42.733                                 |                            | 1,030,250                     | 42.717                                 |                            |
| 2004             | 8                                 | 1,292,250                  | 43.766                                 |                            | 1,047,700                     | 43.764                                 |                            |
| 2003             | 7                                 | 1,542,175                  | 39.679                                 | 1,542,175                  | 1,286,175                     | 39.738                                 | 1,286,175                  |
| 2002             | 6                                 | 1,259,250                  | 42.510                                 | 1,259,250                  | 1,084,250                     | 42.510                                 | 1,084,250                  |
| 2001             | 5                                 | 757,850                    | 37.750                                 | 757,850                    | 644,350                       | 37.750                                 | 644,350                    |
| 2000             | 4                                 | 234,100                    | 32.500                                 | 234,100                    | 185,100                       | 32.500                                 | 185,100                    |
| 1999             | 3                                 | 897,150                    | 47.938                                 | 897,150                    | 855,350                       | 47.938                                 | 855,350                    |
| 1998             | 2                                 | 397,800                    | 42.563                                 | 397,800                    | 392,800                       | 42.563                                 | 392,800                    |
| 1997             | 1                                 | 40,401                     | 31.500                                 | 40,401                     | 40,401                        | 31.500                                 | 40,401                     |
| Total            |                                   | 9,358,926                  |  | 5,128,726                  | 7,973,576                     |  | 4,488,426                  |

The total expense to be recognized in future periods for unvested stock options outstanding as of June 30, 2006 is \$7 million for Con Edison, including \$5 million for Con Edison of New York.

**Restricted Stock Units**

For a description of the restricted stock units, reference is made to Note N to the financial statements in Item 8 of the Form 10-K. In certain cases, dividend equivalents are paid on the restricted stock units. In the three months ended June 30, 2006, restricted stock unit awards under the LTIP were made as follows: (i) annual awards to officers under restricted stock unit agreements that provide for adjustment of the number of units (as described in Note N to the financial statements in Item 8 of the Form 10-K, performance-based restricted stock units or PBRS) and (ii) under the directors' deferred compensation plan. No other awards of restricted stock units were made in 2006.

In accordance with SFAS No. 123(R), for outstanding restricted stock awards other than PBRS or awards under the directors' deferred compensation plan, the Companies have accrued a liability based on the market value of a common share on the grant date and are recognizing compensation expense

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over the vesting period. The weighted average vesting period for outstanding awards is two years and is based on the employees' continuous service to Con Edison; the latest period ends April 2009. Prior to vesting, the awards are subject to forfeiture in whole or in part under certain circumstances. The awards are liability awards because each restricted stock unit represents the right to receive, upon vesting, one share of Con Edison common stock, the cash value of a share or a combination thereof. As such, prior to vesting, changes in the fair value of the units are reflected in net income. For the six-month period ended June 30, 2006, there were 212,500 and 171,700 shares outstanding for Con Edison and Con Edison of New York, respectively. The weighted average fair value as of the grant date of the outstanding shares is \$36.59 and \$36.31 for Con Edison and Con Edison of New York, respectively. The total expense to be recognized by the Companies in future periods for unvested awards outstanding as of June 30, 2006 is \$1 million.

For PBRS that are subject to adjustment based on Con Edison's total shareholder return relative to the Standard and Poor's Electric Utilities Index during a specified performance period (the TSR portion), the Companies use a Monte Carlo simulation model to estimate the fair value of the awards. The fair value is recomputed each reporting period as of the earlier of the reporting date and the vesting date. For PBRS that are subject to adjustment based on determinations made in connection with the Companies' annual bonus plans (the EIP portion), the fair value of the awards is determined using the market price on the date of grant. PBRS awards are liability awards because each PBRS represents the right to receive, upon vesting, one share of Con Edison common stock, the cash value of a share or a combination thereof. As such, changes in the fair value of the PBRS are reflected in net income. The following table illustrates the assumptions used to calculate the fair value of the awards:

|                              | 2006               |
|------------------------------|--------------------|
| Risk-free interest rate      | 5.14 to 5.38%      |
| Expected term                | 3 years            |
| Expected volatility          | 13.56%             |
| Expected quarterly dividends | \$ 0.575 to \$0.59 |

The risk-free rate is based on the U.S. Treasury zero-coupon yield curve on the date of grant. The expected term of the PBRS is three years, which equals the vesting period. The Companies do not expect significant forfeitures to occur. The expected volatility is calculated using daily closing stock prices over a period of three years, which approximates the expected term of the awards. Expected annual escalation of dividends is based on historical trends.



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A summary of changes in the status of the PBRS TSR portion during the three months ended June 30, 2006 is as follows:

|                        | <i>Con Edison</i> |   | <i>Con Edison of<br/>New York</i> |   |
|------------------------|-------------------|---|-----------------------------------|---|
|                        | <i>Units</i>      | <i>Weighted<br/>Average<br/>Fair<br/>Value*</i> | <i>Units</i>                      | <i>Weighted<br/>Average<br/>Fair<br/>Value*</i> |
| Non-vested at 12/31/05 | 206,275           | \$ 31.489                                       | 171,950                           | \$ 31.581                                       |
| Granted                | 99,300            | 43.830  | 87,400                            | 43.830  |
| Vested and Exercised   | (156,450)         | 46.477  | (144,475)                         | 46.455  |
| Forfeited              |                   |   |                                   |   |
| Non-vested at 3/31/06  | 149,125           | \$ 29.252                                       | 114,875                           | \$ 29.530                                       |
| Granted                |                   |   |                                   |   |
| Vested and Exercised   |                   |   |                                   |   |
| Forfeited              |                   |   |                                   |   |
| Non-vested at 6/30/06  | 149,125           | \$ 31.190                                       | 114,875                           | \$ 44.440                                       |

\* Fair value is determined using the Monte Carlo simulation described above.

A summary of changes in the status of the PBRS EIP portion during the three months ended June 30, 2006 is as follows:

|                        | <i>Con Edison</i> |                                       | <i>Con Edison of<br/>New York</i> |                                       |
|------------------------|-------------------|---------------------------------------|-----------------------------------|---------------------------------------|
|                        | <i>Units</i>      | <i>Weighted<br/>Average<br/>Price</i> | <i>Units</i>                      | <i>Weighted<br/>Average<br/>Price</i> |
| Non-vested at 12/31/05 | 206,275           | \$ 43.297                             | 171,950                           | \$ 43.300                             |
| Granted                | 99,300            | 46.880                                | 87,400                            | 46.880                                |
| Vested and Exercised   | (156,450)         | 46.477                                | (144,475)                         | 46.455                                |
| Forfeited              |                   |                                       |                                   |                                       |
| Non-vested at 3/31/06  | 149,125           | \$ 43.500                             | 114,875                           | \$ 43.500                             |
| Granted                |                   |                                       |                                   |                                       |
| Vested and Exercised   |                   |                                       |                                   |                                       |
| Forfeited              |                   |                                       |                                   |                                       |
| Non-vested at 6/30/06  | 149,125           | \$ 44.440                             | 114,875                           | \$ 44.440                             |

The total expense to be recognized by the Companies in future periods for unvested PBRS outstanding as of June 30, 2006 is \$5 million (including \$4 million for Con Edison of New York).

For a description of the Non-Officer Director Deferred Compensation plan, reference is made to Note N to the financial statements in Item 8 of the Form 10-K. Restricted stock units issued under the



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directors' deferred compensation plan are considered equity awards, because they may only be settled in shares. Directors immediately vest in units issued to them. The fair value of the units is determined using the closing price of Con Edison's common stock on the business day immediately preceding the date of issue. In the three and six months ended June 30, 2006, approximately 19,650 and 20,650 units were issued, respectively.

**Stock Purchase Plan**

For a description of the Stock Purchase Plan, reference is made to Note N to the financial statements in Item 8 of the Form 10-K. Participants in the plan immediately vest in shares purchased by them under the plan. The fair value of the shares of Con Edison common stock purchased under the plan was calculated using the average of the high and low composite sale prices at which shares were traded at the New York Stock Exchange on the trading day immediately preceding such purchase dates. In the three and six months ended June 30, 2006, 162,533 and 312,117 shares were purchased under the Stock Purchase Plan at a weighted average price of \$44.06 and \$45.07 per share, respectively.

**Note J - Financial Information By Business Segment**

Reference is made to Note O to the financial statements in Item 8 of the Form 10-K.

The financial data for the business segments are as follows:

| <i>(Millions of Dollars)</i>         | <i>For the Three Months Ended June 30,</i> |                 |                               |             |                                      |               |                         |               |
|--------------------------------------|--|-----------------|-------------------------------|-------------|--------------------------------------|---------------|-------------------------|---------------|
|                                      | <i>Operating Revenues</i>                  |                 | <i>Inter-segment revenues</i> |             | <i>Depreciation and amortization</i> |               | <i>Operating Income</i> |               |
|                                      | <i>2006</i>                                | <i>2005</i>     | <i>2006</i>                   | <i>2005</i> | <i>2006</i>                          | <i>2005</i>   | <i>2006</i>             | <i>2005</i>   |
| <b>Con Edison of New York</b>        |  |                 |                               |             |                                      |               |                         |               |
| Electric                             | \$ 1,543                                   | \$ 1,517        | \$ 2                          | \$ 2        | \$ 103                               | \$ 97         | \$ 180                  | \$ 180        |
| Gas                                  | 316  | 320             | 1                             | 1           | 20                                   | 19            | 30                      | 32            |
| Steam                                | 106  | 96              | 19                            | 18          | 12                                   | 11            | 8                       | (3)           |
| Consolidation adjustments            |  |                 | (22)                          | (21)        |                                      |               |                         |               |
| <b>Total Con Edison of New York</b>  | <b>\$ 1,965</b>                            | <b>\$ 1,933</b> | <b>\$</b>                     | <b>\$</b>   | <b>\$ 135</b>                        | <b>\$ 127</b> | <b>\$ 218</b>           | <b>\$ 209</b> |
| <b>O&amp;R</b>                       |  |                 |                               |             |                                      |               |                         |               |
| Electric                             | \$ 123                                     | \$ 123          | \$                            | \$          | \$ 6                                 | \$ 5          | \$ 9                    | \$ 11         |
| Gas                                  | 34   | 34              |                               |             | 3                                    | 3             |                         |               |
| <b>Total O&amp;R</b>                 | <b>\$ 157</b>                              | <b>\$ 157</b>   | <b>\$</b>                     | <b>\$</b>   | <b>\$ 9</b>                          | <b>\$ 8</b>   | <b>\$ 9</b>             | <b>\$ 11</b>  |
| <b>Competitive energy businesses</b> | <b>\$ 434</b>                              | <b>\$ 305</b>   | <b>\$ 18</b>                  | <b>\$</b>   | <b>\$ 10</b>                         | <b>\$ 11</b>  | <b>\$ 20</b>            | <b>\$ 6</b>   |
| Other*                               | (1)  |                 | (18)                          |             | (1)                                  |               | 1                       |               |
| <b>Total Con Edison</b>              | <b>\$ 2,555</b>                            | <b>\$ 2,395</b> | <b>\$</b>                     | <b>\$</b>   | <b>\$ 153</b>                        | <b>\$ 146</b> | <b>\$ 248</b>           | <b>\$ 226</b> |

\* Parent company expenses, primarily interest, and consolidation adjustments. Other does not represent a business segment.

Table of Contents**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) CONTINUED**

| <i>(Millions of Dollars)</i>         | <i>For the Six Months Ended June 30,</i> |                 |                               |             |                                      |               |                         |               |
|--------------------------------------|--|-----------------|-------------------------------|-------------|--------------------------------------|---------------|-------------------------|---------------|
|                                      | <i>Operating Revenues</i>                |                 | <i>Inter-segment revenues</i> |             | <i>Depreciation and amortization</i> |               | <i>Operating Income</i> |               |
|                                      | <i>2006</i>                              | <i>2005</i>     | <i>2006</i>                   | <i>2005</i> | <i>2006</i>                          | <i>2005</i>   | <i>2006</i>             | <i>2005</i>   |
| <b>Con Edison of New York</b>        |  |                 |                               |             |                                      |               |                         |               |
| Electric                             | \$ 3,176                                 | \$ 2,900        | \$ 5                          | \$ 5        | \$ 204                               | \$ 196        | \$ 317                  | \$ 286        |
| Gas                                  | 1,052                                    | 951             | 1                             | 2           | 40                                   | 38            | 129                     | 124           |
| Steam                                | 381                                      | 363             | 38                            | 19          | 24                                   | 15            | 69                      | 45            |
| Consolidation adjustments            |  |                 | (44)                          | (26)        |                                      |               |                         |               |
| <b>Total Con Edison of New York</b>  | <b>\$ 4,609</b>                          | <b>\$ 4,214</b> | <b>\$</b>                     | <b>\$</b>   | <b>\$ 268</b>                        | <b>\$ 249</b> | <b>\$ 515</b>           | <b>\$ 455</b> |
| <b>O&amp;R</b>                       |  |                 |                               |             |                                      |               |                         |               |
| Electric                             | \$ 249                                   | \$ 244          | \$                            | \$          | \$ 12                                | \$ 12         | \$ 18                   | \$ 23         |
| Gas                                  | 140                                      | 131             |                               |             | 5                                    | 5             | 10                      | 11            |
| <b>Total O&amp;R</b>                 | <b>\$ 389</b>                            | <b>\$ 375</b>   | <b>\$</b>                     | <b>\$</b>   | <b>\$ 17</b>                         | <b>\$ 17</b>  | <b>\$ 28</b>            | <b>\$ 34</b>  |
| <b>Competitive energy businesses</b> | <b>\$ 874</b>                            | <b>\$ 597</b>   | <b>\$ 34</b>                  | <b>\$</b>   | <b>\$ 20</b>                         | <b>\$ 20</b>  | <b>\$ 10</b>            | <b>\$ 20</b>  |
| Other*                               |  |                 | (34)                          |             |                                      | 1             | 3                       | (1)           |
| <b>Total Con Edison</b>              | <b>\$ 5,872</b>                          | <b>\$ 5,186</b> | <b>\$</b>                     | <b>\$</b>   | <b>\$ 305</b>                        | <b>\$ 287</b> | <b>\$ 556</b>           | <b>\$ 508</b> |

\* Parent company expenses, primarily interest, and consolidation adjustments. Other does not represent a business segment.

**Note K - Derivative Instruments and Hedging Activities**

Reference is made to Note P to the financial statements in Item 8 of the Form 10-K.

**Energy Price Hedging**

Con Edison's subsidiaries hedge market price fluctuations associated with physical purchases and sales of electricity, natural gas, and steam by using derivative instruments including futures, forwards, basis swaps, transmission congestion contracts and financial transmission rights contracts. The fair values of these hedges at June 30, 2006 and December 31, 2005 were as follows:

| <i>(Millions of Dollars)</i>           | <i>Con Edison</i> |             | <i>Con Edison of New York</i> |             |
|--|-------------------|-------------|-------------------------------|-------------|
|  | <i>2006</i>       | <i>2005</i> | <i>2006</i>                   | <i>2005</i> |
| Fair value of net assets/(liabilities) | \$ (158)          | \$ 280      | \$ (60)                       | \$ 223      |

**Credit Exposure**

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. 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.

Con Edison and Con Edison of New York had \$372 million and \$61 million credit exposure in connection with energy supply and hedging activities, net of collateral and reserves, at June 30, 2006,



Table of Contents**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) CONTINUED**

respectively. Of these amounts, \$264 million and \$3 million was with investment-grade counterparties and \$108 million and \$58 million was primarily with commodity exchange brokers, respectively.

**Cash Flow Hedges**

Con Edison's subsidiaries designate a portion of derivative instruments as cash flow hedges under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities.

The following table presents selected information related to these cash flow hedges included in accumulated OCI at June 30, 2006:

| <i>(Term in Months/Millions of Dollars)</i> | <i>Maximum Term</i> |                               | <i>Accumulated Other Comprehensive Income/ (Loss) Net of Tax</i> |                               | <i>Portion Expected to be Reclassified to Earnings during the Next 12 Months</i> |                               |
|---|---------------------|-------------------------------|--|-------------------------------|--|-------------------------------|
|   | <i>Con Edison</i>   | <i>Con Edison of New York</i> | <i>Con Edison</i>  | <i>Con Edison of New York</i> | <i>Con Edison</i>  | <i>Con Edison of New York</i> |
| Energy Price Hedges                         | 35                  | 8                             | \$ (31)  | \$ -                          | \$ (29)  | \$                            |

The actual amounts that will be reclassified to earnings may vary from the expected amounts presented above as a result of changes in market prices. The effect of reclassification from accumulated OCI to earnings will generally be offset by the recognition of the hedged transaction in earnings.

The unrealized net gains and losses relating to the hedge ineffectiveness of these cash flow hedges that were recognized in net earnings for the three and six months ended June 30, 2006 and 2005 were immaterial to the results of operations of the Companies for those periods.

**Other Derivatives**

The Companies enter into certain derivative instruments that do not qualify or are not designated as hedges under SFAS No. 133. However, management believes these instruments represent economic hedges that mitigate exposure to fluctuations in commodity prices. The Utilities are permitted by their respective regulators to reflect in rates all reasonably incurred gains and losses on these instruments. See Recoverable Energy Costs in Note A to the financial statements in Item 8 of the Form 10-K. Con Edison's competitive energy businesses record unrealized gains and losses on these derivative contracts in earnings in the reporting period in which they occur. For the three and six months ended June 30, 2006, Con Edison recorded in non-utility operating revenues unrealized pre-tax losses of \$8 million and \$59 million, respectively. These losses reflect primarily lower prices on natural gas contracts employed as economic hedges used to support wholesale and retail obligations that did not qualify for cash flow hedge accounting. For the three and six months ended June 30, 2005, unrealized gains and losses on these contracts were immaterial to the results of operations of Con Edison for those periods.



**Table of Contents****NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) CONTINUED****Interest Rate Hedging**

Con Edison's subsidiaries use interest rate swaps to manage interest rate exposure associated with debt. The fair values of these interest rate swaps at June 30, 2006 and December 31, 2005 were as follows:

| <i>(Millions of Dollars)</i>      | <i>Con Edison</i> |             | <i>Con Edison of<br/>New York</i> |             |
|-----------------------------------|-------------------|-------------|-----------------------------------|-------------|
|                                   | <i>2006</i>       | <i>2005</i> | <i>2006</i>                       | <i>2005</i> |
| Fair value of interest rate swaps | \$ (19)           | \$ (18)     | \$ (7)                            | \$ (3)      |

**Fair Value Hedges**

Con Edison of New York's swap (related to its \$225 million of Series 2001A tax-exempt debt) is designated as a fair value hedge, which qualifies for short-cut hedge accounting under SFAS No. 133. Under this method, changes in fair value of the swap are recorded directly against the carrying value of the hedged bonds and have no impact on earnings.

**Cash Flow Hedges**

Con Edison Development's and O&R's swaps are designated as cash flow hedges under SFAS No. 133. Any gain or loss on the hedges is recorded in OCI and reclassified to interest expense and included in earnings during the periods in which the hedged interest payments occur. See Interest Rate Hedging in Note P to the financial statements in Item 8 of the Form 10-K for the contractual components of the interest rate swaps accounted for as cash flow hedges.

**Note L - New Financial Accounting Standards**

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

In July 2006, the FASB issued FASB Staff Position (FSP) No. FAS 13-2, Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction. This FSP requires the expected timing of income tax cash flows generated by Con Edison's LILO transactions to be reviewed at least annually. If the expected timing of the cash flows is revised, the rate of return and the allocation of income would be recalculated from the inception of the LILO transactions, and the company would be required to recalculate the accounting effect of the LILO transactions, which would result in a charge to earnings that could have a material adverse effect on the company's results of operations. See Note H.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109. This interpretation clarifies the accounting for uncertain tax positions in accordance with FASB Statement No. 109 and becomes effective for fiscal





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**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) CONTINUED**

years beginning after December 15, 2006. Under the interpretation, an enterprise would not be allowed to recognize, in its financial statements, the benefit of a tax position unless that position is more likely than not be sustained on audit by taxing authorities based solely on the technical merits of the position. The IRS has completed its audits of the Companies' federal income tax returns through 1997. The Companies' federal income tax returns for subsequent years, which the IRS is reviewing, reflect certain tax positions with which the IRS does not or may not agree, including tax positions with respect to Con Edison's leveraged lease transactions and the deduction of certain construction related costs. See Note H. The Companies are unable to predict at this time whether the Interpretation would have a material impact on their financial position, results of operations or liquidity.

In June 2006, the FASB issued Emerging Issues Task Force (EITF) No. 06-3, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That is, Gross versus Net Presentation). This Issue concerns the income statement presentation of any taxes assessed by a governmental authority on a revenue producing transaction between a seller and a buyer and does not require re-evaluation of existing policies. The Task Force concluded that presentation of such taxes, on a gross or net basis, is a matter of accounting policy and should be disclosed. The adoption of EITF No. 06-3 is not expected to have a material impact on the Companies' financial position, results of operations or liquidity. See Revenues in Note A to the financial statements in Item 8 of the Form 10-K for description of the Companies' presentation of its revenues.

In March 2006, the FASB issued a proposed Statement on Employers' Accounting for Defined Benefit Pension and Other Postretirement Benefits. The proposed Statement requires an employer that sponsors one or more defined benefit pension or other postretirement plans to recognize an asset or liability for the overfunded or underfunded status of the plan. For a pension plan, the asset or liability is the difference between the fair value of the plan's assets and the projected benefit obligation. For any other postretirement benefit plan, the asset or liability is the difference between the fair value of the plan's assets and the accumulated postretirement benefit obligation. Employers must recognize all unrecognized prior service costs and credits and unrecognized actuarial gains and losses in accumulated other comprehensive income, net of tax. Such amounts would be adjusted as they are subsequently recognized as components of net periodic benefit cost or income pursuant to the current recognition and amortization provisions of FASB Statements No. 87, Employers' Accounting for Pensions, and No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions. In general, under the Utilities' rate plans, the difference between expenses recognized under these accounting standards and the rate allowance is deferred. For a description of the Companies' pension plan and other postretirement benefit plans, see Notes E and F to the financial statements in Item 8 of the Form 10-K. The Companies have not yet determined the impact of the proposed Statement on their financial position, results of operations or liquidity, but it could be material.

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**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) CONTINUED**

**Note M - Con Edison Communications (CEC)**

Reference is made to Note U to the financial statements in Item 8 of the Form 10-K.

In March 2006, Con Edison completed the sale of CEC to RCN and received approximately \$39 million in cash, subject to certain adjustments. The sale resulted in a loss from discontinued operations of approximately \$1 million for the six months ended June 30, 2006.

**Table of Contents****ITEM 2. 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 (the Second Quarter 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). 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.

This MD&A should be read in conjunction with the Second Quarter Financial Statements and the notes thereto and the MD&A in Item 7 of the Companies' combined Annual Report on Form 10-K for the year ended December 31, 2005 (File Nos. 1-14514 and 1-1217, the Form 10-K) and the MD&A in Part I, Item 2 of their combined Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006 (File Nos. 1-14514 and 1-1217, the First Quarter Form 10-Q).

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:

| <i>(Millions of Dollars)</i> | <i>Three Months Ended June 30, 2006</i> |       |                   |       | <i>Six Months Ended June 30, 2006</i> |       |                   |       | <i>At June 30, 2006</i> |      |
|------------------------------|---|-------|-------------------|-------|---------------------------------------|-------|-------------------|-------|-------------------------|------|
|                              | <i>Operating Revenues</i>               |       | <i>Net Income</i> |       | <i>Operating Revenues</i>             |       | <i>Net Income</i> |       | <i>Assets</i>           |      |
| Con Edison of New York       | \$ 1,965                                | 77 %  | \$ 116            | 94 %  | \$ 4,609                              | 78 %  | \$ 318            | 104 % | \$ 20,970               | 85%  |
| O&R                          | 157                                     | 6 %   | 3                 | 2 %   | 389                                   | 7 %   | 16                | 5 %   | 1,511                   | 6%   |
| Total Utilities              | 2,122                                   | 83 %  | 119               | 96 %  | 4,998                                 | 85 %  | 334               | 109 % | 22,481                  | 91%  |
| Con Edison Development (a)   | 200                                     | 8 %   | 10                | 8 %   | 399                                   | 7 %   | (7)               | (2)%  | 1,229                   | 5%   |
| Con Edison Energy (a)        | 1                                       | %     | (2)               | (2)%  | 21                                    | %     | (3)               | (1)%  | 345                     | 1%   |
| Con Edison Solutions (a)     | 268                                     | 10 %  | 4                 | 4 %   | 522                                   | 9 %   | 3                 | 1 %   | 106                     | 1%   |
| Other (b)                    | (36)                                    | (1)%  | (5)               | (4)%  | (68)                                  | (1)%  | (21)              | (7)%  | 493                     | 2%   |
| Total continuing operations  | 2,555                                   | 100 % | 126               | 102 % | 5,872                                 | 100 % | 306               | 100 % | 24,654                  | 100% |
| Discontinued operations (c)  |   | %     | (2)               | (2)%  |                                       | %     | (1)               | %     |                         | %    |
| Total Con Edison             | \$ 2,555                                | 100 % | \$ 124            | 100 % | \$ 5,872                              | 100 % | \$ 305            | 100 % | \$ 24,654               | 100% |

(a) Net income of the Competitive Energy Businesses for the three months and six months ended June 30, 2006 includes \$5 million and \$35 million, respectively, of net after-tax mark-to-market losses.

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

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

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**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's net income for common stock for the three months ended June 30, 2006 was \$124 million or \$0.50 a share compared with earnings of \$115 million or \$0.47 a share for the three months ended June 30, 2005. Net income for common stock for the six months ended June 30, 2006 was \$305 million or \$1.24 a share compared with earnings of \$297 million or \$1.22 a share for the six months ended June 30, 2005. See Results of Operations Summary, below.

In July 2006, electric service to customers of Con Edison of New York was interrupted, including customers in Queens, New York. See Note H to the Second Quarter Financial Statements.

**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 weather, market prices for energy and economic conditions. Demand for electric service peaks during the summer air conditioning season. Demand for gas and steam service peaks during the winter heating season.

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 actual growth in electric peak demand adjusted to summer design weather conditions, as well as forecast growth in peak usage. The Utilities estimate that, under design weather conditions, the 2006 peak electric demand in their respective

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**

**AND RESULTS OF OPERATIONS (COMBINED FOR CON EDISON AND CON EDISON OF**

**NEW YORK) CONTINUED**

service areas will be 13,400 MW for Con Edison of New York and 1,570 MW for O&R. The average annual growth rate of the peak electric demand over the next five years at design conditions is estimated to be approximately 1.5 percent for Con Edison of New York and 2.7 percent for O&R. Design conditions do not include the potential impact of those demand reduction programs that are invoked only in specific circumstances. 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, 2007 and September 30, 2006, respectively. The company has a pending settlement for a new steam rate plan to be effective October 1, 2006. O&R has rate plans for its electric and gas services in New York that extend through October 31, 2006. O&R has a pending settlement for a new gas rate plan to be effective November 1, 2006. In June 2006, O&R's New Jersey subsidiary, Rockland Electric Company, filed a request with the New Jersey Board of Public Utilities for new electric rates, to be effective April 1, 2007. Pursuant to the Utilities' rate plans, charges to customers 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 rate plans generally require the Utilities to share with customers earnings in excess of specified rates of return on equity. Changes in delivery volumes are reflected in operating income (except to the extent that weather-normalization 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.

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 are subject to different risks than the Utilities. See [Risk Factors](#), below. At June 30, 2006, Con Edison's investment in its competitive energy businesses was \$520 million and their assets amounted to \$1.7 billion.

Consolidated Edison Solutions, Inc. (Con Edison Solutions) sells electricity directly to some delivery-service customers of the Utilities and other utilities primarily in the Northeast and Mid-Atlantic

**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**

regions and also offers energy-related services. Con Edison Solutions does not sell electricity to the Utilities. The company sold approximately 5 million megawatt hours of electricity to customers over the six-month period ended June 30, 2006.

Consolidated Edison Development, Inc. (Con Edison Development) owns and operates generating plants and participates in other infrastructure projects. At June 30, 2006, the company owned the equivalent of 1,668 MW of capacity in electric generating facilities of which 203 MW is sold under long-term purchase power agreements and the balance is sold on the wholesale electricity markets.

Consolidated Edison Energy, Inc. (Con Edison Energy) provides energy and capacity to Con Edison Solutions and others and markets the output of plants owned or operated by Con Edison Development. The company also provides energy risk management services to Con Edison Solutions and Con Edison Development and offers these services to others.

The competitive energy businesses intend to focus on increasing their customer base, gross margins and the value of their existing assets.

**DISCONTINUED OPERATIONS**

In March 2006, Con Edison completed the sale of Con Edison Communications, LLC (Con Edison Communications) to RCN Corporation. See Note M to the Second Quarter Financial Statements.

**RESULTS OF OPERATIONS - SUMMARY**

Con Edison's earnings per share (basic and diluted) for the three months ended June 30, 2006 were \$0.50 compared with \$0.47 for the 2005 period. Con Edison's earnings per share (basic and diluted) for the six months ended June 30, 2006 were \$1.24 compared with \$1.22 for the 2005 period.

Net income for the three and six months ended June 30, 2006 and 2005 was as follows:

| <i>(Millions of Dollars)</i>      | <i>Three Months Ended June 30,</i> |             | <i>Six Months Ended June 30,</i> |             |
|-----------------------------------|------------------------------------|-------------|----------------------------------|-------------|
|                                   | <i>2006</i>                        | <i>2005</i> | <i>2006</i>                      | <i>2005</i> |
| Con Edison of New York            | \$ 116                             | \$ 121      | \$ 318                           | \$ 291      |
| O&R                               | 3                                  | 6           | 16                               | 23          |
| Competitive energy businesses (a) | 12                                 | (3)         | (7)                              | (4)         |
| Other (b)                         | (5)                                | (6)         | (21)                             | (10)        |

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|                             |               |               |               |               |
|-----------------------------|---------------|---------------|---------------|---------------|
| Total continuing operations | 126           | 118           | 306           | 300           |
| Discontinued operations (c) | (2)           | (3)           | (1)           | (3)           |
| <b>CON EDISON</b>           | <b>\$ 124</b> | <b>\$ 115</b> | <b>\$ 305</b> | <b>\$ 297</b> |

- (a) Includes \$5 million, \$0, \$35 million and \$1 million of net after-tax mark-to-market losses in the three months ended June 30, 2006 and 2005 and the six months ended June 30, 2006 and 2005, respectively.
- (b) Other consists of inter-company and parent company accounting including interest expense on debt and the related income tax expense. See Results of Operations, below.
- (c) Represents the discontinued operations of Con Edison Communications. See Note M to the Second Quarter 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 the three and six months ended June 30, 2006, as compared with the 2005 periods, reflect growth in weather-adjusted sales, milder winter and spring weather, the Companies' rate plans (including the electric rate plan that took effect in April 2005) and, for Con Edison, the results of the competitive energy businesses including net mark-to-market losses. The following table presents the effect on earnings per share and net income for the three and six months ended June 30, 2006 as compared with the 2005 periods, resulting from these and other major factors:

|   | <i>Three Months Variation</i> |   | <i>Six Months Variation</i>   |   |
|---|-------------------------------|---|-------------------------------|---|
|   | <i>Earnings<br/>per Share</i> | <i>Net Income<br/>(Millions of Dollars)</i> | <i>Earnings<br/>per Share</i> | <i>Net Income<br/>(Millions of Dollars)</i> |
| Con Edison of New York                                    |                               |   |                               |   |
| Sales growth (estimated)                                  | \$ 0.03                       | \$ 7  | \$ 0.06                       | \$ 14                                       |
| Impact of weather in 2006 versus 2005 (estimated)         | (0.04)                        | (10)  | (0.12)                        | (29)  |
| Electric rate plan (estimated)                            | 0.11                          | 29  | 0.42                          | 102   |
| Gas rate plan (estimated)                                 | 0.02                          | 4   | 0.05                          | 11  |
| Steam rate plan (estimated)                               | 0.02                          | 4   | 0.05                          | 13  |
| Higher operations and maintenance expense                 | (0.05)                        | (13)  | (0.09)                        | (21)  |
| Stock-based compensation expense                          |                               | (1)   | (0.02)                        | (6)   |
| Higher depreciation and property taxes                    | (0.06)                        | (14)  | (0.17)                        | (41)  |
| Higher interest charges                                   | (0.04)                        | (10)  | (0.06)                        | (15)  |
| Other (includes effect of dilution in earnings per share) | (0.02)                        | (1)   | (0.03)                        | (1)   |
| Total Con Edison of New York                              | (0.03)                        | (5)   | 0.09                          | 27  |
| Orange and Rockland Utilities                             |                               | (2)   | (0.03)                        | (7)   |
| Competitive energy businesses                             |                               |   |                               |   |
| Earnings excluding mark-to-market losses (net)            | 0.08                          | 20  | 0.13                          | 31  |
| Mark-to-market losses (net)                               | (0.02)                        | (5)   | (0.14)                        | (34)  |
| Other (a)   |                               |   | (0.04)                        | (11)  |
| Discontinued operations                                   |                               | 1   | 0.01                          | 2   |
| Total   | \$ 0.03                       | \$ 9  | \$ 0.02                       | \$ 8  |

(a) Other consists of inter-company and parent company accounting including interest expense on debt and the related income tax expense.

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

**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. The factors include those described under Risk Factors in Item 7 of the Form 10-K.

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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 in Item 7 of the Form 10-K.

**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. See Application of Critical Accounting Policies in Item 7 of the Form 10-K.

**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. See Liquidity and Capital Resources in Item 7 of the Form 10-K. Changes in the Companies' cash and temporary cash investments resulting from operating, investing and financing activities for the six months ended June 30, 2006 and 2005 are summarized as follows:

| <i>(Millions of Dollars)</i>   | <i>Con Edison</i> |             |                 | <i>Con Edison of New York</i> |             |                 |
|--------------------------------|-------------------|-------------|-----------------|-------------------------------|-------------|-----------------|
|                                | <i>2006</i>       | <i>2005</i> | <i>Variance</i> | <i>2006</i>                   | <i>2005</i> | <i>Variance</i> |
| Operating activities           | \$ 803            | \$ 38       | \$ 765          | \$ 685                        | \$ (33)     | \$ 718          |
| Investing activities           | (859)             | (400)       | (459)           | (843)                         | (357)       | (486)           |
| Financing activities           | 38                | 1,154       | (1,116)         | 136                           | 1,172       | (1,036)         |
| Net change                     | \$ (18)           | \$ 792      | \$ (810)        | \$ (22)                       | \$ 782      | \$ (804)        |
| Balance at beginning of period | 81                | 26          | 55              | 61                            | 10          | 51              |
| Balance at end of period       | \$ 63             | \$ 818      | \$ (755)        | \$ 39                         | \$ 792      | \$ (753)        |

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**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 weather and economic conditions. The prices at which the Utilities provide energy to their customers are determined in accordance with their rate plans. 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 plans. See "Recoverable Energy Costs" in Note A to the financial statements in Item 8 of the Form 10-K.

Net cash flows from operating activities for the six months ended June 30, 2006 for Con Edison and Con Edison of New York reflect net income and changes in certain assets and liabilities.

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. For Con Edison of New York, principal non-cash credits include amortizations of certain net regulatory liabilities, including the tax effects, in accordance with its rate plans. See Note B to the Second Quarter Financial Statements.

Net cash flows from operating activities for the six months ended June 30, 2006 for Con Edison and Con Edison of New York were \$765 million and \$718 million higher, respectively, than in the 2005 period. The change reflects primarily the June 30, 2005 prepayment of Con Edison of New York's New York City property taxes. Con Edison of New York achieved a 1.5 percent reduction in its City property taxes for the fiscal year ending June 30, 2006 by prepaying the taxes on June 30, 2005 instead of paying them in semi-annual installments on their due dates (July 1, 2005 and January 1, 2006).

The increase in net cash flows from operating activities in the 2006 period, as compared to the 2005 period, reflect higher energy prices in the last quarter of 2005 that resulted in higher accounts receivable, net of allowance for uncollectibles, and accounts payable at the beginning of the 2006 period and increased collections of receivables from customers and accounts payable payments in the 2006 period.

**Cash Flows Used in Investing Activities**

Net cash flows used in investing activities for Con Edison and Con Edison of New York were \$459 million and \$486 million higher, respectively, for the six months ended June 30, 2006 than in the 2005 period. The results for Con Edison of New York reflect primarily net sale proceeds received in 2006 of \$60 million from the sale of the West 24<sup>th</sup> Street property compared with \$534 million of net sale

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**NEW YORK) CONTINUED**

proceeds received in 2005 for certain properties located on First Avenue in Manhattan. For Con Edison, the change was offset in part 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 decreased \$1,116 million and \$1,036 million in the six months ended June 30, 2006 compared with the 2005 period, respectively.

Cash flows from financing activities reflect the June 30, 2005 \$734 million prepayment of Con Edison of New York's New York City property taxes which was not completed by the City until July 1, 2005. The City did not complete the transaction until July 1, 2005, therefore the company invested these funds overnight in temporary cash investments. The obligation to fund the overnight investment is shown on the Consolidated Statement of Cash Flows as an increase in other payable.

Cash flows from financing activities of the Companies in each of the periods also reflect a reduction in commercial paper balances (included on the consolidated balance sheets as Notes payable) as compared with the balances at the end of the prior year. At June 30, 2006, Con Edison had \$352 million of commercial paper outstanding, of which \$197 million was outstanding under Con Edison of New York's program. The weighted average interest rate for the six-month period was 4.65 percent for Con Edison and Con Edison of New York.

Con Edison's cash flows from financing activities for the six months ended June 30, 2006 and 2005 reflect the issuance of Con Edison common shares through its dividend reinvestment and employee stock plans (2006: 948,169 shares for \$21 million, 2005: 1,424,700 shares for \$41 million). In addition, as a result of the stock plan issuances, cash used to pay common stock dividends was reduced by \$20 million in 2006 and 2005, respectively.

Net cash flows from financing activities during the six months ended June 30, 2006 and 2005 also reflect the following Con Edison of New York transactions:

**2006**

Issued \$400 million 5.85% 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% 30-year debentures.

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

Issued a 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.

Con Edison's net cash flows from financing activities also include O&R's financings. In 2005, O&R issued \$40 million 5.30% 10-year debentures.

External borrowings are a source of liquidity that could be affected by changes in credit ratings, financial performance and capital markets. 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 June 30, 2006, compared with December 31, 2005, that have not impacted the Companies' cash flows.

| <i>(Millions of Dollars)</i>         | <i>Con Edison<br/>2006 vs. 2005<br/>Variance</i> | <i>Con Edison of New York<br/>2006 vs. 2005<br/>Variance</i> |
|--------------------------------------|--|--|
| <b><u>Assets</u></b>                 |  |  |
| Fair value of derivative assets      | \$ (224)   | \$ (175)   |
| Deferred derivative losses           | 68   | 58   |
| <b><u>Liabilities</u></b>            |  |  |
| Deferred derivative gains            | (210)  | (170)  |
| Fair value of derivative liabilities | 127  | 68   |

In the context of decreasing energy market prices in the second quarter of 2006, the Companies' policies for managing their energy purchases resulted in a decrease in the fair value of derivative assets (included in the consolidated balance sheets as a current asset) at June 30, 2006 as compared with year-end 2005. For the Utilities, mark-to-market activity had no effect on net income as the amounts were deferred as regulatory liabilities (deferred derivative 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 increase in the fair value



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of derivative liabilities. 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 for contracts that do not meet the requirements of cash flow hedge accounting or for which such accounting has not been elected.

**Capital Resources**

At June 30 2006, there was no material change in the Companies' capital resources compared with those disclosed under Capital Resources in Item 7 of the Form 10-K, other than as described below.

For each of the Companies, the ratio of earnings to fixed charges (Securities and Exchange Commission basis) for the six months ended June 30, 2006, the 12 months ended December 31, 2005 and the six months ended June 30, 2005 was:

|                           | <i>Earnings to Fixed Charges (Times)</i>          |  |   |
|---------------------------|---|--|---|
|                           | <i>For the Six Months Ended<br/>June 30, 2006</i> | <i>For the Twelve Months Ended<br/>December 31, 2005</i> | <i>For the Six Months Ended<br/>June 30, 2005</i> |
| Con Edison                | 2.7   | 3.1  | 2.8   |
| Con Edison of New<br>York | 3.3   | 3.7  | 3.3   |

For each of the Companies, the common equity ratio at June 30, 2006 and December 31, 2005 was:

|                        | <i>Common Equity Ratio<br/>(Percent of total capitalization)</i> |                          |
|------------------------|--|--------------------------|
|                        | <i>June 30, 2006</i>   | <i>December 31, 2005</i> |
| Con Edison             | 47.1   | 49.0                     |
| Con Edison of New York | 48.4   | 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 the Utilities is rated A1, A and A+, respectively, by Moody's, S&P and Fitch. In May 2006, Moody's announced that it is reviewing its ratings of O&R for possible downgrade. In June 2006, S&P revised its outlook on the Companies to negative from stable. Securities ratings assigned by rating organizations are expressions of opinion and are not

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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.



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**Capital Requirements**

At June 30, 2006, there was no material change in the Companies' capital requirements compared to those discussed under Capital Requirements in Item 7 of the Form 10-K and in Part I, Item 2 of the First Quarter 10-Q.

**Contractual Obligations**

At June 30, 2006, there were no material changes in the Companies' aggregate obligations to make payments pursuant to contracts compared to those discussed under Contractual Obligations in Item 7 of the Form 10-K, other than the issuance of long-term debt described above.

**ELECTRIC POWER REQUIREMENTS**

At June 30, 2006, there was no material change in the Companies' electric power requirements compared to those discussed under Electric Power Requirements in Item 7 of the Form 10-K.

**REGULATORY MATTERS**

At June 30, 2006, there were no material changes in the Companies' regulatory matters compared to those disclosed under Regulatory Matters in Item 7 of the Form 10-K, Rate and Restructuring Agreements in Note B to the financial statements in Item 8 of the Form 10-K and Note B to the financial statements included in Part I, Item 1 of the First Quarter Form 10-Q other than as described in Notes B and H to the Second Quarter Financial Statements and in the following paragraph.

In connection with the proposed steam settlement agreement, which resulted in no changes to Con Edison of New York's base rates (except in the manner in which certain costs are recovered), the company agreed to reduce its rate increase request, among other reasons, to eliminate an equity return on a portion of the company's prepaid pension costs. The company agreed to the reduction only for the proposed steam settlement agreement. If the company agreed to a similar proposal for its electric and gas businesses, annual revenues would be reduced by approximately \$50 million and \$10 million, respectively.

**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. At June 30, 2006, there were no material changes in the Companies' financial and commodity market risks compared to those disclosed under Financial and Commodity Market Risks in Item 7 of the Form 10-K and in Part I, Item 2 of the First Quarter Form 10-Q, other than as described below and in Note K to the Second Quarter Financial Statements.



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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**

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**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 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 \$6 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 K to the Second Quarter 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.

Con Edison estimates that, as of June 30, 2006, each 10 percent change in market prices would result in a change in fair value of \$166 million for the derivative instruments used by the Utilities to hedge purchases of electricity and gas, of which \$142 million is for Con Edison of New York and \$24 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 in Item 8 of the Form 10-K.

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

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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 three months ended June 30, 2006 and 2005, respectively, was as follows:

|  | 2006                         | 2005 |
|--|------------------------------|------|
|  | <i>(Millions of Dollars)</i> |      |
| <b><u>95% Confidence Level, One-Day Holding Period</u></b> |                              |      |
| Average for the period                                     | \$ 3                         | \$ 1 |
| High   | 4                            | 2    |
| Low  | 2                            | 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 or broker'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. The Companies measure credit risk exposure as the fair value of outstanding energy commodity and derivative transactions plus amounts on deposit with commodity exchange brokers and amounts owed from counterparties for settled transactions. Credit risk exposure is reduced by collateral held by the Companies and where the company has a legally enforceable right of setoff by amounts due to counterparties for settled transactions and the fair value of liabilities for outstanding transactions.

The Utilities had \$109 million of credit exposure in connection with energy supply and hedging activities, net of collateral and reserves, at June 30, 2006, of which \$42 million was with investment-grade counterparties and \$67 million was with New York Mercantile Exchange brokers.

Con Edison's competitive energy businesses had \$263 million of credit exposure in connection with energy supply and hedging activities, net of collateral and reserves, at June 30, 2006, of which \$222 million was with investment grade counterparties and \$31 million was with a commodity exchange broker and an independent system operator. The remaining \$10 million was with entities which lacked ratings or whose ratings were not investment grade.

**MATERIAL CONTINGENCIES**

For information concerning potential liabilities arising from the Companies' material contingencies, see Application of Critical Accounting Policies Accounting for Contingencies and Notes G and H to the Second Quarter Financial Statements.



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**RESULTS OF OPERATIONS**

Results of operations reflect, among other things, the Companies' accounting policies (see "Application of Critical Accounting Policies" in Item 7 of the Form 10-K), rate plans that cover the rates the Utilities can charge their customers (see "Regulatory Matters" in Item 7 of the Form 10-K) and demand for utility service. Demand for utility service is affected by weather, economic conditions and other factors.

In general, the Utilities recover on a current basis the fuel 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 in Item 8 of the Form 10-K). 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 three and six months ended June 30, 2006 and 2005 follows. All inter-segment transactions have been eliminated. For additional business segment financial information, see Note J to the Second Quarter Financial Statements.

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

| <i>(Millions of Dollars)</i>   | <i>Con Edison*</i>               |                                  | <i>Con Edison of New York</i>    |                                  | <i>O&amp;R</i>                   |                                  | <i>Competitive Businesses and Other**</i> |                                  |
|--|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|---|----------------------------------|
|  | <i>Increases<br/>(Decreases)</i> | <i>Increases<br/>(Decreases)</i> | <i>Increases<br/>(Decreases)</i> | <i>Increases<br/>(Decreases)</i> | <i>Increases<br/>(Decreases)</i> | <i>Increases<br/>(Decreases)</i> | <i>Increases<br/>(Decreases)</i>          | <i>Increases<br/>(Decreases)</i> |
|  | <i>Amount</i>                    | <i>Percent</i>                   | <i>Amount</i>                    | <i>Percent</i>                   | <i>Amount</i>                    | <i>Percent</i>                   | <i>Amount</i>                             | <i>Percent</i>                   |
| Operating revenues   | \$ 160                           | 6.7%                             | \$ 32                            | 1.7%                             | \$                               | %                                | \$ 128                                    | 42.0%                            |
| Purchased power  | 61                               | 6.4                              | (44)                             | (6.4)                            | 1                                | 1.7                              | 104                                       | 48.8                             |
| Fuel   | 6                                | 4.3                              | 8                                | 8.7                              |                                  |                                  | (2)                                       | (4.3)                            |
| Gas purchased for resale   | (12)                             | (6.0)                            | (8)                              | (4.5)                            | (2)                              | (9.5)                            | (2)                                       | (66.7)                           |
| Operating revenues less<br>purchased power, fuel and gas<br>purchased for resale (net<br>revenues) | 105                              | 9.6                              | 76                               | 7.8                              | 1                                | 1.3                              | 28  | 66.7                             |
| Other operations and<br>maintenance  | 32                               | 7.9                              | 22                               | 6.4                              | 3                                | 7.0                              | 7   | 35.0                             |
| Depreciation and amortization  | 7                                | 4.8                              | 8                                | 6.3                              | 1                                | 12.5                             | (2)                                       | (18.2)                           |
| Taxes, other than income taxes   | 18                               | 6.4                              | 18                               | 6.8                              | 1                                | 9.1                              | (1)                                       | (16.7)                           |
| Income taxes   | 26                               | 66.7                             | 19                               | 52.8                             | (2)                              | (50.0)                           | 9   | Large                            |
| Operating income   | 22                               | 9.7                              | 9                                | 4.3                              | (2)                              | (18.2)                           | 15  | Large                            |
| Other income less deductions<br>and related federal income tax                                     | 2                                | 33.3                             | 2                                | 50.0                             |                                  |                                  |   |                                  |
| Net interest charges   | 16                               | 14.0                             | 16                               | 18.0                             | 1                                | 20.0                             | (1)                                       | (5.0)                            |
| Income from continuing<br>operations   | 8                                | 6.8                              | (5)                              | (4.0)                            | (3)                              | (50.0)                           | 16  | Large                            |
| Discontinued operations  | 1                                | 33.3                             | N/A                              | N/A                              | N/A                              | N/A                              | 1   | 33.3                             |
| Net income   | \$ 9                             | 7.8%                             | \$ (5)                           | (4.0)%                           | \$ (3)                           | (50.0)%                          | \$ 17                                     | Large                            |

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

\*\* Includes inter-company and parent company accounting.

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Con Edison of New York's electric sales and deliveries, excluding off-system sales, for the three months ended June 30, 2006 compared with the 2005 period were:

| <i>Description</i>                     | <i>Millions of kWhs Delivered</i> |                      |                  |                          | <i>Revenues in Millions</i> |                      |                  |                          |
|--|-----------------------------------|----------------------|------------------|--------------------------|-----------------------------|----------------------|------------------|--------------------------|
|  | <i>Three Months Ended</i>         |                      | <i>Variation</i> | <i>Percent Variation</i> | <i>Three Months Ended</i>   |                      | <i>Variation</i> | <i>Percent Variation</i> |
|  | <i>June 30, 2006</i>              | <i>June 30, 2005</i> |                  |                          | <i>June 30, 2006</i>        | <i>June 30, 2005</i> |                  |                          |
| Residential/Religious                  | 2,622                             | 2,820                | (198)            | (7.0)%                   | \$ 527                      | \$ 568               | \$ (41)          | (7.2)%                   |
| Commercial/Industrial                  | 3,117                             | 3,522                | (405)            | (11.5)                   | 529                         | 610                  | (81)             | (13.3)                   |
| Retail access customers                | 4,318                             | 3,758                | 560              | 14.9                     | 240                         | 197                  | 43               | 21.8                     |
| NYPA, Municipal Agency and other sales | 2,562                             | 2,578                | (16)             | (0.6)                    | 73                          | 77                   | (4)              | (5.2)                    |
| Other operating revenues               |                                   |                      |                  |                          | 174                         | 65                   | 109              | Large                    |
| <b>Total</b>                           | <b>12,619</b>                     | <b>12,678</b>        | <b>(59)</b>      | <b>(0.5)%</b>            | <b>\$ 1,543</b>             | <b>\$ 1,517</b>      | <b>\$ 26</b>     | <b>1.7%</b>              |

Con Edison of New York's electric operating revenues were \$26 million higher in the three months ended June 30, 2006 as compared with the 2005 period, due primarily to increased recoverable fuel costs (\$13 million), the electric rate plan (\$46 million), sales growth (\$9 million) and a provision in 2005 to refund to customers deferred taxes associated with the sale of the First Avenue Properties (\$23 million), offset in part by a decrease in purchased power (\$48 million) and the impact of the milder spring weather (\$12 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 in Item 8 of the Form 10-K and Note B to the Second Quarter Financial Statements.

Electric sales and delivery volumes in Con Edison of New York's service area decreased 0.5 percent in the three months ended June 30, 2006 compared with the 2005 period, primarily reflecting milder spring weather in the 2006 period compared with 2005. After adjusting for variations, principally weather and billing days in each period, electric sales and delivery volumes in Con Edison of New York's service area increased 2.0 percent in the three months ended June 30, 2006 compared with the 2005 period.

Con Edison of New York's electric purchased power costs decreased \$48 million in the three months ended June 30, 2006 compared with the 2005 period reflecting a decrease in purchased volumes associated with additional customers obtaining their energy supply through competitive providers. Electric fuel costs increased \$13 million, reflecting higher sendout volumes from the company's generating facilities and an increase in unit costs.



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Con Edison of New York's electric operating income was comparable for the three months ended June 30, 2006 and the 2005 period. Higher net revenues (\$61 million) due principally to the electric rate plan were offset by higher operations and maintenance costs (\$19 million, due primarily to higher expenses relating to uncollectible customer accounts (\$6 million) and increased transmission expenses (\$7 million)), taxes other than income taxes (\$12 million, principally property taxes), income taxes (\$24 million, reflecting primarily lower taxes in 2005 associated with the sale of the First Avenue Properties) and depreciation (\$6 million). The increased property taxes and depreciation reflect large continuing investments in energy delivery infrastructure.

**Gas**

Con Edison of New York's gas sales and deliveries, excluding off-system sales, in the three months ended June 30, 2006 compared with the 2005 period were:

| Description                                | Thousands of DTHs Delivered |               |                |                   | Revenues in Millions |               |               |                   |
|--|-----------------------------|---------------|----------------|-------------------|----------------------|---------------|---------------|-------------------|
|  | Three Months Ended          |               | Variation      | Percent Variation | Three Months Ended   |               | Variation     | Percent Variation |
|  | June 30, 2006               | June 30, 2005 |                |                   | June 30, 2006        | June 30, 2005 |               |                   |
| Residential                                | 7,451                       | 9,148         | (1,697)        | (18.6)%           | \$ 151               | \$ 156        | \$ (5)        | (3.2)%            |
| General                                    | 6,309                       | 7,693         | (1,384)        | (18.0)            | 96                   | 97            | (1)           | (1.0)             |
| Firm transportation                        | 4,632                       | 3,964         | 668            | 16.9              | 21                   | 14            | 7             | 50.0              |
| <b>Total firm sales and transportation</b> | <b>18,392</b>               | <b>20,805</b> | <b>(2,413)</b> | <b>(11.6)</b>     | <b>268</b>           | <b>267</b>    | <b>1</b>      | <b>0.4</b>        |
| Interruptible sales                        | 2,691                       | 3,208         | (517)          | (16.1)            | 27                   | 30            | (3)           | (10.0)            |
| NYPA                                       | 9,879                       | 5,866         | 4,013          | 68.4              | 1                    | 1             |               |                   |
| Generation plants                          | 15,519                      | 14,632        | 887            | 6.1               | 12                   | 11            | 1             | 9.1               |
| Other                                      | 5,307                       | 4,781         | 526            | 11.0              | 5                    | 5             |               |                   |
| Other operating revenues                   |                             |               |                |                   | 3                    | 6             | (3)           | (50.0)            |
| <b>Total</b>                               | <b>51,788</b>               | <b>49,292</b> | <b>2,496</b>   | <b>5.1%</b>       | <b>\$ 316</b>        | <b>\$ 320</b> | <b>\$ (4)</b> | <b>(1.3)%</b>     |

Con Edison of New York's gas operating revenues in the three months ended June 30, 2006 decreased \$4 million compared with the 2005 period, reflecting primarily a decrease in recoverable gas costs (\$9 million) offset in part by the gas rate plan (\$5 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 in Item 8 of the Form 10-K.

Con Edison of New York's sales and transportation volumes for firm customers decreased 11.6 percent in the three months ended June 30, 2006 compared with the 2005 period reflecting primarily the



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impact of lower customer usage and the milder spring weather in 2006. After adjusting for variations, principally weather and billing days in each period, firm gas sales and transportation volumes in the company's service area decreased 2.2 percent in the 2006 period.

Con Edison of New York's purchased gas cost decreased \$8 million in the three months ended June 30, 2006 compared with the 2005 period due to lower sendout partially offset by higher unit costs.

Con Edison of New York's gas operating income decreased \$2 million in the three months ended June 30, 2006 compared with the 2005 period, reflecting primarily higher net revenues (\$4 million), offset by higher operations and maintenance expense (\$3 million) and taxes other than income taxes (\$3 million, principally property taxes).

**Steam**

Con Edison of New York's steam sales and deliveries in the three months ended June 30, 2006 compared with the 2005 period were:

| Description              | Millions of Pounds Delivered |                  |              |                      | Revenues in Millions |                     |              |                      |
|--------------------------|------------------------------|------------------|--------------|----------------------|----------------------|---------------------|--------------|----------------------|
|                          | Three Months Ended           |                  |              |                      | Three Months Ended   |                     |              |                      |
|                          | June 30,<br>2006             | June 30,<br>2005 | Variation    | Percent<br>Variation | June<br>30,<br>2006  | June<br>30,<br>2005 | Variation    | Percent<br>Variation |
| General                  | 64                           | 78               | (14)         | (17.9)%              | \$ 3                 | \$ 3                | \$           | %                    |
| Apartment house          | 1,225                        | 1,388            | (163)        | (11.7)               | 29                   | 27                  | 2            | 7.4                  |
| Annual power             | 2,841                        | 3,051            | (210)        | (6.9)                | 66                   | 61                  | 5            | 8.2                  |
| Other operating revenues |                              |                  |              |                      | 8                    | 5                   | 3            | 60.0                 |
| <b>Total</b>             | <b>4,130</b>                 | <b>4,517</b>     | <b>(387)</b> | <b>(8.6)%</b>        | <b>\$ 106</b>        | <b>\$ 96</b>        | <b>\$ 10</b> | <b>10.4%</b>         |

Con Edison of New York's steam operating revenues increased \$10 million in the three months ended June 30, 2006 compared with the 2005 period, due primarily to the net increase in rates under the steam rate plan (\$7 million), a 2005 provision for a refund to customers (\$5 million), offset in part by the milder spring weather in 2006 (\$3 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 in Item 8 of the Form 10-K.

Steam sales and delivery volumes decreased 8.6 percent in the three months ended June 30, 2006 compared with the 2005 period, reflecting primarily the impact of weather. After adjusting for variations, principally weather and billing days in each period, steam sales and deliveries increased 0.3 percent in the 2006 period.



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Con Edison of New York's steam purchased power costs increased \$4 million in the three months ended June 30, 2006 compared with the 2005 period due primarily to higher unit costs and increased purchased volumes. Steam fuel costs decreased \$5 million due primarily to lower sendout volumes.

Steam operating income increased \$11 million in the three months ended June 30, 2006 compared with the 2005 period reflecting primarily higher net revenues (\$11 million), the recovery of costs related to the East River Repowering Project (\$4 million), offset in part by higher depreciation expense (\$1 million) and taxes other than income taxes (\$3 million, principally property taxes).

**O&R****Electric**

O&R's electric sales and deliveries, excluding off-system sales, in the three months ended June 30, 2006 compared with the 2005 period were:

| <i>Description</i>       | <i>Millions of kWhs Delivered</i> |                      |                  |                          | <i>Revenues in Millions</i> |                      |                  |                          |
|--------------------------|-----------------------------------|----------------------|------------------|--------------------------|-----------------------------|----------------------|------------------|--------------------------|
|                          | <i>Three Months Ended</i>         |                      | <i>Variation</i> | <i>Percent Variation</i> | <i>Three Months Ended</i>   |                      | <i>Variation</i> | <i>Percent Variation</i> |
|                          | <i>June 30, 2006</i>              | <i>June 30, 2005</i> |                  |                          | <i>June 30, 2006</i>        | <i>June 30, 2005</i> |                  |                          |
| Residential/Religious    | 402                               | 413                  | (11)             | (2.7)%                   | \$ 50                       | \$ 50                | \$               | %                        |
| Commercial/Industrial    | 528                               | 547                  | (19)             | (3.5)                    | 53                          | 52                   | 1                | 1.9                      |
| Retail access customers  | 424                               | 452                  | (28)             | (6.2)                    | 18                          | 20                   | (2)              | (10.0)                   |
| Public authorities       | 27                                | 25                   | 2                | 8.0                      | 3                           | 3                    |                  |                          |
| Other operating revenues |                                   |                      |                  |                          | (1)                         | (2)                  | 1                | 50.0%                    |
| <b>Total</b>             | <b>1,381</b>                      | <b>1,437</b>         | <b>(56)</b>      | <b>(3.9)%</b>            | <b>\$ 123</b>               | <b>\$ 123</b>        | <b>\$</b>        | <b>%</b>                 |

O&R's electric operating revenues were the same in the three months ended June 30, 2006 and June 30, 2005. 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 in Item 8 of the Form 10-K.

Electric sales and delivery volumes in O&R's service area decreased 3.9 percent in the three months ended June 30, 2006 compared with the 2005 period primarily as a result of the milder spring weather in 2006. After adjusting for weather variations in each period, electric delivery volumes in O&R's service area decreased 0.5 percent in the 2006 period.

O&R's purchased power costs increased \$1 million in the three months ended June 30, 2006 compared with the 2005 period due to an increase in average unit costs.



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Electric operating income decreased by \$2 million in the three months ended June 30, 2006 compared with the 2005 period.

**Gas**

O&R's gas sales and deliveries, excluding off-system sales, in the three months ended June 30, 2006 compared with the 2005 period were:

| <i>Description</i>                         | <i>Thousands of DTHs Delivered</i> |                      |                  |                          | <i>Revenues in Millions</i> |                      |                  |                          |
|--|------------------------------------|----------------------|------------------|--------------------------|-----------------------------|----------------------|------------------|--------------------------|
|  | <i>Three Months Ended</i>          |                      | <i>Variation</i> | <i>Percent Variation</i> | <i>Three Months Ended</i>   |                      | <i>Variation</i> | <i>Percent Variation</i> |
|  | <i>June 30, 2006</i>               | <i>June 30, 2005</i> |                  |                          | <i>June 30, 2006</i>        | <i>June 30, 2005</i> |                  |                          |
| Residential                                | 1,066                              | 1,266                | (200)            | (15.8)%                  | \$ 16                       | \$ 18                | \$ (2)           | (11.1)%                  |
| General                                    | 275                                | 292                  | (17)             | (5.8)                    | 4                           | 4                    |                  |                          |
| Firm transportation                        | 1,354                              | 1,085                | 269              | 24.8                     | 5                           | 4                    | 1                | 25.0                     |
| <b>Total firm sales and transportation</b> | <b>2,695</b>                       | <b>2,643</b>         | <b>52</b>        | <b>2.0</b>               | <b>25</b>                   | <b>26</b>            | <b>(1)</b>       | <b>(3.9)</b>             |
| Interruptible sales                        | 1,384                              | 1,666                | (282)            | (16.9)                   | 7                           | 6                    | 1                | 16.7                     |
| Generation plants                          | 891                                | 508                  | 383              | 75.4                     |                             |                      |                  |                          |
| Other                                      | 137                                | 155                  | (18)             | (11.6)                   |                             |                      |                  |                          |
| Other gas revenues                         |                                    |                      |                  |                          | 2                           | 2                    |                  |                          |
| <b>Total</b>                               | <b>5,107</b>                       | <b>4,972</b>         | <b>135</b>       | <b>2.7%</b>              | <b>\$ 34</b>                | <b>\$ 34</b>         | <b>\$</b>        | <b>%</b>                 |

O&R's gas operating revenues were the same in the three months ended June 30, 2006 and June 30, 2005.

Sales and transportation volumes for firm customers increased 2.0 percent in the three months ended June 30, 2006 compared with the 2005 period. After adjusting for weather and other variations in each period, total firm sales and transportation volumes were 5.9 percent lower in the three months ended June 30, 2006 compared with the 2005 period reflecting 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 substantially in the three months ended June 30, 2006 compared with the 2005 period 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 was unchanged in the three months ended June 30, 2006 compared with the 2005 period.





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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**

**AND RESULTS OF OPERATIONS (COMBINED FOR CON EDISON AND CON EDISON OF**

**NEW YORK) CONTINUED**

**COMPETITIVE ENERGY BUSINESSES**

The earnings of the competitive energy businesses were \$15 million higher in the three months ended June 30, 2006 compared with the 2005 period. Excluding net mark-to-market losses on derivatives in both periods, the earnings of the competitive energy businesses were \$20 million higher in the three months ended June 30, 2006 compared with the 2005 period, due primarily to higher revenues and improved gross margins, as more retail customers chose fixed price instead of variable price supply agreements.

Operating revenues of the competitive energy businesses were \$146 million higher in the three months ended June 30, 2006 compared with the 2005 period, primarily due to higher electric wholesale revenues of \$108 million, of which \$100 million was due to higher sales volume and \$8 million was due to an increase in unit prices and increased electric retail revenues of \$56 million, of which \$45 million was due to an increase in unit prices and \$11 million was due to higher sales volume, offset in part by net mark-to-market losses and decreases in other revenues.

Operating expenses excluding income taxes increased by \$122 million, reflecting principally increased purchased power (\$120 million) and other operations and maintenance costs (\$7 million), offset in part by lower fuel (\$3 million) and gas purchased for resale costs (\$2 million).

Income taxes increased \$9 million in the three months ended June 30, 2006 as compared with the 2005 period, reflecting primarily higher income.

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

| <i>(Millions of Dollars)</i>  | <i>Con Edison*</i>               |                                  | <i>Con Edison of New York</i>    |                                  | <i>O&amp;R</i>                   |                                  | <i>Competitive<br/>Businesses<br/>and Other**</i> |                                  |
|---|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|---|----------------------------------|
|   | <i>Increases<br/>(Decreases)</i> | <i>Increases<br/>(Decreases)</i> | <i>Increases<br/>(Decreases)</i> | <i>Increases<br/>(Decreases)</i> | <i>Increases<br/>(Decreases)</i> | <i>Increases<br/>(Decreases)</i> | <i>Increases<br/>(Decreases)</i>                  | <i>Increases<br/>(Decreases)</i> |
|   | <i>Amount</i>                    | <i>Percent</i>                   | <i>Amount</i>                    | <i>Percent</i>                   | <i>Amount</i>                    | <i>Percent</i>                   | <i>Amount</i>                                     | <i>Percent</i>                   |
| Operating revenues  | \$ 686                           | 13.2%                            | \$ 395                           | 9.4%                             | \$ 14                            | 3.7%                             | \$ 277  | 46.4%                            |
| Purchased power   | 315                              | 16.7                             | 34                               | 2.5                              | 9                                | 7.6                              | 272   | 70.3                             |
| Fuel  | 69                               | 20.8                             | 67                               | 29.6                             |                                  |                                  | 2   | 1.9                              |
| Gas purchased for resale  | 92                               | 14.1                             | 72                               | 12.9                             | 11                               | 13.4                             | 9   | 60.0                             |
| Operating revenues less purchased power, fuel and gas purchased for resale (net revenues) | 210                              | 9.1                              | 222                              | 10.8                             | (6)                              | (3.4)                            | (6)   | (6.7)                            |
| Other operations and maintenance  | 58                               | 7.1                              | 46                               | 6.6                              | 5                                | 5.9                              | 7   | 17.1                             |
| Depreciation and amortization   | 18                               | 6.3                              | 19                               | 7.6                              |                                  |                                  | (1)   | (4.8)                            |
| Taxes, other than income taxes  | 66                               | 12.0                             | 64                               | 12.4                             | 1                                | 4.3                              | 1   | 9.1                              |
| Income taxes  | 20                               | 13.4                             | 33                               | 24.4                             | (6)                              | (37.5)                           | (7)   | Large                            |
| Operating income  | 48                               | 9.4                              | 60                               | 13.2                             | (6)                              | (17.6)                           | (6)   | (31.6)                           |
| Other income less deductions and related federal income tax                               | (10)                             | (66.7)                           | (3)                              | (20.0)                           | 1                                | Large                            | (8)   | Large                            |
| Net interest charges  | 32                               | 14.3                             | 30                               | 17.3                             | 2                                | 18.2                             |   |                                  |
| Income from continuing operations   | 6                                | 2.0                              | 27                               | 9.3                              | (7)                              | (30.4)                           | (14)  | (100.0)                          |
| Discontinued operations   | 2                                | 66.7                             | N/A                              | N/A                              | N/A                              | N/A                              | 2   | 66.7                             |
| Net income  | \$ 8                             | 2.7%                             | \$ 27                            | 9.3%                             | \$ (7)                           | (30.4)%                          | \$ (12)   | (94.1)%                          |

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

\*\* Includes inter-company and parent company accounting.

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## Electric

Con Edison of New York's electric sales and deliveries, excluding off-system sales, for the six months ended June 30, 2006 compared with the 2005 period were:

| Description                            | Millions of kWhs Delivered |               |              |                   | Revenues in Millions |                 |               |                   |
|--|----------------------------|---------------|--------------|-------------------|----------------------|-----------------|---------------|-------------------|
|  | Six Months Ended           |               | Variation    | Percent Variation | Six Months Ended     |                 | Variation     | Percent Variation |
|  | June 30, 2006              | June 30, 2005 |              |                   | June 30, 2006        | June 30, 2005   |               |                   |
| Residential/Religious                  | 5,594                      | 5,900         | (306)        | (5.2)%            | \$ 1,155             | \$ 1,140        | \$ 15         | 1.3%              |
| Commercial/Industrial                  | 6,559                      | 7,353         | (794)        | (10.8)            | 1,148                | 1,203           | (55)          | (4.6)             |
| Retail access customers                | 8,573                      | 7,527         | 1,046        | 13.9              | 425                  | 338             | 87            | 25.7              |
| NYPA, Municipal Agency and other sales | 5,319                      | 5,508         | (189)        | (3.4)             | 141                  | 149             | (8)           | (5.4)             |
| Other operating revenues               |                            |               |              |                   | 307                  | 70              | 237           | Large             |
| <b>Total</b>                           | <b>26,045</b>              | <b>26,288</b> | <b>(243)</b> | <b>(0.9)%</b>     | <b>\$ 3,176</b>      | <b>\$ 2,900</b> | <b>\$ 276</b> | <b>9.5%</b>       |

Con Edison of New York's electric operating revenues were \$276 million higher in the six months ended June 30, 2006 as compared with the 2005 period, due primarily to increased recoverable fuel and purchased power costs (\$101 million), sales growth (\$17 million), the electric rate plan that took effect in April 2005 (\$135 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 (\$17 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 the impact of the milder weather (\$22 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 in Item 8 of the Form 10-K and Note B to the Second Quarter Financial Statements.

Electric sales and delivery volumes in Con Edison of New York's service area decreased 0.9 percent in the six months ended June 30, 2006 compared with the 2005 period, primarily reflecting milder weather in the 2006 period compared with 2005. After adjusting for variations, principally weather and billing days in each period, electric sales and delivery volumes in Con Edison of New York's service area increased 1.3 percent in the six months ended June 30, 2006 compared with the 2005 period.

Con Edison of New York's electric fuel costs increased \$87 million, reflecting higher sendout volumes from the company's generating facilities and an increase in unit costs. Electric purchased power costs increased \$14 million in the six months ended June 30, 2006 compared with the 2005 period reflecting

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an increase in unit costs, partially offset by decreased purchased volumes associated with additional customers obtaining their energy supply through competitive providers.

Con Edison of New York's electric operating income increased \$31 million in the six months ended June 30, 2006 compared with the 2005 period. The increase reflects higher net revenues (\$175 million) due principally to the electric rate plan, offset in part by higher operations and maintenance costs (\$55 million, due primarily to East River Repowering Project costs (\$19 million), higher expenses relating to uncollectible customer accounts (\$8 million), increased transmission expenses (\$7 million), severe storms in 2006 (\$10 million), and recognition of expense for stock-based compensation (\$7 million), taxes other than income taxes (\$52 million, principally property taxes), income taxes (\$29 million) and depreciation (\$8 million).

**Gas**

Con Edison of New York's gas sales and deliveries, excluding off-system sales, in the six months ended June 30, 2006 compared with the 2005 period were:

| <i>Description</i>                         | <i>Thousands of DTHs Delivered</i> |                      |                  |                          | <i>Revenues in Millions</i> |                      |                  |                          |
|--|------------------------------------|----------------------|------------------|--------------------------|-----------------------------|----------------------|------------------|--------------------------|
|  | <i>Six Months Ended</i>            |                      | <i>Variation</i> | <i>Percent Variation</i> | <i>Six Months Ended</i>     |                      | <i>Variation</i> | <i>Percent Variation</i> |
|  | <i>June 30, 2006</i>               | <i>June 30, 2005</i> |                  |                          | <i>June 30, 2006</i>        | <i>June 30, 2005</i> |                  |                          |
| Residential                                | 28,014                             | 33,444               | (5,430)          | (16.2)%                  | \$ 526                      | \$ 503               | \$ 23            | 4.6%                     |
| General                                    | 19,914                             | 23,699               | (3,785)          | (16.0)                   | 310                         | 290                  | 20               | 6.9                      |
| Firm transportation                        | 13,563                             | 11,411               | 2,152            | 18.9                     | 60                          | 40                   | 20               | 50.0                     |
| <b>Total firm sales and transportation</b> | <b>61,491</b>                      | <b>68,554</b>        | <b>(7,063)</b>   | <b>(10.3)</b>            | <b>896</b>                  | <b>833</b>           | <b>63</b>        | <b>7.6</b>               |
| Interruptible sales                        | 7,789                              | 7,396                | 393              | 5.3                      | 97                          | 77                   | 20               | 26.0                     |
| NYPA                                       | 18,087                             | 10,092               | 7,995            | 79.2                     | 1                           | 1                    |                  |                          |
| Generation plants                          | 23,405                             | 20,733               | 2,672            | 12.9                     | 22                          | 19                   | 3                | 15.8                     |
| Other                                      | 9,809                              | 10,259               | (450)            | (4.4)                    | 15                          | 11                   | 4                | 3.6                      |
| Other operating revenues                   |                                    |                      |                  |                          | 21                          | 10                   | 11               | Large                    |
| <b>Total</b>                               | <b>120,581</b>                     | <b>117,034</b>       | <b>3,547</b>     | <b>3.0%</b>              | <b>\$ 1,052</b>             | <b>\$ 951</b>        | <b>\$ 101</b>    | <b>10.6%</b>             |

Con Edison of New York's gas operating revenues in the six months ended June 30, 2006 increased \$101 million compared with the 2005 period, reflecting primarily an increase in recoverable gas costs (\$72 million), sales growth and higher non-firm revenues (\$7 million) and the gas rate plan (\$16 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 in Item 8 of the Form 10-K.

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 sales and transportation volumes for firm customers decreased 10.3 percent in the six months ended June 30, 2006 compared with the 2005 period reflecting primarily the impact of the milder weather in 2006. After adjusting for variations, principally weather and billing days in each period, firm gas sales and transportation volumes in the company's service area decreased 0.4 percent in the 2006 period.

Con Edison of New York's purchased gas cost increased \$72 million in the six months ended June 30, 2006 compared with the 2005 period due to higher unit costs offset in part by lower sendout.

Con Edison of New York's gas operating income increased \$5 million in the six months ended June 30, 2006 compared with the 2005 period, reflecting primarily higher net revenues (\$29 million), offset by higher operations and maintenance expense (\$9 million), taxes other than income taxes (\$8 million, principally property taxes), depreciation (\$2 million) and income taxes (\$5 million).

**Steam**

Con Edison of New York's steam sales and deliveries in the six months ended June 30, 2006 compared with the 2005 period were:

| Description              | Millions of Pounds Delivered |               |                |                   | Revenues in Millions |               |              |                   |
|--------------------------|------------------------------|---------------|----------------|-------------------|----------------------|---------------|--------------|-------------------|
|                          | Six Months Ended             |               | Variation      | Percent Variation | Six Months Ended     |               | Variation    | Percent Variation |
|                          | June 30, 2006                | June 30, 2005 |                |                   | June 30, 2006        | June 30, 2005 |              |                   |
| General                  | 385                          | 486           | (101)          | (20.8)%           | \$ 15                | \$ 15         | \$           | %                 |
| Apartment house          | 4,092                        | 4,699         | (607)          | (12.9)            | 114                  | 102           | 12           | 11.8              |
| Annual power             | 8,409                        | 9,797         | (1,388)        | (14.2)            | 247                  | 228           | 19           | 8.3               |
| Other operating revenues |                              |               |                |                   | 5                    | 18            | (13)         | (72.2)            |
| <b>Total</b>             | <b>12,886</b>                | <b>14,982</b> | <b>(2,096)</b> | <b>(14.0)%</b>    | <b>\$ 381</b>        | <b>\$ 363</b> | <b>\$ 18</b> | <b>5.0%</b>       |

Con Edison of New York's steam operating revenues increased \$18 million in the six months ended June 30, 2006 compared with the 2005 period, due primarily to the net increase in rates under the steam rate plan (\$21 million), higher purchased power costs (\$20 million), offset in part by the milder weather in 2006 (\$23 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 in Item 8 of the Form 10-K.

Steam sales and delivery volumes decreased 14.0 percent in the six months ended June 30, 2006 compared with the 2005 period, reflecting primarily the impact of weather. After adjusting for variations, principally weather and billing days in each period, steam sales and deliveries decreased 1.0 percent in the 2006 period.



**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 purchased power costs increased \$20 million in the six months ended June 30, 2006 compared with the 2005 period due primarily to higher unit costs and increased purchased volumes. Steam fuel costs decreased \$20 million due primarily to lower sendout volumes, offset in part by higher unit costs.

Steam operating income increased \$24 million in the six months ended June 30, 2006 compared with the 2005 period reflecting higher net revenues (\$4 million), recovery of costs related to the East River Repowering Project (\$33 million), offset in part by higher depreciation expense (\$8 million) and taxes other than income taxes (\$4 million, principally property taxes).

**Other Income (Deductions)**

Other income (deductions) decreased \$3 million in the six months ended June 30, 2006 compared with the 2005 period, due primarily to decreased allowance for equity funds used during construction related to the commencement of commercial operation of the East River Repowering Project in April 2005.

**Net Interest Charges**

Net interest charges increased \$30 million in the six months ended June 30, 2006 compared with the 2005 period, due principally to new debt issuances since June 30, 2005 and higher interest rates on variable-rate debt and decreased allowance for borrowed funds used during construction related to the commencement of commercial operation of the East River Repowering Project.

**O&R****Electric**

O&R's electric sales and deliveries, excluding off-system sales, in the six months ended June 30, 2006 compared with the 2005 period were:

| Description              | Millions of kWhs Delivered |               |           |                   | Revenues in Millions |               |           |                   |
|--------------------------|----------------------------|---------------|-----------|-------------------|----------------------|---------------|-----------|-------------------|
|                          | Six Months Ended           |               | Variation | Percent Variation | Six Months Ended     |               | Variation | Percent Variation |
|                          | June 30, 2006              | June 30, 2005 |           |                   | June 30, 2006        | June 30, 2005 |           |                   |
| Residential/Religious    | 817                        | 869           | (52)      | (6.0)%            | \$ 104               | \$ 101        | \$ 3      | 3.0%              |
| Commercial/Industrial    | 1,038                      | 1,091         | (53)      | (4.9)             | 107                  | 101           | 6         | 5.9               |
| Retail access customers  | 830                        | 916           | (86)      | (9.4)             | 34                   | 38            | (4)       | (10.5)            |
| Public authorities       | 54                         | 52            | 2         | 3.8               | 6                    | 5             | 1         | 20.0              |
| Other operating revenues |                            |               |           |                   | (2)                  | (1)           | (1)       | Large             |

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|              |              |              |              |               |               |               |             |             |
|--------------|--------------|--------------|--------------|---------------|---------------|---------------|-------------|-------------|
| <b>Total</b> | <b>2,739</b> | <b>2,928</b> | <b>(189)</b> | <b>(6.5)%</b> | <b>\$ 249</b> | <b>\$ 244</b> | <b>\$ 5</b> | <b>2.0%</b> |
|--------------|--------------|--------------|--------------|---------------|---------------|---------------|-------------|-------------|

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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 \$5 million in the six months ended June 30, 2006 compared with the 2005 period due primarily to increased recoverable purchased power costs (\$9 million), offset in part by milder weather in 2006 (\$3 million) and adjustments in 2005 to the company's accrual of unbilled revenues (\$2 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 in Item 8 of the Form 10-K.

Electric sales and delivery volumes in O&R's service area decreased 6.5 percent in the six months ended June 30, 2006 compared with the 2005 period primarily as a result of the milder weather in 2006. Absent this adjustment and after adjusting for weather variations in each period, electric delivery volumes in O&R's service area decreased 1.0 percent in the 2006 period compared with the 2005.

O&R's purchased power costs increased \$9 million in the six months ended June 30, 2006 compared with the 2005 period due to an increase in average unit cost costs.

Electric operating income decreased by \$5 million in the six months ended June 30, 2006 compared with the 2005 period.

**Gas**

O&R's gas sales and deliveries, excluding off-system sales, in the six months ended June 30, 2006 compared with the 2005 period were:

| <i>Description</i>                         | <i>Thousands of DTHs Delivered</i> |                      |                  |                          | <i>Revenues in Millions</i> |                      |                  |                          |
|--|------------------------------------|----------------------|------------------|--------------------------|-----------------------------|----------------------|------------------|--------------------------|
|  | <i>Six Months Ended</i>            |                      | <i>Variation</i> | <i>Percent Variation</i> | <i>Six Months Ended</i>     |                      | <i>Variation</i> | <i>Percent Variation</i> |
|  | <i>June 30, 2006</i>               | <i>June 30, 2005</i> |                  |                          | <i>June 30, 2006</i>        | <i>June 30, 2005</i> |                  |                          |
| Residential                                | 4,813                              | 5,974                | (1,161)          | (19.4)%                  | \$ 84                       | \$ 78                | \$ 6             | 7.7%                     |
| General                                    | 1,183                              | 1,463                | (280)            | (19.1)                   | 20                          | 19                   | 1                | 5.3                      |
| Firm transportation                        | 5,500                              | 5,898                | (398)            | (6.7)                    | 18                          | 18                   |                  |                          |
| <b>Total firm sales and transportation</b> | <b>11,496</b>                      | <b>13,335</b>        | <b>(1,839)</b>   | <b>(13.8)</b>            | <b>122</b>                  | <b>115</b>           | <b>7</b>         | <b>6.1</b>               |
| Interruptible sales                        | 3,178                              | 3,417                | (239)            | (7.0)                    | 15                          | 13                   | 2                | 15.3                     |
| Generation plants                          | 954                                | 698                  | 256              | 36.7                     | 1                           | 1                    |                  |                          |
| Other                                      | 561                                | 690                  | (129)            | (18.7)                   |                             |                      |                  |                          |
| Other gas revenues                         |                                    |                      |                  |                          | 2                           | 2                    |                  |                          |
| <b>Total</b>                               | <b>16,189</b>                      | <b>18,140</b>        | <b>(1,951)</b>   | <b>(10.8)%</b>           | <b>\$ 140</b>               | <b>\$ 131</b>        | <b>\$ 9</b>      | <b>6.9%</b>              |

O&R's gas operating revenues increased \$9 million in the six months ended June 30, 2006 compared with the 2005 period. The increase is due primarily to higher costs of gas purchased for resale in 2006.



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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**

**AND RESULTS OF OPERATIONS (COMBINED FOR CON EDISON AND CON EDISON OF**

**NEW YORK) CONTINUED**

Sales and transportation volumes for firm customers decreased 13.8 percent in the six months ended June 30, 2006 compared with the 2005 period reflecting the impact of the milder weather in 2006. After adjusting for weather and other variations in each period, total firm sales and transportation volumes were 5.0 percent lower in the six months ended June 30, 2006 compared with the 2005 period 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 the six months ended June 30, 2006 compared with the 2005 period because certain facilities resumed burning gas to generate electricity in the second quarter. 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 the six months ended June 30, 2006 compared with the 2005 period.

**Competitive Energy Businesses**

The earnings of the competitive energy businesses were \$3 million lower in the six months ended June 30, 2006 compared with the 2005 period. Excluding net mark-to-market losses on derivatives in both periods, the earnings of the competitive energy businesses were \$31 million higher in the six months ended June 30, 2006 compared with the 2005 period, due primarily to higher revenues and improved gross margins.

Operating revenues of the competitive energy businesses were \$309 million higher in the six months ended June 30, 2006 compared with the 2005 period, primarily due to higher electric wholesale revenues of \$211 million, of which \$191 million was due to higher sales volume and \$20 million was due to an increase in unit prices, and increased electric retail revenues of \$143 million, of which \$84 million was due to an increase in unit prices and \$59 million was due to higher sales volumes, offset in part by \$58 million of net mark-to-market losses. The net mark-to-market losses reflect primarily lower prices on natural gas contracts employed as economic hedges used to support wholesale and retail obligations that did not qualify for cash flow hedge accounting.

Operating expenses excluding income taxes increased by \$321 million, reflecting increased purchased power (\$303 million), fuel (\$2 million), gas purchased for resale costs (\$9 million) and other operations and maintenance costs (\$7 million).

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS (COMBINED FOR CON EDISON AND CON EDISON OF  
NEW YORK) CONTINUED**

Income taxes decreased \$3 million in the six months ended June 30, 2006 as compared with the 2005 period, reflecting primarily lower income.

Other income (deductions) increased \$6 million in the six months ended June 30, 2006 compared with the 2005 period due primarily to the recognition in 2005 of losses previously allocated to the minority interest in the Con Edison subsidiary that owns the Newington generating plant.

**Other**

Other reflects a \$9 million expense recognized in 2006 to effectively reclassify from retained earnings to additional paid-in capital the tax benefits from the exercise of options that had been recognized in income in prior years. Other also includes the activity of the parent company and inter-company eliminations relating to operating revenues and operating expenses.

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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

For information about the Companies' primary market risks associated with activities in derivative financial instruments, other financial instruments and derivative commodity instruments, see "Financial and Commodity Market Risks" in Part 1, Item 2 of this report, which information is incorporated herein by reference. Also, see Item 7A of the Form 10-K.

**ITEM 4. CONTROLS AND PROCEDURES**

The Companies maintain disclosure controls and procedures designed to provide reasonable assurance that the information required to be disclosed in the reports that they submit to the Securities and Exchange Commission (SEC) is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. For each of the Companies, its management, with the participation of its principal executive officer and principal financial officer, has evaluated the company's disclosure controls and procedures as of the end of the period covered by this report and, based upon such evaluation, has concluded that the controls and procedures were effective to provide such reasonable assurance. Reasonable assurance is not absolute assurance, however, and there can be no assurance that any design of controls or procedures would be effective under all potential future conditions, regardless of how remote.

There were no changes in the Companies' internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Companies' internal control over financial reporting.

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**PART II OTHER INFORMATION**

**ITEM 1 LEGAL PROCEEDINGS**

Northeast Utilities Litigation

For information about legal proceedings relating to Con Edison's October 1999 agreement to acquire Northeast Utilities, see Note H to the financial statements included in Part I, Item 1 of this report and in the Companies' combined Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006 (File Nos. 1-14514 and 1-1217, the First Quarter Form 10-Q), which is incorporated herein by reference.

Lease In/Lease Out Transactions

For information about Con Edison's appeal of a proposed disallowance by the Internal Revenue Service of certain tax losses recognized in connection with the company's lease in/lease out transactions, see Note H to the financial statements included in Part I, Item 1 of this report, which is incorporated herein by reference.

Mirant Litigation

For information about the legal proceeding relating to the Utilities' 1999 sale of generating assets (Mirant Corporation, et al. v. Consolidated Edison et al. (In re Mirant Corporation)), pending in the United States Bankruptcy Court for the Northern District of Texas, see Mirant Litigation in Note H to the financial statements included in Part I, Item 1 of this report, which is incorporated herein by reference.

Queens Power Outage

For information about proceedings relating to the July 2006 power outage in Queens, New York, see Note H to the financial statements included in Part I, Item 1 of this report, which is incorporated herein by reference. The two purported class actions, which were filed in the Supreme Court of New York, County of Queens, are entitled, Orna, et al., v. Consolidated Edison Company of New York, Inc., Consolidated Edison, Inc. and Consolidated Edison Energy, Inc. and Executive Deli & Grocery, Inc., et al. v. Consolidated Edison Company of New York, Inc., Consolidated Edison, Inc. and Consolidated Edison Energy, Inc.

**ITEM 1A RISK FACTORS**

There were no material changes from the risk factors previously disclosed in the Companies' Form 10-K.



**Table of Contents****ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS****Con Edison**

(a) At the Annual Meeting of Stockholders of Con Edison on May 15, 2006, the stockholders of Con Edison voted to elect members of the Board of Directors, to ratify and approve the appointment of Con Edison's independent accountants and not to adopt a stockholder's proposal. 201,482,299 shares of Common Stock of Con Edison, representing approximately 82 percent of the 245,757,201 shares of Common Stock outstanding and entitled to vote, were present at the meeting or by proxy.

(b) The name of each nominee for election as a member of Con Edison's Board of Directors and the number of shares voted for or with respect to which authority to vote for was withheld are as follows:

|                         | Votes For   | Votes Withheld |
|-------------------------|-------------|----------------|
| Kevin Burke             | 197,729,419 | 3,752,880      |
| Vincent A. Calarco      | 196,664,370 | 4,817,929      |
| George Campbell, Jr.    | 196,409,377 | 5,072,922      |
| Gordon J. Davis         | 191,051,363 | 10,430,936     |
| Michael J. Del Giudice  | 197,173,959 | 4,308,340      |
| Ellen V. Futter         | 190,868,869 | 10,613,430     |
| Sally Hernandez         | 197,534,063 | 3,948,236      |
| Peter W. Likins         | 197,751,682 | 3,730,617      |
| Eugene R. McGrath       | 197,771,159 | 3,711,140      |
| Frederic V. Salerno     | 197,250,345 | 4,231,954      |
| L. Frederick Sutherland | 196,908,125 | 4,574,174      |
| Stephen R. Volk         | 197,863,779 | 3,618,520      |

(c) The results of the vote on the appointment of PricewaterhouseCoopers LLP as independent accountants for Con Edison for 2006 were as follows: 197,297,464 shares were voted for this proposal; 2,052,811 shares were voted against the proposal; and 2,132,024 shares were abstentions.

(d) The following stockholder-proposed resolution was voted upon at the Annual Meeting:

RESOLVED: That the shareholders recommend that the Board take the necessary steps that Con Edison specifically identify by name and corporate title in all future proxy statements those executive officers, not otherwise so identified, who are contractually entitled to receive in excess of \$500,000 annually as a base salary, together with whatever other additional compensation bonuses and other cash payments were due them.

The results of the vote on this proposal were as follows: 17,561,991 shares were voted for this proposal; 107,160,517 shares were voted against the proposal; 4,466,750 shares were abstentions; and 72,293,041 shares were broker non-votes.



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**Con Edison of New York**

At the Annual Meeting of Stockholders of Con Edison of New York on May 15, 2006, all 235,488,094 outstanding shares of common stock of Con Edison of New York, which are owned by Con Edison, were voted to elect Kevin Burke, Vincent A. Calarco, George Campbell, Jr., Gordon J. Davis, Michael J. Del Giudice, Ellen V. Futter, Sally Hernandez, Peter W. Likins, Eugene R. McGrath, Frederic V. Salerno, L. Frederick Sutherland and Stephen R. Volk as members of Con Edison of New York's Board of Trustees and to ratify and approve the appointment of PricewaterhouseCoopers, LLP as Con Edison of New York's independent accountants for 2006.

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**ITEM 6 EXHIBITS**

(a) EXHIBITS

**Con Edison**

|                |  |
|----------------|--|
| Exhibit 12.1   | Statement of computation of Con Edison's ratio of earnings to fixed charges for the six-month periods ended June 30, 2006 and 2005, and the 12-month period ended December 31, 2005. |
| Exhibit 31.1.1 | Rule 13a-14(a)/15d-14(a) Certifications Chief Executive Officer.   |
| Exhibit 31.1.2 | Rule 13a-14(a)/15d-14(a) Certifications Chief Financial Officer.   |
| Exhibit 32.1.1 | Section 1350 Certifications Chief Executive Officer.   |
| Exhibit 32.1.2 | Section 1350 Certifications Chief Financial Officer.   |

**Con Edison of New York**

|                |  |
|----------------|--|
| Exhibit 12.2   | Statement of computation of Con Edison of New York's ratio of earnings to fixed charges for the six-month periods ended June 30, 2006 and 2005, and the 12-month period ended December 31, 2005. |
| Exhibit 31.2.1 | Rule 13a-14(a)/15d-14(a) Certifications Chief Executive Officer.   |
| Exhibit 31.2.2 | Rule 13a-14(a)/15d-14(a) Certifications Chief Financial Officer.   |
| Exhibit 32.2.1 | Section 1350 Certifications Chief Executive Officer.   |
| Exhibit 32.2.2 | Section 1350 Certifications Chief Financial Officer.   |

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**Signatures**

Pursuant to the requirements of the Securities Exchange Act of 1934, each Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**Consolidated Edison, Inc.**

**Consolidated Edison Company of New York, Inc.**

DATE: August 2, 2006

/s/ Robert N. Hoglund

By \_\_\_\_\_

Robert N. Hoglund

Senior Vice President, Chief Financial Officer and

Duly Authorized Officer