

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended DECEMBER 31, 1997

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number	Exact name of registrant as specified in its charter and principal office address and telephone number	State of Incorporation	I.R.S. Employer ID. Number
1-4514	Consolidated Edison, Inc. 4 Irving Place, New York, New York 10003 (212) 460-3900	New York	13-3965100
1-1217	Consolidated Edison Company of New York, Inc. 4 Irving Place, New York, New York 10003 (212) 460-4600	New York	13-5009340

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

Title of each class	Name of each exchange on which registered
Consolidated Edison, Inc., Common Shares (\$ .10 par value)	New York Stock Exchange
Consolidated Edison Company of New York, Inc., 7 3/4% Quarterly Income Capital Securities (Series A Subordinated Deferrable Interest Debentures)	New York Stock Exchange
\$5 Cumulative Preferred Stock, without par value	New York Stock Exchange
Cumulative Preferred Stock, 4.65% Series C (\$100 par value)	New York Stock Exchange

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

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

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

- 2 -

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

The aggregate market value of the voting stock of Consolidated Edison, Inc. ("CEI") held by non-affiliates of CEI, as of January 31, 1998, was \$ 9.7 billion. Not reflected in this amount are the 62,915 CEI Common Shares (\$.10 par value) held by CEI's Directors who are the only stockholders of CEI, known to CEI, who might be deemed "affiliates" of CEI. As of February 28, 1998, CEI had outstanding 235,489,650 Common Shares (\$.10 par value).

The aggregate market value of the voting stock of Consolidated Edison Company of New York, Inc. ("Con Edison") held by non-affiliates of Con Edison, as of January 31, 1998, was \$153.7 million. Not reflected in this amount are the 235,489,650 issued and outstanding shares of Con Edison Common Stock (\$2.50 par value), all of which are held by CEI.

Documents Incorporated By Reference

Portions of the joint CEI and Con Edison Proxy Statement for their joint

1998 Annual Meetings of Stockholders, to be filed with the Commission pursuant to Regulation 14A not later than 120 days after December 31, 1997, are incorporated in Part III of this report.

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## FILING FORMAT

This Annual Report on Form 10-K is a combined report being filed separately by two different registrants: Consolidated Edison, Inc. ("CEI") and Consolidated Edison Company of New York, Inc. ("Con Edison"). See "Corporate Structure" in Item 1. References in this report to the "Company" are to CEI and Con Edison, collectively. Con Edison makes no representation as to the information contained in this report relating to CEI and the subsidiaries of CEI other than Con Edison.

## FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements, which are statements of future expectations and not facts. Words such as "expects," "anticipates," "plans" and similar expressions identify forward-looking statements. Actual results or developments might differ materially from those included in the forward-looking statements because of factors such as those discussed in "Liquidity and Capital Resources - Forward-Looking Statements" in Item 7.

## PART I

### ITEM 1. BUSINESS

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#### CORPORATE STRUCTURE

CEI, incorporated in New York State in 1997, became the holding company for Con Edison on January 1, 1998. See Item 4. CEI has other subsidiaries. See "Competitive Businesses and Competition," below.

Con Edison, incorporated in New York State in 1884, provides electric service in all of New York City (except part of Queens) and most of Westchester County, an approximately 660 square mile service area with a population of more than 8 million. It also provides gas service in Manhattan, The Bronx and parts of Queens and Westchester, and steam service in part of Manhattan. The New York Power Authority ("NYPA") supplies electricity to state and municipal customers within Con Edison's service area through Con Edison's facilities. By not later than December 31, 2001 all of Con Edison's electric customers will be eligible to purchase electricity from suppliers other than Con Edison. Since 1996, all of Con Edison's gas customers have been eligible, either individually or by aggregating their demand with other customers, to purchase gas from suppliers other than Con Edison. See "Liquidity and Capital Resources - Competition and Industry Restructuring and PSC Settlement Agreement" in Item 7 and "Challenges to Settlement Agreement" in Item 3.

INDUSTRY SEGMENTS

In 1997, electric, gas and steam operating revenues were 79.1 percent, 15.4 percent and 5.5 percent, respectively, of Con Edison's operating revenues. For information on operating revenues, expenses and income for the years ended December 31, 1997, 1996 and 1995, and assets at those dates, relating to Con Edison's electric, gas and steam operations, see Note J to the financial statements in Item 8. For information about changes to the Company's business, see "Liquidity and Capital Resources - Competition and Industry Restructuring and PSC Settlement Agreement" in Item 7, "Challenges to Settlement Agreement" in Item 3 and "Competitive Businesses and Competition," below.

ELECTRIC OPERATIONS

**ELECTRIC SALES.** Electric operating revenues were \$5.6 billion in 1997 or 79.1 percent of Con Edison's operating revenues. The percentages were 79.6 and 82.5, respectively, in the two preceding years. Electricity sales in Con Edison's service area in 1997, including usage by customers served by NYPA and the New York City and Westchester County municipal electric agencies, but excluding off-system sales, increased 1.1 percent from 1996, after increasing 0.8 percent and 0.7 percent, respectively, in the two preceding years. After adjusting for variations, principally weather and billing days, electricity sales volume increased 1.8 percent in 1997, 0.9 percent in 1996 and 1.2 percent in 1995. Weather-adjusted sales represent Con Edison's estimate of the sales that would have been made if historical average weather conditions had occurred.

In 1997, 79.6 percent of the electricity delivered in Con Edison's service area was sold by Con Edison to its customers, and the balance was delivered to customers of NYPA and municipal electric agencies. Of Con Edison's sales, 29.3 percent was to residential customers, 66.9 percent was to commercial customers, 2.1 percent was to industrial customers and the balance was to railroads and public authorities.

For further information about amounts of electric energy sold, see "Operating Statistics," below.

For information about changes to Con Edison's electric operations, see "Changes," below.

**ELECTRIC SUPPLY.** Con Edison either generates the electric energy it sells, purchases the energy from other utilities or non-utility generators ("NUGs", sometimes referred to as independent power producers or "IPPs") pursuant to long-term firm power contracts or purchases non-firm economy energy.

The sources of electric energy generated and purchased during the years 1993-1997 are shown below:

	1993	1994	1995	1996	1997
<b>Generated:</b>					
Fossil-Fueled*	35.5%	30.9%	30.1%	22.7%	29.6%
Nuclear (Indian Point 2)	14.8%	18.4%	10.8%	17.7%	7.3%
<b>Total Generated</b>	<b>50.3%</b>	<b>49.3%</b>	<b>40.9%</b>	<b>40.4%</b>	<b>36.9%</b>
<b>Firm Purchases:</b>					
NYPA	6.0%	1.3%	1.3%	2.0%	2.1%
Hydro-Quebec	4.3%	4.8%	5.8%	6.0%	2.4%
Non-Utility Generators	11.9%	12.9%	29.9%	29.5%	35.9%
Other Purchases*	27.5%	31.7%	22.1%	22.1%	22.7%
<b>Total Purchased</b>	<b>49.7%</b>	<b>50.7%</b>	<b>59.1%</b>	<b>59.6%</b>	<b>63.1%</b>
<b>Generated &amp; Purchased</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

\* For 1995 - 1997, includes electricity generated for others. See "Gas Conversions" and "Operating Statistics", below.

For further information about amounts of electric energy generated and purchased, see "Operating Statistics," below. For information about Con Edison's purchases of electric energy, see "NYPA," "Hydro-Quebec," "Non-Utility Generators," "New York Power Pool" and "Gas Conversions," below.

For information about changes to Con Edison's electric operations, see "Changes," below.

**ELECTRIC PEAK LOAD AND CAPACITY.** The electric peak load in Con Edison's service area occurs during the summer air conditioning season. On July 15, 1997, the one-hour peak load was 11,013 thousand kilowatts (MW) which is the record peak load for the service area. The 1997 peak load included an estimated 9,350 MW for Con Edison's customers and 1,663 for NYPA's customers and municipal electric agency customers. The 1997 peak, if adjusted to historical design weather conditions, would have been 11,200 MW, 250 MW higher than the peak in 1996 when similarly adjusted. Con Edison estimates that, under design weather conditions, the 1998 service peak load would be 11,375 MW, including 9,610 MW for Con Edison's customers. "Design weather" for the electric system is a standard to which the actual peak load is adjusted for evaluation.

The capacity resources available to Con Edison's service area at the time of the system peak in the summer of 1997 totaled (before outages) 13,967 MW, of which 10,234 MW represented net available generating capacity (including the capacity of NYPA's Poletti and Indian Point 3 units) and 3,733 MW represented net firm purchases by Con Edison and NYPA. Con Edison expects to have sufficient electric capacity available to meet the requirements of its customers in 1998. For information about Con Edison's capacity reserve margin, see "New York Power Pool," below.

For information about Con Edison's generating, transmission and distribution facilities, see "Electric Facilities" in Item 2.

For information about to changes to Con Edison's electric operations, see "Changes," below.

**CHANGES.** For information about changes to Con Edison's electric operations resulting from a transition to a competitive electric market, see "Liquidity and Capital Resources - Competition and Industry Restructuring and PSC Settlement Agreement" in Item 7, "Electric Facilities - Generating Facilities" in Item 2 and "Challenges to Settlement Agreement" in Item 3.

Pursuant to a September 1997 settlement agreement (the "Settlement Agreement") in the "Competitive Opportunities" proceeding of the New York State Public Service Commission ("PSC"), all of Con Edison's customers will be eligible to purchase electricity from other suppliers, including subsidiaries of CEI other than Con Edison, by December 31, 2001. Con Edison remains obligated to serve as the "provider of last resort" for customers that, for whatever reason, do not have another supplier of electricity. In a plan to divest electric generating capacity submitted to the PSC in March 1998 (see "Electric Facilities - - Generating Facilities" in Item 2), Con Edison proposed to meet its continuing obligations to supply electricity following divestiture through purchases of electricity in a competitive wholesale market. To assure adequate supply resources prior to the development of that market, Con Edison proposed, through 2002, to make short-term capacity purchases and to obtain commitments from purchasers of Con Edison's divested capacity to make capacity available.

**NYPA.** NYPA supplies its customers in Con Edison's service area with electricity from its Poletti fossil-fueled unit in Queens, New York, its Indian Point 3 nuclear unit in Westchester County and other NYPA sources. Electricity is delivered to these NYPA customers through Con Edison's transmission and distribution facilities, and NYPA pays a delivery charge to Con Edison.

Con Edison purchases portions of the output of Poletti and Indian Point 3 on a firm basis. Con Edison also purchases firm capacity from NYPA's Blenheim-Gilboa pumped-storage generating facility in upstate New York. Con Edison and NYPA also sell to each other energy on a non-firm basis.

HYDRO-QUEBEC. Con Edison has an agreement with NYPA to purchase, through a contract between NYPA and Hydro-Quebec (a government-owned Canadian electric utility), 780 MW of firm power and energy during the months of April 1998 through October 1998 (the "Diversity Contract"). The amount and price of a "basic amount" of energy Con Edison is entitled to purchase is subject to negotiation with Hydro-Quebec and approval by the National Energy Board of Canada (a Canadian regulatory agency). In accordance with the Diversity Contract, Con Edison can also purchase additional energy which it would be obligated to return to Hydro-Quebec by April 1999. Hydro-Quebec and Con Edison have agreed to extend the Diversity Contract on substantially the same terms for 400 MW of firm power and energy during the April-through-October periods of 1999 through 2003.

NON-UTILITY GENERATORS. Federal and state regulations encourage competition in the market for generation of electric power. These laws generally require electric utilities to purchase electric power from and sell electric power to qualifying NUGs. The Federal Energy Regulatory Commission has issued rules requiring utilities to purchase electricity from qualifying facilities at a price equal to the purchasing utility's "avoided cost." For information about Con Edison's contracts with NUGs, see "Liquidity and Capital Resources - Competition and Industry Restructuring and PSC Settlement Agreement - Recovery of Prior Investments and Commitments " in Item 7 and Note G to the financial statements in Item 8.

NEW YORK POWER POOL. Con Edison and the other major electric utilities in New York State, including NYPA, are currently members of the New York Power Pool. The primary purpose of the Power Pool is to coordinate planning and operations so as to better assure the reliability of the State's interconnected electric systems. As a member of the Power Pool, Con Edison is required to maintain its capacity resources (net generating capacity and net firm purchases) at a minimum reserve margin of 18% above its peak load, and to pay penalties if it fails to maintain the required level. Con Edison met the reserve requirement in 1997 and expects to meet it in 1998. For information about a plan to restructure the wholesale electric market in New York State, see "Liquidity and Capital Resources - Competition and Industry Restructuring" in Item 7.

MUNICIPAL ELECTRIC AGENCIES. Westchester County and New York City maintain municipal electric agencies to purchase electric energy, including hydroelectric energy from NYPA. Con Edison has entered into agreements with the County and City agencies whereby Con Edison is delivering interruptible hydroelectric energy from NYPA's Niagara and St. Lawrence projects to electric customers designated by the agencies. These agreements may be terminated by either party upon either one year's prior notice or, in certain circumstances, upon 10 days' notice. A similar agreement, covering energy from NYPA's Fitzpatrick nuclear plant, provides for termination in 2010. For information on the amount of energy delivered, see "Operating Statistics," below.

GAS CONVERSIONS. Con Edison has, for a fee, generated electric energy for others using as boiler fuel the gas that they provided. The amounts so generated represented 2.3 percent, 3.8 percent and 7.0 percent, respectively, of the electric energy generated and purchased by Con Edison in 1997, 1996 and 1995. Con Edison has purchased a substantial portion of this energy for sale to its customers. See "Operating Statistics," below.

## GAS OPERATIONS

**GAS SALES.** Gas operating revenues in 1997 were \$1.1 billion or 15.4 percent of Con Edison's operating revenues. The percentages were 14.6 and 12.4, respectively, in the two preceding years.

All of Con Edison's gas customers, either individually (at least 3,500 dekatherms per annum) or by aggregating their demand with other customers (at least 5,000 dekatherms per annum), became eligible in 1996 to purchase gas directly from suppliers other than Con Edison. Regardless of whether Con Edison or another supplier sells the gas to customers in Con Edison's service area, the gas is distributed to the customers through Con Edison's system of distribution mains and service lines. The customers pay Con Edison a fee (reflecting Con Edison's costs and a rate of return on its investment in the gas system) for distributing the gas. Con Edison sells gas to its firm gas customers at Con Edison's cost. Con Edison shares with its firm gas customers net revenues (operating revenues less the cost of gas purchased for resale) from interruptible gas sales, off-system sales and other "non-core" transactions.

Gas sales volume to firm customers decreased 6.2 percent in 1997 from the 1996 level. After adjusting for variations, principally weather, firm gas sales volume to these customers decreased 0.8 percent. Including sales to interruptible and off-system customers, actual sales volume increased 0.1 percent in 1997. Transportation of customer-owned gas (other than for NYPA), which comprised approximately 5.4 percent of the gas Con Edison sold to or transported for customers in 1997, increased 68.9 percent in 1997. Net revenues from off-system sales transactions (such as releases of pipeline capacity and bundled sales of gas and ancillary services) were \$15.2 million in 1997, compared to \$14.4 million in 1996.

In September 1997, the PSC issued for comment a PSC staff report recommending that all New York State gas utilities terminate their gas supply or "merchant" functions within five years. The PSC is expected to issue an order in 1998 addressing the PSC staff's recommendation and the stranded cost, reliability and provider of last resort issues that it raises.

For information about Con Edison's current gas rate agreement, see "Liquidity and Capital Resources - Gas and Steam Rate Agreements" in Item 7. For information about Con Edison's gas facilities, see "Gas Facilities" in Item 2. For information on the quantities of gas sold, transported for others and used by Con Edison as boiler fuel to generate electricity and steam, see "Operating Statistics" and "Fuel Supply," below.

**GAS REQUIREMENTS.** Firm demand for gas in Con Edison's service area peaks during the winter heating season. The design criteria for Con Edison's gas system assume severe weather conditions that have not occurred in the service area since 1934. Under these criteria, Con Edison estimates that the requirements to supply its firm gas customers, together with the minimum amount essential for its electric and steam systems, would amount to 71,100 thousand dekatherms (mdth) of gas during the 1997/98 winter heating season and that gas available to Con Edison would amount to 92,400 mdth. For the 1998/99 winter, Con Edison estimates that the requirements would amount to approximately 70,911 mdth and that the gas available to Con Edison would amount to approximately 92,400 mdth. As of March 15, 1998, the 1997/98 winter peak day sendout to Con Edison's customers was 665 mdth, which occurred on March 12, 1998. Con Edison estimates that, under the design criteria, the peak day requirements for firm customers during the 1998/99 winter season would amount to approximately 858 mdth and expects that it would have sufficient gas available to meet these requirements.

**GAS SUPPLY.** Con Edison has contracts for the purchase of firm transportation and storage services with seven interstate pipeline companies. Con Edison also has contracts with seventeen pipeline and non-pipeline suppliers for the firm purchase of natural gas. Con Edison also has interruptible gas purchase contracts with numerous suppliers and interruptible gas transportation contracts with interstate pipelines. Con Edison expects to have sufficient gas supply to meet the requirements of its customers in 1998.



## STEAM OPERATIONS

**STEAM SALES.** Con Edison sells steam in Manhattan south of 96th Street, mostly to large office buildings, apartment houses and hospitals. In 1997, steam operating revenues were \$391.8 million or 5.5 percent of Con Edison's operating revenues. The percentages were 5.8 and 5.1, respectively, in the two preceding years. Steam sales volume decreased 8.6 percent in 1997 from the 1996 level. After adjusting for variations, principally weather, steam sales decreased 1.0 percent. For information about Con Edison's current steam rate agreement, see "Liquidity and Capital Resources - Gas and Steam Rate Agreements" in Item 7.

**STEAM SUPPLY.** 38.8 percent of the steam sold by Con Edison in 1997 was produced in Con Edison's electric generating stations, where it is first used to generate electricity. 16.0 percent of the steam sold by Con Edison in 1997 was purchased from a NUG. The remainder was produced in Con Edison's steam-only generating units. For information about Con Edison's steam facilities, see "Steam Facilities" in Item 2.

**STEAM PEAK LOAD AND CAPABILITY.** Demand for steam in Con Edison's service area peaks during the winter heating season. The one-hour peak load during the winter of 1997/98 (through March 15, 1998) occurred on March 12, 1998 when the load reached 8.5 million pounds. Con Edison estimates that for the winter of 1998/99 the peak demand of its steam customers would be approximately 12.3 million pounds per hour under design criteria, which assume severe weather.

On December 31, 1997, the steam system had the capability of delivering about 13.2 million pounds of steam per hour. This figure does not reflect the unavailability or reduced capacity of generating facilities resulting from repair or maintenance. Con Edison estimates that, on a comparable basis, the system will have the capability to deliver approximately 13.2 million pounds of steam per hour in the 1998/99 winter.

## COMPETITIVE BUSINESSES AND COMPETITION

CEI has subsidiaries other than Con Edison. These other subsidiaries engage in competitive businesses and may encounter different, and perhaps greater, risks than those involved in the utility business of Con Edison. Consolidated Edison Solutions, Inc. ("Con Edison Solutions"), formerly ProMark Energy, Inc., is a full-service energy company providing wholesale and retail electricity and natural gas sales, as well as energy-related products and services. Consolidated Edison Development, Inc. ("Con Edison Development"), formerly Gramercy Development, Inc., invests in energy infrastructure development projects and markets technical services worldwide. CEI's investment in Con Edison Development and Con Edison Solutions was approximately \$92.1 million as of December 31, 1997. Start-up and business development expenses resulted in a net after-tax loss of approximately \$9.6 million for these subsidiaries in 1997. Consolidated Edison Energy, Inc. ("Con Edison Energy") and Consolidated Edison Communications, Inc. ("Con Edison Communications") recently commenced operations. Con Edison Energy is expected to invest in, operate and market the output of, electric energy supply facilities in the United States and provide specialized wholesale energy services in the electric power and natural gas markets. Con Edison Communications is expected to own, lease, operate or invest in facilities used for telecommunications or otherwise compete in the telecommunications industry. CEI may establish other subsidiaries from time to time. CEI expects to invest \$300 million in 1998 and 1999 in its subsidiaries other than Con Edison.

See "Liquidity and Capital Resources - Competition and Industry Restructuring" in Item 7.

## CAPITAL REQUIREMENTS AND FINANCING

For information about the Company's capital requirements and financing, the refunding of certain securities and Con Edison's securities ratings, see "Liquidity and Capital Resources" in Item 7. In March 1998, the PSC approved the \$1 billion repurchase of CEI Common Shares (\$.10 par value) discussed in "Liquidity and Capital Resources - Stock Repurchase" in Item 7.

Securities ratings assigned by rating organizations are expressions of opinion and are not recommendations to buy, sell or hold securities. A securities rating is subject to revision or withdrawal at any time by the assigning rating organization. Each rating should be evaluated independently of any other rating.

## FUEL SUPPLY

GENERAL. In 1997, 22.7 percent of the electricity supplied to Con Edison's customers was obtained through economy purchases of energy produced from a variety of fuels. Of the remaining 77.3 percent, which was either obtained through firm purchases of energy or generated by Con Edison, oil was used to generate 7.6 percent of the electricity, natural gas 57.9 percent, nuclear power 8.5 percent, hydroelectric power 2.4 percent, and refuse 0.9 percent. In 1997, Con Edison used oil to produce 44.0 percent, and gas to produce 40.0 percent, of the steam supplied to Con Edison's customers. The remaining 16.0 percent was purchased by Con Edison from a NUG. For information about changes to Con Edison's electric operations, see "Electric Operations - Changes," above.

A comparison of the cost, in cents per million Btu, of fuel used by Con Edison to generate electricity and steam (excluding electricity generated for others as described under "Gas Conversions," above) during the years 1993-1997 is shown below:

	1993	1994	1995	1996	1997
Residual Oil	352	316	316	441	416
Distillate Oil	499	467	399	465	490
Natural Gas	288	255	253	324	307
Nuclear	37	42	51	50	51
Weighted Average	243	206	223	255	292

Con Edison is prohibited from using fuels that do not conform to the requirements of the New York State air pollution control code and, in the case of its in-City plants, the New York City air pollution control code. In the City, Con Edison is not permitted to burn coal or to burn residual fuel oil having a sulfur content of more than 0.3 percent.

RESIDUAL OIL. Based on anticipated consumption rates, Con Edison has an adequate supply of residual fuel oil for its generating stations and Con Edison's shares of generating capacity at the Roseton and Bowline Point stations jointly-owned by Con Edison and other utilities. See "Electric Facilities" in Item 2. Oil consumption rates vary widely from month to month. The oil burned at Con Edison facilities in 1997, including Con Edison's shares of generating capacity at Roseton and Bowline Point, totaled 8.2 million barrels. Con Edison has contracts for oil supply and has options for additional oil supply sufficient to cover all of its expected requirements for residual oil through September 1998. Con Edison anticipates covering the balance of its 1998 requirements through new contracts, exercise of existing contract options and purchases on the spot market.

NATURAL GAS. During 1997, Con Edison burned approximately 122,000 mdth of gas for the production of electricity and steam, including 12,400 mdth attributable to Con Edison's share of generating capacity at the Roseton and Bowline Point stations and 9,700 mdth of gas provided by others. See "Electric Operations - Gas Conversions," above. Con Edison expects to continue to have substantial amounts of gas available in 1998 for the production of electricity and steam for its customers.

DISTILLATE OIL. Con Edison's estimated 1998 requirements for distillate oil for gas turbine fuel are about 500,000 barrels. Con Edison expects to be able to satisfy these requirements through purchases on the spot market.

COAL. Con Edison does not burn coal. In 1983, the New York State Department of Environmental Conservation (DEC) ruled on an application by Con Edison for permission to convert three electric generating units, Ravenswood 3 in Queens and Arthur Kill 2 and 3 on Staten Island, to coal-burning. The DEC ruled that Con Edison would be permitted to burn coal at each location only if flue gas desulfurization (FGD) systems were installed. Con Edison's studies showed that it would not be economical to pursue coal conversion with FGD systems.

NUCLEAR FUEL. The nuclear fuel cycle for power plants like Indian Point 2 consists of (1) mining and milling of uranium ore, (2) chemically converting the uranium in preparation for enrichment, (3) enriching the uranium, (4) fabricating the enriched uranium into fuel assemblies, (5) using the fuel assemblies in the generating station and (6) storing the spent fuel.

Con Edison has contracts covering all of its expected requirements for uranium for the planned 1999 and 2001 refuelings of Indian Point 2. Con Edison has contracts covering most of its expected requirements for conversion for the 2001 refueling. Arrangements are expected to be completed in 1998 for the additional conversion required for the expected 2001 refueling. Con Edison has contracts covering most of its expected requirements for uranium enrichment services and all of its expected requirements for fuel fabrication services through the expiration of Indian Point 2's operating license in 2013.

For additional information about Indian Point 2, see "Electric Facilities - Generating Facilities" in Item 2, "Liquidity and Capital Resources - Nuclear Generation" in Item 7 and "Nuclear Decommissioning" and "Nuclear Fuel" in Note A to the financial statements in Item 8.

The United States Department of Energy ("DOE") has defaulted on its obligations under statute and contracts with Con Edison and other utilities that required the DOE to start disposing of the utilities' spent nuclear fuel no later than January 1998. The utilities are continuing to seek judicial enforcement of DOE's statutory and contractual obligations. Con Edison estimates that it has adequate on-site capacity until 2005 for interim storage of its spent nuclear fuel and that, absent regulatory or technological developments, additional storage facilities will then be needed. If the additional storage facilities were not available, Con Edison would be required to curtail the operation of Indian Point 2.

Con Edison, along with other utilities, is currently participating in a private spent fuel storage initiative, which seeks to license and build an interim, commercial, spent nuclear fuel storage facility by 2002. The proposed site is on the Skull Valley Goshute Indian Reservation in Utah. Each participant contributed approximately \$1 million for engineering, licensing and legal studies for the preparation of a license application submitted to the Nuclear Regulatory Commission in 1997.

Con Edison disposes of low-level radioactive wastes ("LLRW") generated at Indian Point at the licensed disposal facility located in Barnwell, South Carolina. Under the 1985 Federal Low Level Radioactive Waste Amendments Act, New York State was required by January 1996 to provide for permanent disposal of all LLRW generated in the state. New York State has not provided for such disposal. Con Edison expects that it will be able to provide for such storage of LLRW as may be required until New York State establishes a storage or disposal facility or adopts some other LLRW management method.

REGULATION AND RATES

GENERAL. CEI is a "public utility holding company" under the Public Utility Holding Company Act of 1935 (the "1935 Act"). The staff of the Securities and Exchange Commission ("SEC"), which administers the 1935 Act, has recommended, and several bills have been introduced in Congress that would accomplish, the repeal of the 1935 Act. CEI is exempt from all provisions of the 1935 Act, except Section 9(a)(2) (which requires SEC approval for a direct or indirect acquisition of 5 percent or more of the voting securities of any other electric or gas utility company) on the basis that CEI and Con Edison are each organized and carry on their utility businesses substantially in the State of New York and that neither derives any material part of its income from a public utility company organized outside of the State of New York. This exemption is available even though CEI subsidiaries that are neither an "electric utility company" nor a "gas utility company" under the 1935 Act will engage in interstate activities. To maintain this exemption, CEI must file an exemption statement with the SEC each year prior to March 1. The exemption may be revoked by the SEC if a substantial question of law or fact exists as to whether CEI is within the parameters of the exemption, or if it appears that the exemption may be detrimental to the public interest or the interest of investors or consumers.

The New York State Public Service Commission ("PSC") regulates, among other things, Con Edison's electric, gas and steam rates, the siting of its transmission lines and the issuance of its securities. Certain activities of Con Edison are subject to the jurisdiction of the Federal Energy Regulatory Commission. The Nuclear Regulatory Commission regulates Con Edison's Indian Point 2 and its retired Indian Point 1 nuclear units. In addition, various matters relating to the construction and operation of Con Edison's facilities are subject to regulation by other governmental agencies. For information about changes in regulation affecting the Company, see "Liquidity and Capital Resources - Competition and Industry Restructuring and PSC Settlement Agreement" in Item 7 and "Challenges to Settlement Agreement" in Item 3.

CEI is not subject to regulation by the PSC, the Federal Energy Regulatory Commission or the Nuclear Regulatory Commission, except to the extent that the rules or orders of these agencies impose restrictions on CEI's relationships with Con Edison or Con Edison's relationships with CEI's other subsidiaries. See "Liquidity and Capital Resources - PSC Settlement Agreement - Corporate Structure" in Item 7.

ELECTRIC, GAS and STEAM RATES. Con Edison's electric, gas and steam rates are among the highest in the country. For information about Con Edison's rates, see "Liquidity and Capital Resources - PSC Settlement Agreement and Gas and Steam Rate Agreements" in Item 7 and "Challenges to Settlement Agreement" in Item 3.

STATE ENERGY PLAN. In October 1994, the New York State Energy Planning Board, released its most recent State Energy Plan. The plan is designed to provide "an intelligent framework for evaluating the proper course for energy policy, environmental protection and economic development . . . to assure that New Yorkers will have a safe, affordable and reliable supply of energy that will promote future economic growth and protect our environment." Under New York State law, any energy-related decisions of State agencies must be reasonably consistent with the plan. Although the Energy Planning Board had announced that a new plan would be issued during 1997, the new plan has not yet been issued.

## ENVIRONMENTAL MATTERS AND RELATED LEGAL PROCEEDINGS

**GENERAL.** During 1997, Con Edison's capital expenditures for environmental protection facilities and related studies were approximately \$43 million. The Company estimates that such expenditures will amount to approximately \$49 million in 1998 and \$35 million in 1999. These amounts include capital expenditures in 1998 and 1999 required to comply with the Federal Clean Air Act amendments of 1990 and a 1994 consent decree with the New York State Department of Environmental Conservation. See "Liquidity and Capital Resources - Air Quality" in Item 7 and "Environmental Matters - DEC Settlement" in Note F to the financial statements in Item 8.

**INDIAN POINT.** The Company believes that a serious accident at its Indian Point 2 nuclear unit is extremely unlikely, but despite substantial insurance coverage, the losses to the Company in the event of a serious accident could materially adversely affect the Company's financial position and results of operations. For information about Indian Point 2 and Con Edison's retired Indian Point 1 nuclear unit, see "Electric Operations" and "Fuel Supply - Nuclear Fuel" above, "Water Quality" below, "Electric Facilities - Generating Facilities" in Item 2, "Liquidity and Capital Resources - Capital Requirements and Nuclear Generation" in Item 7 and Notes A and F to the financial statements in Item 8.

**SUPERFUND.** The Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 (Superfund) by its terms imposes joint and several strict liability, regardless of fault, upon generators of hazardous substances for resulting removal and remedial costs and environmental damages. In the course of Con Edison's operations, materials are generated that are deemed to be hazardous substances under Superfund. These materials include asbestos and dielectric fluids containing polychlorinated biphenyls (PCBs). Other hazardous substances are generated in Con Edison's operations or may be present at Con Edison locations. Also, hazardous substances were generated at the manufactured gas plants which Con Edison and its predecessor companies used to operate. For additional information about Superfund, see "Superfund" in Item 3 and "Environmental Matters - Superfund Claims" in Note F to the financial statements in Item 8.

**ASBESTOS.** Asbestos is present in numerous Con Edison facilities. For information about asbestos, see "Environmental Matters - Asbestos Claims" in Note F to the financial statements in Item 8 and "Gramercy Park" and "Asbestos Litigation" in Item 3.

**TOXIC SUBSTANCES CONTROL ACT.** Virtually all electric utilities, including Con Edison, own equipment containing PCBs. PCBs are regulated under the Federal Toxic Substances Control Act of 1976. Con Edison has reduced substantially the amount of PCBs in electrical equipment it uses, including transformers located in or near public buildings.

**AIR QUALITY.** For information about the Federal Clean Air Act amendments of 1990 and ambient air quality standards for ozone and particulate matter, see "Liquidity and Capital Resources - Air Quality" in Item 7. For information about divestiture of Con Edison's in-city generating capacity, see "Liquidity and Capital Resources - PSC Settlement Agreement" in Item 7 and "Electric Facilities - Generating Facilities" in Item 2.

The New York City air pollution control code contains limitations on the allowable sulfur content of fuels and on emissions of sulfur dioxide, particulate matter, oxides of nitrogen and various trace elements. Certain provisions of the code, specifically those pertaining to standards for emissions of nitrogen oxides, may be impracticable to meet at some of Con Edison's generating stations located in New York City unless variances or other relief from such provisions are granted. Revision of the code is not expected. These code provisions, which have existed since the early 1970's, have not had, and are not expected to have, a material adverse effect on Con Edison's operations.

WATER QUALITY. The Federal Clean Water Act provides for effluent limitations, to be implemented by a permit system, to regulate the discharge of pollutants, including heat, into United States waters. In 1981, Con Edison entered into a settlement with the United States Environmental Protection Agency ("EPA") and others that relieved Con Edison for at least 10 years from a proposed regulatory agency requirement that, in effect, would have required that cooling towers be installed at the Bowline Point, Roseton and Indian Point units. In return Con Edison agreed to certain plant modifications, operating restrictions and other measures and surrendered its operating license for a proposed pumped-storage facility that would have used Hudson River water.

In September 1991, after the expiration of the 1981 settlement, three environmental interest groups commenced litigation challenging the permit status of the units pending renewal of their discharge permits, which expired in October 1992. Under a consent order settling this litigation, certain restrictions on the units' usage of Hudson River water have been imposed on an interim basis. Permit renewal applications were filed in April 1992, after which the New York State Department of Environmental Conservation ("DEC") determined that Con Edison must submit a draft environmental impact statement ("DEIS") to provide a basis for determining new permit conditions. The preliminary DEIS, submitted in July 1993, includes an evaluation of the costs and environmental benefits of potential mitigation alternatives, one of which is the installation of cooling towers. Con Edison has been participating with the DEC and several environmental groups in reviewing the preliminary DEIS. A revised and updated DEIS will be prepared for public comment. Pending issuance of final renewal permits, the terms and conditions of the expired permits continue in effect.

Certain governmental authorities are investigating contamination in the Hudson River and the New York Harbor. These waters are along the shoreline of Con Edison's service area. Governmental authorities could require entities that generated hazardous substances that contaminated these waters to bear the costs of investigation and remediation.

ELECTRIC AND MAGNETIC FIELDS. Electric and magnetic fields (EMF) are found wherever electricity is used. Several scientific studies have raised concerns that EMF surrounding electric equipment and wires, including power lines, may present health risks. In October 1996, the National Academy of Science issued a report concluding that "the current body of evidence does not show that exposure to [EMF] presents a human health hazard." In July 1997, the National Cancer Institute Childhood Cancer study indicated that the results of their study "provide little support for the hypothesis that living in homes with high time-weighted average magnetic-field levels or in homes close to electrical transmission or distribution lines is related to the risk of childhood [leukemia]." For additional information about EMF, see "Environmental Matters - EMF" in Note F to the financial statements in Item 8.

#### GENERAL

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

#### EMPLOYEES

The Company had 15,029 employees on December 31, 1997. A collective bargaining agreement with the union representing about two-thirds of Con Edison's employees expires in June 2000.

#### RESEARCH AND DEVELOPMENT

For information about the Company's research and development costs, see Note A to the financial statements in Item 8.

OPERATING STATISTICS

Year Ended December 31	1997	1996	1995	1994	1993
<b>ELECTRIC Energy (MWhrs)</b>					
Generated (a)	15,877,467	17,823,778	18,436,798	20,419,828	20,079,995
Purchased from Others (a)	27,105,143	26,178,042	26,700,594	21,036,437	19,813,654
Total Generated and Purchased	42,982,610	44,001,820	45,137,392	41,456,265	39,893,649
Less: Supplied without direct charge	71	71	71	73	74
Used by Company (b)	155,934	164,206	165,934	134,940	183,903
Distribution losses and other variances	2,799,039	2,716,235	2,977,547	2,762,315	2,863,828
Net Generated and Purchased	40,027,566	41,121,308	41,993,840	38,558,937	36,845,844
<b>Electric Energy Sold:</b>					
Residential	11,002,745	10,867,085	10,848,648	10,660,148	10,512,496
Commercial and Industrial	25,911,199	25,725,502	25,492,489	25,511,974	25,118,125
Railroads and Railways	75,392	47,004	47,482	47,289	49,542
Public Authorities	538,643	564,363	569,749	554,753	560,836
Total Sales to Con Edison Customers	37,527,979	37,203,954	36,958,368	36,774,164	36,240,999
Off-System Sales (a) (c)	2,499,587	3,917,354	5,035,472	1,784,773	604,845
Total Electric Energy Sold	40,027,566	41,121,308	41,993,840	38,558,937	36,845,844
<b>Total Sales to Con Edison Customers</b>					
Delivery Service to NYPA					
Customers and Others	8,793,378	8,816,873	8,855,790	8,773,155	8,441,624
Service for Municipal Agencies	845,895	617,293	456,728	413,893	361,854
Total Sales in Franchise Area	47,167,252	46,638,120	46,270,886	45,961,212	45,044,477
<b>Average Annual kWhr Use Per</b>					
Residential Customer (d)	4,225	4,184	4,188	4,136	4,104
<b>Average Revenue Per kWhr Sold (cents):</b>					
Residential (d)	16.6	16.5	16.1	15.8	16.0
Commercial and Industrial (d)	13.0	12.9	12.5	12.2	12.6

(a) For 1997, 1996 and 1995, amounts generated include 973,483, 1,672,603 and 3,159,047 MWhrs, respectively, generated for others, which is also included in off-system sales. For 1997, 1996 and 1995, amounts purchased include 929,483, 1,553,764 and 2,666,837 MWhrs, respectively, of such electric energy that was subsequently purchased by Con Edison. See "Electric Operations - Gas Conversions," above.

(b) For 1995 and 1993, electric energy used by Con Edison includes 436 and 29,233 MWhrs, respectively, supplied to NYPA. For 1997, 1996 and 1994, electric energy used by Con Edison includes 4,805, 544 and 21,275 MWhrs, respectively, received from NYPA.

(c) For 1997, 1995, 1994 and 1993, off-system sales include 54, 2,825, 350, and 2,142 MWhrs, respectively, which were sold to NYPA and are also included in the Delivery Service to NYPA. There were no such sales to NYPA in 1996.

(d) Includes Municipal Agency sales.

OPERATING STATISTICS

Year Ended December 31	1997	1996	1995	1994	1993
=====					
-----					
GAS (Dth) (a)					
Purchased (b)	242,296,610	219,439,813	217,268,986	208,328,267	214,719,241
Storage - net change	(1,630,463)	(4,032,224)	9,469,767	(4,410,363)	222,559
Used as boiler fuel at Electric and Steam Stations (b)	(109,508,555)	(84,849,049)	(110,761,124)	(92,680,221)	(108,153,436)
Gas Purchased for Resale	131,157,592	130,558,540	115,977,629	111,237,683	106,788,364
Less: Gas used by Company	239,359	272,040	237,688	221,715	203,793
Off-System Sales & NYPA (c)	14,216,403	11,023,023	4,887,971	--	--
Distribution losses and other variances	104,5	176,930	4,654,832	2,443,486	3,998,234
Total Sales to Con Edison Customers	116,597,299	119,086,547	106,197,138	108,572,482	102,586,337
Gas Sold (a)					
Firm Sales:					
Residential	53,217,428	56,590,018	51,702,329	53,981,416	52,624,331
General	39,468,337	42,190,091	39,021,997	39,365,003	37,214,994
Total Firm Sales	92,685,765	98,780,109	90,724,326	93,346,419	89,839,325
Interruptible Sales	23,911,534	20,306,438	15,472,812	15,226,063	12,747,012
Total Sales to Con Edison Customers	116,597,299	119,086,547	106,197,138	108,572,482	102,586,337
Transportation of Customer-Owned Gas:					
NYPA	17,041,695	4,966,983	24,972,796	14,546,325	15,965,084
Other	8,464,900	5,011,124	5,388,393	3,823,176	4,926,565
Off-System Sales	13,958,984	11,293,425	3,376,375	--	--
Total Sales and Transportation	156,062,878	140,358,079	139,934,702	126,941,983	123,477,986
Average Revenue Per Dth Sold (a):					
Residential	\$11.22	\$10.00	\$ 9.43	\$ 9.85	\$9.27
General	\$ 8.14	\$ 7.15	\$ 6.38	\$ 7.05	\$6.71
STEAM Sold (Mlbs):	27,422,561	29,995,762	29,425,780	30,685,155	29,394,335
Average Revenue per Mlbs Sold	\$14.23	\$13.34	\$11.35	\$11.10	\$11.06
CUSTOMERS - Average for Year					
Electric	3,010,139	3,001,870	2,994,447	2,980,026	2,964,716
Gas	1,036,098	1,035,528	1,034,784	1,031,675	1,028,048
Steam	1,920	1,932	1,945	1,964	1,973

(a) Does not include amounts for Con Edison Solutions. See "Competitive Businesses and Competition," above.

(b) For 1997, 1996 and 1995, gas used as boiler fuel includes 9,636,239, 16,739,188 and 31,706,551 Dth, respectively, provided by others. See "Electric Operations - Gas Conversions," above.

(c) For 1997, 1996 and 1995, includes 259,220, 173,388 and 1,305,730 Dth, respectively, for balancing transactions with NYPA.



ITEM 2. PROPERTIES

At December 31, 1997, the capitalized cost of Con Edison's utility plant, net of accumulated depreciation, (and excluding \$102.3 million of nuclear fuel assemblies) was as follows:

Classification	Net Capitalized Cost (millions of dollars)	Percentage of Net Utility Plant
In Service:		
Electric:		
Generation	\$ 1,624.7	14%
Transmission	1,127.6	10%
Distribution	5,445.7	49%
Gas	1,348.7	12%
Steam	477.4	4%
Common	843.6	8%
Held For Future Use	4.9	--
Construction Work in Progress	292.2	3%
Net Utility Plant	\$11,164.8	100%

ELECTRIC FACILITIES

GENERATING FACILITIES. As shown in the following table, at December 31, 1997, Con Edison's net maximum generating capacity (on a summer rating basis) was 8,291 MW, without reduction to reflect the unavailability or reduced capacity at any given time of particular units because of maintenance or repair or their use to produce steam for sale.

Generating Stations	Net Generating Capacity at December 31, 1997 (Megawatts-Summer Rating)	Percentage of Electric Energy Generated and Purchased in 1997*
Fossil-Fueled:		
Ravenswood (3 Units)	1,742	9.9%
Astoria (3 Units)	1,075	8.4%
Arthur Kill (2 Units)	826	2.7%
East River (2 Units)	300	1.1%
Bowline Point (2 Units) - two-thirds interest	808	2.4%
Roseton (2 Units) - 40% interest	482	2.9%
Other (4 Units)	187	1.3%
Subtotal	5,420	28.7%
Nuclear - Indian Point	931	7.3%
Gas Turbines (39 Units)	1,940	0.9%
Total	8,291	36.9%

\* For information about the electric energy purchased by Con Edison, see "Electric Operations" in Item 1.

Con Edison's generating stations are located in New York City with the exception of the Indian Point nuclear station in Westchester County, New York; the Bowline Point station in Rockland County, New York; and the Roseton station in Orange County, New York.

Con Edison's fossil-fueled plants burn natural gas or residual oil. Most of the gas turbines burn distillate oil. Certain units have the capability to burn either natural gas or oil. See "Fuel Supply" in Item 1.

In March 1998, pursuant to the Settlement Agreement, Con Edison submitted a detailed plan to the PSC for the divestiture to unaffiliated third parties or transfer to an unregulated affiliate of Con Edison of all of Con Edison's New York City fossil-fueled electric generating capacity. Under the plan, Con Edison's approximately 5,500 MW of in-City capacity is divided into three separate groups, or "asset bundles." Each asset bundle includes a major generating station - Ravenswood, Astoria or Arthur Kill - and gas turbine generating facilities. Pursuant to the plan, Con Edison will offer for sale by auction two of the asset bundles and transfer the third asset bundle to its unregulated affiliate. Con Edison has not yet identified which of the asset bundles will be offered for sale and which will be transferred. Con Edison has requested the PSC to rule expeditiously on the plan so that it may commence the auctioning of the generating assets to be divested as rapidly as possible. For additional information, see "Liquidity and Capital Resources - PSC Settlement Agreement- Divestiture Commitment and Recovery of Prior Costs and Commitments" in Item 7 and "Challenges to Settlement Agreement" in Item 3.

Con Edison is currently exploring with Orange and Rockland Utilities, Inc. ("O&R") alternatives with respect to the future disposition of the Bowline Point station. O&R has a one-third interest and Con Edison has a two-thirds interest as tenants in common in the Bowline Point station, which is operated by O&R. Con Edison and O&R have reciprocal rights of first refusal on any sale of the other's interest in Bowline point. Under a settlement agreement with the PSC, O&R has agreed to divest all of its generating assets, including its share of Bowline Point.

Con Edison is currently evaluating with Central Hudson Gas & Electric Corporation ("Central Hudson") and Niagara Mohawk Power Corporation ("Niagara Mohawk") several options regarding the future disposition of the Roseton station. Central Hudson has a 35 percent interest, Niagara Mohawk a 25 percent interest and Con Edison a 40 percent interest as tenants in common in the Roseton station (which is operated by Central Hudson). Con Edison, Central Hudson and Niagara Mohawk have reciprocal rights of first refusal on any sale of the others' interest in Roseton. In addition, Central Hudson has the option, exercisable in 1999, to acquire Con Edison's interest in 2004.

For information about Con Edison's Indian Point 2 nuclear unit, see "Electric Operations," "Fuel Supply - Nuclear Fuel", "Environmental Matters and Related Legal Proceedings - Indian Point and Water Quality" in Item 1, "Liquidity and Capital Resources - Capital Requirements and Nuclear Generation" in Item 7 and Notes A and F to the financial statements in Item 8.

In March 1998, the PSC instituted a proceeding to examine issues relating to nuclear generation in a competitive market. The PSC adopted "as a rebuttable presumption the premise that nuclear power should be priced on a market-basis to the same degree as power from other sources, and parties challenging that premise bear a substantial burden of proof." The PSC indicated that "divestiture [of nuclear plants], even if ultimately required, would not be mandated before the end of the transition period ['roughly 2002']."

In March 1998, Con Edison received a Confirmatory Action Letter in which the NRC concurred with Con Edison's restart plan to resume power operation of Indian Point 2 following completion of certain plant improvement activities currently in progress. The unit has been out of service since mid-October 1997. Con Edison has informed the NRC of its intent to conduct an independent safety assessment and meet with the NRC to discuss the findings of the assessment.

**TRANSMISSION FACILITIES.** Con Edison has transmission interconnections with Niagara Mohawk, Central Hudson, O&R, New York State Electric and Gas Corporation, Connecticut Light and Power Company, Long Island Lighting Company, NYPA and Public Service Electric and Gas Company. Con Edison's transmission facilities are located in New York City and Westchester, Orange, Rockland, Putnam and Dutchess counties in New York State.

At December 31, 1997, Con Edison's transmission system had approximately 432 miles of overhead circuits operating at 138, 230, 345 and 500 kilovolts and approximately 378 miles of underground circuits operating at 138 and 345 kilovolts. There are approximately 267 miles of radial subtransmission circuits operating at 138 kilovolts. Con Edison's 14 transmission substations, supplied by circuits operated at 69 kilovolts and above, have a total transformer capacity of 15,731 megavolt amperes.

At December 31, 1997, the transmission capacity to receive power from outside New York City to supply in-City load during the summer peak period was 4,915 MW. The 1997 one-hour peak load in Con Edison's service area was 11,013 MW, of which 9,643 MW was for use within the City. See "Electric Operations - Electric Peak Load and Capacity" in Item 1. In-City load in excess of transmission capacity must be supplied by in-City generating stations. See "Generating Facilities," above.

**DISTRIBUTION FACILITIES.** Con Edison owns various distribution substations and facilities located throughout New York City and Westchester County. At December 31, 1997, Con Edison's distribution system had 293 distribution substations, with a transformer capacity of 20,168 megavolt amperes, 32,368 miles of overhead distribution lines and 87,455 miles of underground distribution lines.

#### **GAS FACILITIES**

Natural gas is delivered by pipeline to Con Edison at various points in its service territory and is distributed to customers by Con Edison through approximately 4,200 miles of mains and 362,300 service lines. Con Edison owns a natural gas liquefaction facility and storage tank at its Astoria property in Queens, New York. The plant can store approximately 1,000 mdth of which a maximum of about 250 mdth can be withdrawn per day. Con Edison has about 1,230 mdth of additional natural gas storage capacity at a field in upstate New York, owned and operated by Honeoye Storage Corporation, a corporation 28.8 percent owned by Con Edison.

#### **STEAM FACILITIES**

Con Edison generates steam for distribution at three electric generating stations and five steam-only generating stations and distributes steam to customers through approximately 86 miles of mains and 18 miles of service lines. In April 1998, Con Edison expects to submit to the PSC a long-range plan for the steam system. See "Electric Facilities- Generating Facilities," above.

#### **OTHER FACILITIES**

Con Edison also owns or leases various pipelines, fuel storage facilities, office equipment, a thermal outfall structure at Indian Point, and other properties located primarily in New York City and Westchester, Orange, Rockland, Putnam and Dutchess counties in New York State.

### **ITEM 3. LEGAL PROCEEDINGS**

#### **SUPERFUND**

The following is a discussion of significant proceedings pending under Superfund or similar statutes involving sites for which Con Edison has been asserted to have a liability. The list is not exhaustive and additional proceedings may arise in the future. For a further discussion of claims and possible claims against Con Edison under the Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 (Superfund) and the estimated liability accrued for certain Superfund claims, see "Environmental Matters and Related Legal Proceedings - Superfund" in Item 1, and "Environmental Matters - Superfund" in Note F to the financial statements in Item 8.

**MAXEY FLATS NUCLEAR DISPOSAL SITE.** The EPA advised Con Edison by letter, dated November 26, 1986, that it was a potentially responsible party (PRP) under Superfund for the investigation and cleanup of the Maxey Flats Nuclear Disposal Site in Morehead, Kentucky. The site is owned by the State of Kentucky and was operated as a disposal facility for low level radioactive waste from 1963 through 1977 by the Nuclear Engineering Corporation (now known as U.S. Ecology Corporation). The EPA's letter alleges that various radionuclides and organic chemicals have been released from the site into the environment. In September 1991, the EPA issued its Record of Decision for the site cleanup program. Phase one of the program requires, among other things, the removal, treatment and on-site disposal of the contaminated leachate that has accumulated in the site's waste burial trenches, the installation of an impervious cover over the waste burial trench area of the site, and the construction of a trench/leachate groundwater monitoring system, erosion controls and storm water drainage systems in that area. Phase two requires a 100-year stabilization period, with periodic monitoring and maintenance of the cover, followed by installation of a permanent cap.

In March 1995, the EPA, de minimis PRPs, large private party PRPs (including Con Edison), large federal agency PRPs and Kentucky entered into consent decrees with respect to the funding and implementation of the cleanup program. Under the consent decrees, which in April 1996 were approved by the United States District Court for the Eastern District of Kentucky, the large private party PRPs will implement phase one of the program and any corrective actions required during the first 10 years following completion of phase one to meet the performance standards established in the Record of Decision, and share the costs of those activities with the large federal agency PRPs. Also, if during this ten-year period the EPA determines that horizontal flow barriers are required, the large private party PRPs will construct the barriers and share the cost of that work with the large federal agency PRPs and Kentucky. The large private party PRPs are not responsible for any costs after the ten-year period expires. Kentucky will implement and fund the phase two program. Con Edison's share of the cleanup costs is estimated to be about \$500,000. In addition, if horizontal flow barriers are required during the ten-year period following completion of the phase one program, Con Edison would be obligated to pay an estimated \$10,000 to \$100,000 depending on the size and the number of the barriers required by the EPA.

**CURCIO SCRAP METAL SITE.** The EPA advised Con Edison, in a letter received on August 11, 1987, that it had documented the release of hazardous substances into the environment at the site of Curcio Scrap Metal, Inc. in Saddle Brook, New Jersey, and that the EPA had information indicating that Con Edison sent hazardous substances (PCBs) to the site. Con Edison provided the EPA with records that indicated that Con Edison sold scrap electric transformers to a metal broker who in turn sold them to the owner of the site. On September 30, 1991, the EPA issued a Unilateral Administrative Order which required Con Edison and three other PRPs to commence a soil and sediment cleanup at and around the site pursuant to the EPA's Record of Decision, dated June 28, 1991. This cleanup work has been completed. On September 30, 1997, the EPA issued a Record of Decision which concludes that the soil and sediment cleanup had successfully remediated the principal threats associated with the site and requires periodic groundwater monitoring for five years. The EPA estimates that the required groundwater monitoring will cost approximately \$200,000. Depending on the results of the monitoring, the EPA could extend the monitoring program for an additional five years or require remedial measures such as groundwater treatment or cleanup work.

**METAL BANK OF AMERICA SITES.** The EPA advised Con Edison by letter dated October 26, 1987 that it had reason to believe that Con Edison was a supplier of scrap transformers to Metal Bank of America Inc.'s recycling sites in Philadelphia during the late 1960s and thereafter. One of the sites was placed on the EPA's national priority list under Superfund in 1983 as a result of a suspected leak in a storage tank containing PCBs. The EPA alleged that PCBs had been found in the soil and groundwater at the site and in the sediment from areas of a tidal mudflat and the Delaware River along the site's shoreline. Con Edison provided the EPA with documents which indicate that Con Edison sold approximately 80 scrap transformers to a broker who, in turn, delivered them to the site and that Con Edison sold an additional 46 scrap transformers to Metal Bank (which may have salvaged them at the site). In December 1997, EPA issued a Record of Decision which calls for, among other things, the removal and disposal of PCBs and polynuclear aromatic hydrocarbon-contaminated sediments in the areas of the tidal mudflat and the Delaware River along the site's shoreline, the construction of a sheet pile wall along the site's shoreline, the removal and off-site disposal of soil in the southern portion of the site that contains 25 parts per million (ppm) or more of PCBs, and the removal and off-site disposal of soil that contains more than 10 ppm of PCBs in the northern portion of the site. Although EPA estimated the cost of these measures at about \$17.2 million, the PRP steering committee for the site believes that they could cost as much as \$31.7 million to implement. Con Edison does not expect that its share of the cost of the site cleanup program selected by the EPA will exceed 1.48 percent.

NARROWSBURG SITE. In 1987, the New York State Attorney General notified Con Edison that he had evidence that Con Edison is a PRP under Superfund for hazardous substances that have been released at the Cortese landfill in Narrowsburg, Sullivan County, New York. The Cortese landfill is listed on the EPA's Superfund National Priorities List. Con Edison records indicate that drums containing waste oil were shipped from its Indian Point nuclear station to the Cortese landfill for disposal. Before notifying Con Edison, the Attorney General commenced an action under Superfund in the United States District Court for the Southern District of New York against the Cortese site owner and operator and SCA Services ("SCA"), an alleged transporter of hazardous substances to the site. On January 17, 1989, SCA commenced a third-party action for contribution against Con Edison and five other parties whose chemical waste was allegedly disposed of at the site. In 1990, SCA served a second amended third-party complaint in which it sued the Con Edison and 27 other third-party defendants for contribution. Con Edison and SCA have reached a settlement of the third-party action under which Con Edison paid \$114,485 toward the cost of the site environmental studies conducted by SCA and agreed to pay 6 percent of the first \$25 million of remedial costs at the site. SCA has agreed to indemnify Con Edison for any other remedial costs and natural resource damages that it has to pay. The EPA has selected a cleanup program for the site that is estimated to cost \$12 million. SCA, Con Edison and various other third-party defendants with which SCA settled entered into a consent decree under which they agree to implement the cleanup program, to pay the EPA's oversight costs for the site and to pay approximately \$220,000 for natural resource damages. The consent decree has been approved by the United States District Court for the Southern District of New York. Cleanup work at the site is now in progress.

CARLSTADT SITE. On August 20, 1990, Con Edison was served with a third-party complaint in a Superfund cost contribution action for a former waste solvent and oil recycling facility located in Carlstadt, New Jersey. The complaint, which is pending before the United States District Court for the District of New Jersey, alleges that Con Edison shipped 120,000 gallons of waste oil to this site and that Con Edison is one of several hundred parties who are responsible under Superfund for the study and cleanup of the facility. The plaintiffs in the action, which include a group of former customers of the facility, have completed a \$3 million remedial investigation and feasibility study for the site. Plaintiffs estimate that 7 to 15 million gallons of waste solvents and oil were recycled at the site and based on this estimate, Con Edison's share of the cleanup costs would be about 0.8 to 1.7 percent. The costs of the cleanup alternatives that were evaluated in the remedial investigation and feasibility study range from \$8 million to \$321 million. In 1990, the EPA selected an interim remedy to control releases from the site while the EPA evaluates and develops a final cleanup remedy. The interim remedy called for, among other things, the construction of a slurry wall around the site and an infiltration barrier over the site. EPA estimated that the interim remedy would cost about \$3 million to implement. Plaintiffs claim that the interim remedy, which has been completed, cost \$10 million.

HELEN KRAMER LANDFILL SITE. In September 1991, Orange and Rockland Utilities, Inc. (O&R) was served with a third-party complaint in a Superfund cost recovery contribution action for the Helen Kramer Landfill Site in Mantau, New Jersey. The third-party plaintiffs are site PRPs that were sued for site cleanup costs by the State of New Jersey. The complaint, which is pending before the United States District Court for the District of New Jersey, alleges that, in 1974, Marvin Jonas, Inc. transported hazardous substances for O&R and disposed of those substances in the Helen Kramer Landfill. Preliminary investigation by O&R indicates that waste materials generated during the construction of the Bowline Point generating station were hauled and disposed of by Marvin Jonas, Inc. in 1974. Con Edison owns a two-thirds interest in Bowline Point. O&R, which operates Bowline Point, owns the remaining one-third interest. Bowline Point liabilities are shared by Con Edison and O&R in accordance with their respective ownership interests. The EPA has commenced cleanup of this site and the total site cleanup cost is estimated at \$150 million. The third-party plaintiffs have offered to settle with O&R and other third-party defendants. If the settlement is approved by the district court, O&R would pay \$15,000 to a site trust fund and the third-party plaintiffs would dismiss their action against O&R and indemnify O&R from claims for site cleanup costs by other parties.

GLOBAL LANDFILL SITE. Con Edison has been designated a PRP under Superfund and the New Jersey Spill Compensation and Control Act (Spill Act) for the study and cleanup of the Global Landfill Site in Old Bridge, New Jersey. This 57.5 acre municipal and industrial waste landfill is included on the Superfund National Priorities List and is being administered by the New Jersey Department of Environmental Protection and Energy ("NJDEPE") pursuant to an agreement between the EPA and the State of New Jersey.

Con Edison provided EPA with records indicating that it had disposed of approximately ten cubic yards of waste asbestos at the site in February 1984. In August 1989, the NJDEPE served Con Edison with a Spill Act directive that required Con Edison and 40 other designated site PRPs to fund a \$1.5 million remedial investigation and feasibility study for the site. Con Edison joined the PRP Group formed for the site and the Group entered into a settlement agreement and an administrative consent order with NJDEPE that, among other things, required the PRP Group's members to contribute \$500,000 towards the cost of the study. Con Edison's share of the PRP Group's payment to the NJDEPE was \$5,000.

In February 1991, the EPA and the NJDEPE proposed a \$30 million interim remedy for the site. This remedy calls for the installation of gas and leachate collection and treatment systems at the landfill and the construction of an impervious cover over the landfill (Phase I). It also calls for further studies to determine the alternatives for addressing groundwater and wetlands contamination in the vicinity of the landfill (Phase II). In March 1991, the NJDEPE served Con Edison with a second Spill Act Directive that required Con Edison and the other site PRPs to pay for the implementation of the Phase I remedy for the site. The PRP Group entered into a consent decree with the NJDEPE under which they agreed to implement the Phase I remedy with partial funding to be provided by the NJDEPE. Con Edison's share of the cost of the Phase I remedy is estimated at \$150,000.

CHEMSOL SITE. By letter dated December 20, 1991, the EPA advised Con Edison that it had documented the release of hazardous substances at the Chemsol Site in Piscataway, New Jersey and that it had reason to believe that Con Edison sent waste materials to the site during the 1960 to 1965 period. In response to the EPA's demand for records, including any relating to Cenco Instruments Corp., Con Edison submitted to the EPA records of payments to Central Scientific Company, a Division of Cenco Instruments Corp. during the 1960-1965 period. Con Edison is unable at this time to determine either the purpose of the payments to Central Scientific Company or the connection of that company to the site. The EPA has not designated Con Edison as a PRP and has not yet selected a final cleanup program for the site. However, the EPA has selected an interim remedy, expected to cost about \$8 million, for the site groundwater contamination and has ordered several designated PRPs to implement that remedy.

ECHO AVENUE SITE. In December 1987, the DEC classified Con Edison's former Echo Avenue substation site in New Rochelle, New York as an "Inactive Hazardous Waste Disposal Site." The basis for this classification was the presence of PCBs in the soil and in the buildings on the site. Although Con Edison has cleaned up the PCBs on the site, the DEC requires a thorough site survey before it will remove the site from the Inactive Hazardous Waste Disposal Site list. Under a consent order with the DEC, a new site survey was done and remedial action taken. The cost to Con Edison of this additional work was \$213,000. Con Edison demolished its building on this site, and expects to incur approximately \$1 million in additional cleanup expenses.

In January 1992, the owners of Echo Bay Marina filed suit in Federal court alleging that PCBs were being discharged from Con Edison's former Echo Avenue Substation Site in New Rochelle, New York into the Long Island Sound. Plaintiffs sought \$24 million for personal injuries and property damages, a declaration that Con Edison is in violation of the Clean Water Act, civil penalties of \$25,000 per day for each violation, remediation costs, an injunction against further discharges and legal fees. In December 1994, the court dismissed plaintiffs claims for property damage, including loss of business. Pretrial discovery on the remaining claims is continuing. Con Edison expects at an appropriate time to file a motion for summary judgment on the personal injury claims. Trial on the remaining claims is set for November 1998.

PCB TREATMENT, INC. SITES. On September 30, 1994, Con Edison received a letter from the EPA indicating that it had been identified as a PRP for the PCB Treatment, Inc. (PTI) Sites in Kansas City, Kansas and Kansas City, Missouri. The sites -- a vacant, five-story building and a partially-occupied, seven-story building -- were used by PTI from 1982 until 1987 for the storage, processing, and treatment of PCB-containing electric equipment, dielectric oils, and materials. According to the EPA, the buildings' floor slabs and ceilings and the soil areas outside the buildings' loading docks are contaminated with PCBs. The EPA has indicated that more than 25 million pounds of PCB-contaminated oil, equipment and materials were shipped to the sites by over 1,500 parties. Con Edison has informed the EPA that it shipped approximately 2.9 million pounds of PCB-contaminated oil and equipment to the sites.

In September 1996, Con Edison joined a PRP steering committee that has agreed to conduct studies at the sites under an EPA consent order and is negotiating a cost sharing agreement with federal agency PRPs. Based on preliminary information, Con Edison currently believes that its share of the study and remediation costs could exceed \$5 million.

PELHAM MANOR SITE. Prior to 1968, Con Edison and its predecessor companies operated a manufactured gas plant on a site located in Pelham Manor, Westchester County, which is now used for a shopping center. Soil and groundwater tests by the current owners and lessees indicate the presence of hazardous substances which are associated with the manufactured gas process. Con Edison has agreed to participate with the site owners and lessees in further site studies to develop and implement a cleanup plan that will be acceptable to the DEC. The site studies are now being conducted under a stipulation agreement with the DEC, with funding by Con Edison.

ASTORIA SITE. The Federal Resource Conservation and Recovery Act delegates to the states licensing authority for PCB storage. As a condition to renewal by the DEC of Con Edison's permit to store PCBs at Con Edison's Astoria generating station in Queens, New York, Con Edison is required to conduct a site investigation and, where necessary, a remediation program. The site investigation commenced in April 1994 and is scheduled to be completed in 1998. The cost of the investigation is estimated at approximately \$5 million. A portion of the investigation has been completed and reports thereon, indicating PCB-contamination of portions of the site, have been submitted to the DEC and the New York State Department of Health for the determination of the remediation action that may be required. Depending on the remediation required, the costs of remediation could be material.

HUNTS POINT SITE. In September 1994, the City of New York notified Con Edison that it had discovered various contaminants on the site of a former Con Edison manufactured gas plant in the Hunts Point section of The Bronx. Con Edison had manufactured gas at that location prior to its sale of the site to the City in the 1960s. Con Edison has agreed to conduct a site study and to develop and implement a remediation program. However, Con Edison has not agreed to pay costs for contamination that is unrelated to Con Edison's use of the site. Con Edison is unable at this time to estimate its exposure to liability with respect to this site.

ANCHOR MOTOR SITE. In November 1995, Anchor Motor Freight, Inc. notified Con Edison that it had discovered coal tar on its site in Westchester County. Anchor requested that Con Edison remediate the site. A predecessor of Con Edison had operated a manufactured gas plant at that location prior to the 1940's. Con Edison has conducted preliminary sampling at the site and found coal tar beneath the areas formerly occupied by the manufactured gas plant. Coal tar at the site has also been found in the Hudson River along the bulkhead of an asphalt plant located between the site and the river and beneath portions of the asphalt plant property. Con Edison has assumed responsibility for maintaining a boom in the river around the area of bulkhead and will develop a cleanup program for the coal tar contamination under an agreement with the DEC. The cost of the cleanup program could exceed \$8 million if the DEC requires Con Edison to excavate all of the coal tar.

BORNE CHEMICAL SITE. In May 1997, Con Edison was named as an additional third-party defendant in a private cost recovery action in the New Jersey Superior Court (Union County) under the New Jersey Spill Compensation and Spill Act for the Borne Chemical site in Elizabeth, New Jersey. Borne Chemical used the site for the processing and blending of various types of petroleum, dyes and chemical products from approximately 1917 until 1985 when it became bankrupt and abandoned the site. Between 1971 and 1981, a portion of the site was occupied by a waste transporter and oil spill cleanup contractor that did work for Con Edison at various times (the "Contractor").

The third-party plaintiffs in the lawsuit were ordered by the NJDEPE to conduct emergency removal actions for the oil and chemical drums, tanks and underground piping systems at the site and to complete studies to determine the extent to which the site's soil and groundwater is contaminated. The third-party plaintiffs are seeking contribution for the more than \$10 million that they expect to incur to comply with the NJDEPE order and for the cost of any cleanup program that the NJDEPE may require in the future for the site's soil and groundwater.

Con Edison shipped between 12,000 and 13,000 gallons of used turbine oil to the site for treatment in 1976. It also shipped almost 1,200 empty drums that may have contained oil and chemical residue to the site. The Contractor conducted numerous oil spill cleanups for Con Edison during the late 1970's and early 1980's. It is not known whether the Contractor used the site for storage or handling of any contaminated materials from work the Contractor did for Con Edison.

CAPASSO SITE. In December 1997, Con Edison was served with a complaint by DMJ Associates ("DMJ") seeking to compel Con Edison and 16 other defendants to clean up contamination at the Capasso property located in Long Island City, New York. DMJ holds a note to which the Capasso property is security. The complaint, which is pending before the United States District Court for the Eastern District of New York, alleges that Con Edison sent waste to the Quanta Resources facility (Quanta) and that contamination, including PCB contamination, has migrated from Quanta to the Capasso property and is contributing to the contamination on or about the Capasso property. Con Edison is investigating whether it sent any waste to Quanta. Con Edison is defending this action pursuant to a joint defense agreement with the other generator defendants.

#### TOXIC SUBSTANCES CONTROL ACT

In November 1994, BCF Oil Refining, Inc., a processor and refiner of used oil products and waste containing oil, brought suit in the United States District Court for the Southern District of New York against Con Edison and four transporters of waste oil products alleging that the defendants (primarily Con Edison) caused PCB contaminated waste to be shipped to BCF thereby contaminating its facilities. In addition to the remediation of BCF's facilities under the Federal Toxic Substances Control Act, the suit sought compensatory damages of not less than \$12.5 million from all the defendants and additional punitive damages of not less than \$12.5 million from Con Edison. In February 1997, the court dismissed 24 of BCF's 25 claims and Con Edison filed a motion asking the court to dismiss the remaining claim. In December 1997, a jury returned a verdict in favor of Con Edison on the remaining claim. This proceeding was entitled BCF Oil Refining, Inc. v. Consolidated Edison Company of New York, Inc., et. al.

#### GRAMERCY PARK

On August 19, 1989, a Company steam main exploded in the Gramercy Park area of Manhattan, releasing debris containing asbestos into that area. Con Edison took responsibility for the asbestos cleanup and most of the cost of that cleanup was covered by Con Edison's insurance. In April 1995, Con Edison was sentenced to a fine of \$500,000 on each of four counts and to three years probation for criminal acts relating to the reporting of the release of asbestos from the steam main explosion. During the probation period, Con Edison's compliance with environmental laws is being monitored by a court-appointed monitor.

#### DEC PROCEEDINGS

Reference is made to "Environmental Matters - DEC Settlement" in Note F to the financial statements in Item 8 and "Results of Operations - Other Operations and Maintenance Expenses" in Item 7.



In September 1997, Con Edison agreed to a consent order settling a civil administrative proceeding instituted by the DEC alleging opacity violations by Con Edison. Pursuant to this consent order, the essential elements of Con Edison's existing Opacity Reduction Program were established as enforceable conditions of the operating permits that the DEC issues for Con Edison's facilities. The September 1997 consent order also assessed a civil penalty of \$25,000, which was suspended provided that Con Edison complies with the order. In October 1997, Con Edison agreed to a DEC consent order with respect to oil and hazardous waste incidents occurring since November 1994. Under this consent order, Con Edison will survey a number of its facilities and test the integrity of underground fuel oil pipelines at Con Edison's major oil storage facilities. Con Edison also will retire several of its underground fuel oil pipelines that had been operated within New York City. In addition, Con Edison paid a \$385,000 penalty, \$58,000 for damages and \$345,000 to programs designed to benefit the environment. Con Edison does not expect the September and October 1997 consent orders to have a material adverse effect on Con Edison's financial position or results of operations.

#### ASBESTOS LITIGATION

For a discussion of asbestos and suits against Con Edison involving asbestos, see "Environmental Matters and Related Legal Proceedings - Asbestos" in Item 1, and "Environmental Matters - Asbestos Claims" in Note F to the financial statements in Item 8. The following is a discussion of the significant suits involving asbestos in which Con Edison has been named a defendant. The listing is not exhaustive and additional suits may arise in the future.

MASS TORT CASES. Numerous suits have been brought in New York State and Federal courts against Con Edison and many other defendants for death and injuries allegedly caused by exposure to asbestos at various Con Edison premises. Many of these suits have been disposed of without any payment by Con Edison, or for immaterial amounts. The amounts specified in the remaining suits, including the Moran v. Vacarro suit discussed below, total billions of dollars, but Con Edison believes that these amounts are greatly exaggerated, as were the claims already disposed of.

MORAN, ET AL. V. VACARRO, ET AL. On May 9, 1988, Con Edison was served with a complaint in an action in the New York State Supreme Court, New York County, in which approximately 184 Con Edison employees and their union alleged that the employees were exposed to dangerous levels of asbestos as a result of alleged intentional conduct of supervisory employees. Each of the employee plaintiffs seeks \$1 million in punitive damages, unspecified additional compensatory damages, and to enjoin Con Edison from violating EPA regulations and exposing employees to asbestos without first taking certain safety measures. On May 16, 1988, the complaint was amended to add a claim by each employee plaintiff for \$1 million in damages for mental distress. In November 1988, the complaint was amended to add four additional employee plaintiffs. On July 9, 1990, the complaint was amended to add the spouses of 131 plaintiffs as additional plaintiffs and to remove the union as a plaintiff. Each spouse seeks medical monitoring, \$1 million for emotional distress and \$1 million for punitive damages. On January 19, 1995, the court dismissed the claims of the employee plaintiffs, leaving employee spouses as the only plaintiffs.

#### RATE PROCEEDINGS

New York State law requires electric and gas utilities to make available to religious organizations rates that do not exceed those charged to residential customers. In December 1994, Con Edison and the New York Attorney General executed a settlement under which Con Edison admitted no wrongdoing but agreed to provide refunds to religious organizations that had been served under generally higher commercial rates and transfer affected customers to the appropriate rates. In August 1997, the United States District Court for the Southern District of New York dismissed a suit against Con Edison, entitled *Brownsville Baptist Church, et. al. v. Consolidated Edison Company of New York, Inc.*, in which plaintiffs sought \$500 million for purported class members that operated as religious organizations and were charged commercial rates for electric service. Plaintiffs have appealed the dismissal. In January 1998, these plaintiffs sued Con Edison in New York State Supreme Court, County of Kings claiming violations of the New York Public Service Law and the New York General Business Law, fraud, unjust enrichment and negligent misrepresentation. Con Edison's motion to dismiss the January 1998 lawsuit is pending.

#### CHALLENGES TO SETTLEMENT AGREEMENT

In February 1998, the Public Utility Law Project of New York, Inc. ("PULP") commenced a lawsuit against the PSC and Con Edison challenging certain provisions of the Settlement Agreement, including the PSC's authority to institute retail access for residential consumers. PULP has pending a similar lawsuit against the PSC with respect to the PSC's May 1996 generic order in the PSC's "Competitive Opportunities" proceeding. Also, in March 1998 Travelers Group Inc. and Smith Barney Inc. instituted a lawsuit against the PSC challenging a provision of the Settlement Agreement that exempts certain NYPA governmental customers, but not NYPA's economic development customers ("EDDS"), from the stranded cost recovery provisions of the Settlement Agreement and the unavailability of Industrial Employment Growth Credits to NYPA EDDS customers. The lawsuits are pending in the Supreme Court of the State of New York, County of Albany. Con Edison does not expect the lawsuits to result in a material adverse effect on its financial condition, results of operation or liquidity. For information about the Settlement Agreement, see "Liquidity and Capital Resources - PSC Settlement Agreement" in Item 7.

#### EMPLOYEES' CLASS ACTION

In January 1998, seven current employees and one former employee of Con Edison sought class certification in a proceeding pending in the United States District Court for the Eastern District of New York. In January 1994, plaintiffs initiated the action, entitled Sheppard, et al. v. Con Edison, in a lawsuit alleging that employees have been denied promotions or transfer because of their race. Two years earlier the same plaintiffs filed similar claims against Con Edison with the New York City Commission on Human Rights. Before the Commission concluded its investigation, plaintiffs withdrew their claims.

#### NUCLEAR FUEL DISPOSAL

Reference is made to the information under the caption "Liquidity and Capital Resources - Nuclear Generation - Fuel Disposal" in Item 7 for information concerning proceedings brought by Con Edison and a number of other utilities against the United States Department of Energy. The proceedings are entitled Northern States Power Co., et al. v. Department of Energy, et al. See also, "Fuel Supply - Nuclear Fuel" in Item 1.

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

(a) At a Special Meeting of Stockholders of Con Edison held on December 12, 1997, the stockholders of Con Edison approved the Holding Company Proposal and the Con Edison Board Proposal. The "Holding Company Proposal" was to adopt a holding company structure for Con Edison in which, pursuant to an Agreement and Plan of Exchange, Con Edison would become a subsidiary of CEI and the outstanding shares of Con Edison's Common Stock (\$2.50 par value) would be exchanged automatically on a share-for-share basis for CEI Common Shares (\$.10 par value). The "Con Edison Board Proposal" was to authorize an amendment to Con Edison's Certificate of Incorporation to change the authorized number of Trustees to "not more than 16" from "not less than 13 nor more than 20." Additional information about the Holding Company Proposal and the Con Edison Board Proposal is contained in the Proxy Statement and Prospectus of CEI and Con Edison included in CEI's Registration Statement on Form S-4 (No. 333-39164).

(b) The results of the vote on the Holding Company Proposal were as follows: 169,727,448 shares were voted for this proposal; 2,494,146 shares were voted against the proposal; 2,286,314 shares were abstentions; and 23,983,761 shares were broker nonvotes.

(c) The results of the vote on the Con Edison Board Proposal were as follows: 193,108,137 shares were voted for this proposal; 2,931,776 shares were voted against the proposal; and 2,451,756 shares were abstentions.

EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth certain information about the executive officers of CEI and Con Edison, as of March 1, 1998. Unless otherwise indicated, all positions and offices listed are at Con Edison. The term of office of each officer is until the next election of directors (trustees) of their company and until his or her successor is chosen and qualifies. Officers are subject to removal at any time by the board of directors (trustees) of their company.

Name	Age	Offices and Positions During Past Five Years
Eugene R. McGrath	56	10/97 to present - Chairman, President, Chief Executive Officer and Director of CEI 3/98 to present - Chairman, Chief Executive Officer and Trustee of Con Edison 9/90 to 2/98 - Chairman, President, Chief Executive Officer and Trustee of Con Edison
J. Michael Evans	52	3/98 to present, President and Chief Operating Officer 7/95 to 2/98 - Executive Vice President - Customer Service 4/95 to 6/95 - Executive Vice President 9/91 to 3/95 - Executive Vice President - Central Operations
Joan S. Freilich	56	3/98 to present - Executive Vice President, Chief Financial Officer and Director (Trustee) of CEI and Con Edison 10/97 to 2/98 - Senior Vice President, Chief Financial Officer and Director of CEI 7/96 to 2/98 - Senior Vice President and Chief Financial Officer 9/94 to 7/96 - Vice President, Controller and Chief Accounting Officer 7/92 to 8/94 - Vice President and Controller
Charles F. Soutar	61	7/95 to present - Executive Vice President - Central Services 2/89 to 6/95 - Executive Vice President - Customer Service
Stephen B. Bram	55	4/95 to present - Senior Vice President - Central Operations 12/94 to 3/95 - Senior Vice President 9/94 to 11/94 - Vice President 12/87 to 8/94 - Vice President - Nuclear Power
Kevin Burke	47	3/98 to present - Senior Vice President - Corporate Planning 3/93 to 2/98 - Vice President - Corporate Planning
Mary Jane McCartney	49	10/93 to present - Senior Vice President - Gas 2/93 - 10/93 - Vice President - Gas Operations
Peter J. O'Shea, Jr.	60	10/97 to present - Senior Vice President and General Counsel of CEI 1/96 to present - Senior Vice President and General Counsel 4/87 to 12/95 - Vice President and Associate General Counsel, ITT Corporation

Name	Age	Offices and Positions During Past Five Years
Horace S. Webb	57	9/92 to present - Senior Vice President - Public Affairs
Archie M. Bankston	60	12/97 to present - Secretary of CEI 6/89 to present - Secretary and Associate General Counsel
James P. O'Brien	50	1/98 to present - General Auditor 3/94 to 12/97 - Vice President - Information Resources 6/89 to 3/94 - Assistant Vice President - Employee Relations
Robert A. Bell	64	6/81 to present - Vice President - Research & Development
Marilyn Caselli	43	10/97 to present - Vice President - Staten Island Customer Service 5/96 to 9/97 - General Manager - Queens - Gas Operations 3/96 to 4/96 - General Manager - Gas Operations - Corrosion Control 2/93 to 2/96 - General Manager - Brooklyn Administration
V. Richard Conforti	59	8/96 to present - Vice President - Transportation & Stores 7/92 to 7/96 - Assistant Vice President - Gas Operations
Richard P. Cowie	51	3/94 to present - Vice President - Employee Relations 2/91 to 2/94 - Director - Central Customer Service
Robert F. Crane	61	1/97 to present - Vice President - Gas Operations 3/94 to 12/96 - Vice President - Fuel Supply 10/93 to 3/94 - Vice President - Gas Supply 2/93 to 10/93 - Vice President - Gas Business Development
Vincent J. D'Amelio	56	10/97 to present - Vice President - Bronx & Westchester Customer Service 2/97 to 9/97 - Vice President - Staten Island Customer Service 4/88 to 1/97 - Director - Customer Service, Sprint Communications Company
Robert W. Donohue, Jr.	55	1/98 to present - Vice President - Brooklyn & Queens Customer Service 2/94 to 12/97 - Vice President - Queens Customer Service 3/90 to 2/94 - Vice President - Construction
Charles J. Durkin, Jr.	54	10/97 to present - Vice President - Generation Engineering 12/93 to 9/97 - Vice President - Fossil Power

Name	Age	Offices and Positions During Past Five Years
Jacob Feinstein	55	3/98 to present - Vice President 4/91 to 2/98 - Vice President - System & Transmission Operations
David F. Gedris	49	10/97 to present - Vice President - Fossil Power 2/96 to 9/97 - Vice President - Westchester Customer Service 2/94 to 1/96 - Vice President - Maintenance and Construction 7/92 to 1/94 - Assistant Vice President - Power Generation Maintenance
Garrett W. Groscup	57	1/98 to present - Vice President - Customer Operations 6/95 to 12/97 - Vice President - Brooklyn Customer Service 2/94 to 5/95 - Vice President - Energy Services 4/91 to 2/94 - Vice President - Manhattan Customer Service
William A. Harkins	52	2/97 to present - Vice President - Energy Management 2/89 to 2/97 - Vice President - Planning and Inter-Utility Affairs
Paul H. Kinkel	53	1/98 to present - Vice President - Nuclear Power 2/96 to 12/97 - Vice President - Maintenance and Construction 12/93 to 2/96 - Vice President - Engineering
M. Peter Lanahan, Jr.	54	8/96 to present - Vice President - Environment, Health and Safety 5/95 to 8/96 - Vice President - Environmental Affairs 1/91 to 4/95 - Manager , General Electric Company
Richard J. Morgan	62	12/96 to present - Vice President - Steam Operations 7/92 to 11/96 - Assistant Vice President - Steam Operations
John A. Nutant	62	2/94 to present - Vice President - Manhattan Customer Service 7/92 to 1/94 - Vice President - Queens Customer Service
Stephen E. Quinn	51	1/98 to present - Vice President - Maintenance and Construction 9/94 to 12/97 - Vice President - Nuclear Power 8/88 to 8/94 - General Manager - Nuclear Power Generation

Name	Age	Offices and Positions During Past Five Years
Louis Rana	49	3/98 to present - Vice President - System & Transmission Operations 10/97 to 2/98 - General Manager - System Operation 8/97 to 9/97 - General Manager - Manhattan Electric Operations 1/94 to 7/97 - Chief Distribution Engineer 1/93 to 12/93 - General Manager - Queens Electric Operations
Hyman Schoenblum	49	12/97 to present - Vice President and Controller of CEI 10/97 to present - Vice President and Controller 3/97 to 9/97 - Vice President and Treasurer 6/96 to 2/97 - Director - Financial Restructuring 11/93 to 5/96 - Director - Corporate Planning 7/88 to 10/93 - Assistant Controller
Edwin W. Scott	59	6/89 to present - Vice President and Deputy General Counsel
Wanda Skalba	48	1/98 to present - Vice President - Information Resources 4/96 to 12/97 - Director - Information Resources 4/93 to 4/96 - Director - Application Services
Minto L. Soares	61	1/98 to present - Vice President - Substation Operations 6/91 to 12/97 - Vice President - Bronx Customer Service
Robert P. Stelben	55	12/97 to present - Vice President and Treasurer of CEI 10/97 to present - Vice President and Treasurer 8/97 to 9/97 - Vice President - Finance 11/95 to 8/97 - Vice President and Treasurer, Johnson & Higgins 8/94 to 11/95 - Vice President and Treasurer, BTR Americas 9/85 to 6/94 - Vice President and Treasurer, Marsh & McLennan
Alfred R. Wassler	53	8/96 to present - Vice President - Purchasing 3/94 to 8/96 - Vice President - Purchasing, Transportation and Stores 7/92 to 2/94 - Vice President - Purchasing

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

CEI's Common Shares (\$.10 par value), the only class of common equity of CEI, are traded on the New York Stock Exchange. As of January 31, 1998 there were 134,168 holders of record of CEI's Common Shares. For information about a \$1 billion repurchase of CEI Common Shares, see "Capital Requirements and Financing" in Item 1. The outstanding shares of Con Edison's Common Stock (\$.50 par value), the only class of common equity of Con Edison, are held by CEI and are not traded.

MARKET PRICE RANGE IN CONSOLIDATED REPORTING SYSTEM AND DIVIDENDS PAID ON COMMON STOCK

The following table shows the market price range of, and dividends paid on, Con Edison's Common Stock during the periods indicated. CEI became the holding company for Con Edison on January 1, 1998 when the Holding Company Proposal was implemented. See Item 4.

	1997			1996		
	High	Low	Dividends Paid	High	Low	Dividends Paid
1st Quarter	\$32-1/8	\$28-1/2	\$ .525	\$34-3/4	\$30-7/8	\$ .52
2nd Quarter	30-3/4	27	.525	32-3/8	27-3/8	.52
3rd Quarter	34-9/16	29-5/16	.525	29-5/8	25-7/8	.52
4th Quarter	41-1/2	32-1/4	.525	30-5/8	27-1/2	.52

As of January 31, 1998 there were 134,168 holders of record of common stock.

On January 27, 1998, CEI's Board of Directors declared a quarterly dividend of 53 cents per Common Share which was paid on March 15, 1998 to holders of record on February 18, 1998. For additional information about the payment of dividends by CEI and Con Edison, see "Dividends" in Note B to the financial statements in Item 8.

ITEM 6. SELECTED FINANCIAL DATA

The following table shows selected financial data for Con Edison. CEI became the holding company for Con Edison on January 1, 1998 when the Holding Company Proposal was implemented. See Item 4.

Year Ended December 31	1997	1996	1995	1994	1993
Operating revenues	\$ 7,121.3	\$ 6,959.7	\$ 6,536.9	\$ 6,373.1	\$ 6,265.4
Purchased power	1,349.4	1,272.9	1,107.2	787.5	812.6
Fuel	596.8	573.3	504.1	567.8	605.2
Gas purchased for resale	479.2	418.3	259.8	341.2	289.7
Operating income	1,045.4	1,013.6	1,041.4	1,036.2	951.1
Net income for common stock	694.5	688.2	688.3	698.7	622.9
Total assets	14,722.5	14,057.2	13,949.9	13,728.4	13,257.4
Long-term debt	4,188.9	4,238.6	3,917.2	4,030.5	3,643.9
Preferred stock subject to mandatory redemption	84.6	84.6	100.0	100.0	100.0
Common shareholders' equity	5,930.1	5,727.6	5,522.7	5,313.0	5,068.5
Basic and diluted earnings per common share	\$ 2.95	\$ 2.93	\$ 2.93	\$ 2.98	\$ 2.66
Cash dividends per common share	\$ 2.10	\$ 2.08	\$ 2.04	\$ 2.00	\$ 1.94
Average common shares outstanding (millions)	235.1	235.0	234.9	234.8	234.0

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS

Consolidated Edison, Inc. (CEI) was established as the holding company for Consolidated Edison Company of New York, Inc. (Con Edison) on January 1, 1998. The following discussion and analysis relates to the accompanying consolidated financial statements and the notes thereto and should be read in conjunction with the financial statements and notes. The financial statements include the accounts of Con Edison and all wholly-owned subsidiaries and, therefore, also represent the consolidated financial statements of CEI.

LIQUIDITY AND CAPITAL RESOURCES

SOURCES OF LIQUIDITY

Cash and temporary cash investments were \$183.5 million at December 31, 1997 compared with \$106.9 million at December 31, 1996. These balances reflect, among other things, the timing and amounts of external financing. In addition, at December 31, 1997 Con Edison had set aside \$328.9 million for the retirement of three long-term debt issues.

CEI expects to finance its operations, capital requirements and the payment of dividends to its shareholders primarily from dividends and other distributions it receives from Con Edison, and may also from time to time use external borrowings. For information about restrictions on the payment of dividends by Con Edison, see Note B to the financial statements.

Con Edison expects to finance its operations and capital requirements from internally-generated funds and external debt financings, and may also from time to time make short-term borrowings. Con Edison's cash requirements are subject to substantial fluctuations during the year due to seasonal variations in cash flow and generally peak in January and July of each year when the semi-annual payments of New York City property taxes are due. To increase its financial flexibility, Con Edison initiated a \$500 million commercial paper program in January 1998. Moody's Investor Service (Moody's), Standard and Poor's Rating Group (S&P) and Fitch IBCA (Fitch) rated Con Edison's commercial paper P-1, A-1 and F-1, respectively. See Note C to the financial statements.

Con Edison's customer accounts receivable, less allowance for uncollectible accounts, amounted to \$581.2 million and \$544.0 million at December 31, 1997 and 1996, respectively. The increase at year-end 1997 compared with year-end 1996 is primarily attributable to one less cash collection day in 1997 compared with 1996. In terms of equivalent days of revenue outstanding, these amounts represented 28.2 and 28.6 days, respectively.

Regulatory accounts receivable amounted to a net credit to be refunded to customers of \$1.7 million at December 31, 1997 compared with a receivable recoverable from customers at December 31, 1996 of \$45.4 million. The decrease at year-end 1997 compared with year-end 1996 is due primarily to the elimination in 1997 of electric and gas regulatory incentive mechanisms. See Note A to the financial statements.

Deferred charges for Enlightened Energy (demand-side management) program costs amounted to \$117.8 million and \$133.7 million at December 31, 1997 and 1996, respectively. These costs are recoverable from customers under the Settlement Agreement approved by the Public Service Commission (PSC) as discussed below.

Con Edison's net cash flows from operating activities for years 1995 through 1997 were as follows:

(Millions of Dollars)	1997	1996	1995
Net cash flows from operating activities	\$ 1,239	\$ 1,107	\$ 1,276
Less: Dividends on common and preferred stock	512	511	515
Net after dividends	\$ 727	\$ 596	\$ 761

Net cash flows in 1997 were higher than in 1996 due principally to reduced operations and maintenance expenses. Net cash flows in 1996 were lower than in 1995 due principally to lower incentive billings and higher costs for recoverable fuel and gas in storage.

FINANCIAL RATIOS Con Edison's common equity ratio and interest coverage ratio continue to be high compared with the electric utility industry generally, an indication of Con Edison's continued financial strength. Con Edison's common equity ratio was 56.8 percent and 55.7 percent at year-end 1997 and 1996, respectively. Con Edison's interest coverage was 4.09 and 4.18 times for 1997 and 1996, respectively. See "Stock Repurchase," below.

DEBT FINANCINGS Con Edison issued a total of \$300 million of five-year floating rate debentures, the interest rate on which is reset quarterly: \$150 million in June 1997 and \$150 million in December 1996. In July 1995 Con Edison issued \$100 million of 10-year 6-5/8% debentures.



Con Edison's senior unsecured debt securities (debentures and tax-exempt debt) are rated A1, A+ and AA- by Moody's, S&P and Fitch, respectively. Con Edison's subordinated debentures (QUICS) are rated A2 by Moody's, A by S&P and A+ by Fitch.

**REFUNDINGS** The PSC has authorized Con Edison to issue securities for the refunding of its outstanding debt and preferred stock from time to time prior to the year 2003. Refundings may be effected by means of any one or a combination of redemption calls, tender offers, exchange offers, negotiated transactions or open market purchases.

In February 1998 Con Edison issued \$180 million of 10-year 6-1/4% debentures and \$105 million of 30-year 7.10% debentures, to refund in March 1998 its 7-1/8% tax-exempt debt issued through the New York State Energy Research and Development Authority (NYSERDA), 7-3/8% debentures and 8.05% debentures. In December 1997 Con Edison issued \$330 million of 10-year 6.45% debentures to refund in January 1998 three series of tax-exempt debt issued through NYSEDA.

In March 1996 Con Edison refunded \$317 million of certain series of its preferred stock with the proceeds from the issuance of \$275 million of 35-year 7-3/4% subordinated deferrable interest debentures (interest payments on which are tax deductible, unlike preferred stock dividends) and \$25 million of cash balances. In May 1996 Con Edison issued \$100 million of 30-year 7-3/4% debentures, the proceeds of which were used to redeem, in advance of maturity, its 9-3/8% debentures. In August 1995 Con Edison issued \$128.3 million of 25-year 6.10% tax-exempt debt through NYSEDA, the proceeds of which were used to redeem the outstanding 9% tax-exempt debt.

Con Edison used cash balances to redeem its outstanding 9.70% debentures in December 1995 and its outstanding convertible preference stock in December 1997.

**STOCK REPURCHASE** To realign its capital structure with its evolving business risk, CEI announced its intent to repurchase up to \$1 billion of its common shares, subject to PSC approval and market conditions. The repurchase is expected to be funded by Con Edison from internally-generated funds, debt financings and, depending on the timing, the net proceeds of generating plant sales. The PSC is expected to act on the stock repurchase in March 1998.\*

**CAPITAL REQUIREMENTS** The following table compares Con Edison's capital requirements for the years 1995 through 1997 and estimated amounts for 1998 and 1999:

(Millions of Dollars)	1999	1998	1997	1996	1995
Construction expenditures	\$611	\$622	\$654	\$675	\$693
Nuclear decommissioning trust	21	21	21	21	19
Nuclear fuel	35	22	15	49	13
Subtotal	667	665	690	745	725
Retirement of long-term debt and preferred stock (a)	225	200	106	184	11
Total	\$892	\$865	\$796	\$929	\$736

(a) Does not include stock repurchases or debt refundings. See "Refundings" and "Stock Repurchase," above. For details of securities maturing after 1999, see Note B to the financial statements.

CEI expects to invest \$300 million in 1998 and 1999 in its subsidiaries other than Con Edison, including Consolidated Edison Solutions, Inc., formerly Promark Energy, Inc., and Consolidated Edison Development, Inc., formerly Gramercy Development, Inc.

**ELECTRIC CAPACITY RESOURCES**

Electric peak load in Con Edison's service area, adjusted for historical design weather conditions, grew by 250 megawatts (MW) (2.3 percent) in 1997. This growth reflects primarily the robust local economy. Con Edison's current resource plans indicate that its service area could require additional generation resources within the next five years. However, Con Edison does not anticipate adding long-term capacity resources to its electric system. In a competitive electric market, unregulated entities, possibly including a subsidiary of CEI, are expected to provide needed capacity resources as dictated by market conditions.

\* The PSC approved the stock repurchase in March 1998.

## COMPETITION AND INDUSTRY RESTRUCTURING

In recent years federal and New York State initiatives have promoted the development of competition in the sale of electricity and gas. In general these initiatives "unbundle," or separate, the integrated supply and delivery services that electric and gas utilities have traditionally provided, and enable customers to purchase electricity and gas directly from suppliers other than their local utility. Under these initiatives Con Edison will continue to transport and deliver energy to customers in its service area, including energy from other suppliers, over its electric and gas systems. The rates for such delivery services are expected to remain regulated on a cost-of-service basis. The electric and gas transportation and delivery systems, along with Con Edison's steam system, which will also remain rate-regulated, comprised more than 70 percent of Con Edison's net utility plant at December 31, 1997. These initiatives have also fostered new unregulated energy supply and services businesses in which the subsidiaries of CEI other than Con Edison may participate. These new businesses will be subject to competition and different investment risks than those involved in Con Edison's utility business.

In April 1996 the Federal Energy Regulatory Commission (FERC) issued its Order 888 requiring electric utilities to file non-discriminatory open access transmission tariffs that would be available to wholesale sellers and buyers of electric energy and allowing utilities to recover related legitimate and verifiable stranded costs subject to FERC's jurisdiction. Con Edison's open access tariff took effect in July 1996. The company has billed approximately \$450,000 under the tariff, subject to refund pending the outcome of a September 1997 hearing on the tariff before FERC. FERC is expected to act on the tariff in 1998. In addition, Con Edison and Con Edison Solutions have been authorized by FERC to make wholesale sales of electricity at market-based rates.

In January 1997 Con Edison, along with the other New York electric utilities, submitted a filing to FERC for approval of a restructuring of the wholesale electric market in New York State, including the establishment of an independent system operator (ISO) that would control and operate most electric transmission facilities in New York as an integrated system, a New York State Reliability Council, which would promulgate reliability rules, and a "power exchange" that would establish visible spot market prices for wholesale energy. In December 1997 Con Edison and the other New York utilities supplemented this filing with additional details regarding the proposed new market structure and a new ISO governance structure based upon an unaffiliated ISO board of directors.

In May 1996 the PSC issued an order in its Competitive Opportunities proceeding endorsing a fundamental restructuring of the electric utility industry in New York State, based on competition in the generation and energy services sectors of the industry. In September 1997 the PSC approved a settlement agreement between Con Edison, the PSC staff and certain other parties (the Settlement Agreement). See "PSC Settlement Agreement," below.

All of Con Edison's gas customers, either individually or by aggregating their demand with other customers, became eligible in 1996 to purchase gas directly from suppliers other than Con Edison.

## PSC SETTLEMENT AGREEMENT

The Settlement Agreement in the Competitive Opportunities proceeding provides for a transition to a competitive electric market through the development of a "retail access" plan, a rate plan for the period ending March 31, 2002 (the Transition), a reasonable opportunity for recovery of "strandable costs" and the divestiture by Con Edison to unaffiliated third parties of at least 50 percent of its New York City fossil-fueled electric generating capacity.

**RETAIL ACCESS** Con Edison will implement an energy and capacity retail access program that will permit its customers to choose alternative energy suppliers. The delivery of electricity to customers will continue to be through Con Edison's transmission and distribution systems. The program will begin in June 1998 with up to 500 MW of customer load. The program will be expanded in increments and Con Edison will target the phase-in of retail access to make it available to all of its customers by the earlier of 18 months after the New York ISO becomes fully operational or December 31, 2001. This schedule is subject to adjustment as circumstances warrant. In general, Con Edison's delivery rates for retail access customers during the Transition will equal the rates applicable to other comparable Con Edison customers, less a rate representing the market value of the energy and capacity.

**RATE PLAN** In January 1998 Con Edison implemented an annualized rate reduction of \$107.5 million pursuant to the rate plan provisions of the Settlement Agreement. Additional rate decreases will be implemented during the Transition. The rate plan reduces the total generation-related revenues that Con Edison would have received over the five-year Transition period had rate levels in effect on March 31, 1997 remained in effect by approximately \$1 billion, exclusive of additional revenue reductions from lower gross receipts taxes. Financing savings from any securitization of strandable costs, in excess of the amount of the savings that may be allocated by the PSC for SBC Programs (defined below), and any further reductions in New York State gross receipts taxes, will be utilized for additional rate reductions. In general, base electric rates will not otherwise be changed during the Transition except in the event of changes in costs above anticipated annual levels resulting from legal or regulatory requirements (including a requirement or interpretation

resulting in Con Edison's refunding its tax-exempt debt), inflation in excess of a four percent annual rate, property tax increases and environmental costs above pre-determined levels, or in the event Con Edison's rate of return becomes unreasonable for the provision of safe and adequate service.

The Settlement Agreement also provides, among other things, for a non-bypassable system benefits charge to recover, to the extent not otherwise recovered, the costs of required research and development, energy efficiency programs, programs to assist low-income customers and environmental protection programs (collectively, "SBC Programs"). In addition, the Settlement Agreement includes a penalty mechanism (estimated maximum, \$26 million per year) for failure to maintain certain service quality and reliability standards.

For any rate year during the Transition, 50 percent of any earnings in excess of a rate of return of 12.9 percent on electric common equity will be retained for shareholders and 50 percent will be applied for customer benefit, with one-half of the amount to be applied to a reduction of rates or as otherwise determined by the PSC and the balance to be deferred and applied to reduce Con Edison's generating plant balances through additional depreciation expense. The rate of return calculation will exclude any incentive earnings and reflect any amounts by which the rate of return for earlier Transition rate years fell below 11.9 percent. This earnings sharing will cease beginning in the year in which Con Edison fulfills its divestiture commitment or in which 15 percent of the service area peak load (excluding the existing load served by the New York Power Authority) is supplied by entities other than by Con Edison.

**DIVESTITURE COMMITMENT** Con Edison has agreed to divest to unaffiliated third parties at least 50 percent of its New York City fossil-fueled electric generating capacity no later than December 2002, and Con Edison may divest additional generating capacity. It may be determined that divestiture should be advanced or delayed (to maximize sales price or address other developments) or that the 50 percent divestiture commitment is not sufficient to mitigate market power. Con Edison's fossil-fueled electric generating units not divested to unaffiliated third parties will be transferred to an unregulated affiliate of Con Edison by December 2002.

Con Edison will submit a detailed divestiture plan to the PSC in March 1998. Con Edison has agreed to initiate the divestiture process with respect to at least 30 percent of its New York City fossil-fueled generating capacity within 90 days after PSC approval of the divestiture plan unless otherwise justified in the divestiture plan. The PSC could approve the divestiture plan as submitted or modify it to address market power or other concerns.

Con Edison will retain for its shareholders the first \$50 million of any net after-tax gains from the divestiture of generating capacity. Any additional net gains or net losses from the divestiture, or from the transfer to an affiliate of Con Edison, of generating capacity during the Transition will be deferred for disposition by the PSC. After the Transition the difference between the remaining book value of generating plant and the net market values defined by divestiture will be reflected in the strandable costs to be recovered following the Transition.

**RECOVERY OF PRIOR INVESTMENTS AND COMMITMENTS** Potential strandable costs for Con Edison include its fossil-fueled generating plants, Indian Point 2 nuclear generating unit, decommissioning of the Indian Point plant and contracts with non-utility generators (NUGs).

Under the Settlement Agreement, Con Edison will continue to recover its potential electric strandable costs during the Transition in the rates it charges all customers. In addition, Con Edison will provide for \$75 million of additional depreciation for its fossil-fueled electric generating units that also supply the steam system. Also, as indicated above, certain "excess" earnings, if achieved, will be applied as an offset to strandable costs.

The Settlement Agreement provides that Con Edison will be given a reasonable opportunity following the Transition to recover remaining electric strandable costs, as adjusted for net gains in excess of \$50 million or net losses from divestiture or transfer of Con Edison generating capacity, including a reasonable return on investments, through a non-bypassable charge to customers. For remaining fossil-related strandable costs, the recovery period will be ten years and for the Indian Point 2 nuclear unit, the recovery period will be the remaining operating license term of the unit. With respect to its NUG contracts, Con Edison will be permitted to recover at least 90 percent of the amount by which the actual costs of its purchases under the contracts exceed market value after the Transition. Any potential disallowance after the Transition will be limited to the lower of (i) 10 percent of the above market costs or (ii) \$300 million (in 2002 dollars). The potential disallowance will be offset by NUG contract mitigation achieved by Con Edison after April 1, 1997 and 10 percent of the gross proceeds of generating unit sales to third parties. Con Edison will be permitted a reasonable opportunity to recover any costs subject to disallowance that are not offset by these two factors if it makes good faith efforts in implementing provisions of the Settlement Agreement leading to the development of a competitive electric market in its service territory and the development of an ISO.

In October 1997 Con Edison, pursuant to the Settlement Agreement, requested the PSC to defer certain costs related to agreements to terminate contracts with NUGs for 42.5 MW of capacity. Including these agreements, Con Edison has, since 1993, entered into agreements to terminate NUG contracts for approximately 768 MW at a cost of \$281 million (exclusive of interest), \$200 million of which has already been recovered from customers. Currently, Con Edison purchases capacity under NUG contracts for plants with 2,059 MW of capacity. See Note G to the financial statements.

**CORPORATE STRUCTURE** The Settlement Agreement establishes guidelines governing transactions among affiliates. Without PSC approval, Con Edison is prohibited from making loans to, or guaranteeing the obligations of, CEI or any of its other subsidiaries, or pledging its assets as security for the indebtedness of CEI or any of its affiliates. (See also Note B to the financial statements.) Con Edison and the other subsidiaries must operate as separate entities, and transfers of assets, services and information between Con Edison and its affiliates are subject to certain restrictions. Con Edison and the other subsidiaries must have separate operating employees, and non-administrative operating officers of Con Edison may not be operating officers of any of the other subsidiaries. Transfers of employees from Con Edison to the other subsidiaries are also restricted.

**ACCOUNTING EFFECT** As a result of the Settlement Agreement, there have been changes to certain of Con Edison's accounting policies. These changes, however, did not have a material effect on Con Edison's financial position or results of operations. See Note A to the financial statements.

#### 1995 ELECTRIC RATE AGREEMENT

In April 1995 the PSC approved a three-year electric rate agreement effective April 1, 1995. However, the Settlement Agreement supersedes the provisions of the 1995 electric rate agreement that prescribe overall electric revenue levels for the 12 months ending March 31, 1998. The Settlement Agreement also eliminated, effective April 1, 1997, the provisions of the 1995 electric rate agreement for incentives or penalties related to the Enlightened Energy program and customer service performance, the modified Electric Revenue Adjustment Mechanism (ERAM) and earnings sharing.

The principal features of the 1995 electric rate agreement were as follows:

**LIMITED CHANGES IN BASE REVENUES** There was no increase in base electric revenues for the first rate year (the 12 months ended March 31, 1996) and rates were reduced by approximately \$19 million (0.3 percent) for the second rate year (the 12 months ended March 31, 1997).

**EARNINGS SHARING** The allowed rates of return on common equity in the first two rate years were 11.1 percent and 10.31 percent, respectively, based on an assumed 52 percent common equity ratio. Primarily as a result of increased productivity, Con Edison's actual rates of return for the first two rate years exceeded a threshold level established for sharing earnings with customers. As a result, Con Edison recorded provisions, before federal income tax, for the future benefit of electric customers of \$10.2 million for the first rate year (primarily in the fourth quarter of 1995) and \$25.7 million for the second rate year (\$18.0 million in 1996 and \$7.7 million in 1997).

**INCENTIVE PROVISIONS** Con Edison was permitted to earn additional incentive amounts, not subject to the earnings sharing provisions, by attaining certain objectives for its Enlightened Energy program and for customer service. There were also penalties for failing to achieve minimum objectives, and there was a penalty-only incentive mechanism designed to encourage Con Edison to maintain its high level of service reliability. Con Edison accrued benefits for these incentives of \$38.4 million in 1995 (including \$17.1 million related to the prior year), \$30.3 million in 1996 and \$0.5 million in 1997.

**PARTIAL PASS-THROUGH FUEL ADJUSTMENT CLAUSE (PPFAC)** The 1995 electric rate agreement also provided for a fuel and purchased power cost-savings incentive, which has been continued under the Settlement Agreement. See Note A to the financial statements. Con Edison's earnings, before federal income tax, under the PPFAC were increased by \$19.2 million in 1995 (\$6.5 million of which was earned in the first calendar quarter under similar provisions of a 1992 electric rate agreement) and \$24.9 million in 1996. For 1997, primarily as a result of unscheduled outages at its Indian Point 2 nuclear unit, Con Edison incurred a net penalty of \$1.8 million, before federal income tax, under the PPFAC.

**MODIFIED ERAM** The 1995 agreement continued, in modified form, the ERAM rate-making concept that was established in the 1992 agreement. See Note A to the financial statements. For 1995 Con Edison set aside \$35.3 million to be refunded to customers for revenue overcollections under the ERAM provisions. Con Edison accrued \$10.1 million for 1996 and \$18.0 million for 1997 for revenue undercollections under the ERAM provisions.

## GAS AND STEAM RATE AGREEMENTS

In January 1997 the PSC approved a four-year gas rate settlement agreement with the following major provisions: base rates will, with limited exceptions, remain at September 30, 1996 levels through September 30, 2000; Con Edison will share in net revenue from interruptible gas sales (previously used only to reduce firm customer gas costs) by retaining in each rate year the first \$7.0 million of net revenue above 8.5 million dekatherms and 50 percent of additional net revenues; and 86 percent of any increase in property taxes above levels implicit in rates will be recovered by offsetting amounts, if any, that would otherwise be returned to customers. Con Edison will share with customers 50 percent of earnings above a 13 percent rate of return on gas common equity.

In September 1997 the PSC approved a steam rate agreement between Con Edison and the PSC staff. The three-year agreement provides for a \$16 million base rate increase, effective October 1, 1997. Base rates for the remainder of the term of the agreement will not be increased or decreased except in certain limited circumstances. In its order approving the steam rate agreement, the PSC modified the agreement to require Con Edison to submit a long-range plan for the steam system in time to be considered contemporaneously with the company's divestiture plan for fossil-fueled generating capacity. See "PSC Settlement Agreement Divestiture Commitment," above.

In October 1994 the PSC approved three-year rate agreements for gas and steam services. Pursuant to the gas agreement, rates were increased \$7.7 million (0.9 percent) for the first rate year and \$20.9 million (2.5 percent) for the second rate year. Con Edison accrued \$7.4 million and \$9.2 million in 1995 and 1996, respectively, for earnings under the incentive provisions of the agreement. The 1997 gas rate agreement superseded the third rate year of the 1994 agreement and discontinued the incentive provisions effective October 1997. Pursuant to the steam agreement, rates were increased \$9.9 million (3.0 percent), \$4.6 million (1.3 percent) and \$12.1 million (3.44 percent), respectively, for the three rate years.

## FINANCIAL MARKET RISKS

CEI's primary market risks associated with activities in derivative financial instruments, other financial instruments and derivative commodity instruments, are interest rate risk and commodity price risk.

The interest rate risk relates primarily to new debt financing needed to fund capital requirements, including maturing debt securities, and to variable rate debt. In general, Con Edison's electric, gas and steam rates are not subject to change for fluctuations in the cost of capital during the respective terms of the current rate agreements. Con Edison manages its interest rate risk through the issuance of mostly fixed-rate debt with varying maturities and through opportunistic refundings of debt through optional redemptions and tender offers. In addition, Con Edison, from time to time, enters into derivative financial instruments to hedge interest rate risk. There were no derivative financial instruments outstanding at December 31, 1997.

The commodity price risk relates primarily to Con Edison's use of derivative commodity instruments to hedge its gas in storage. In addition, Con Edison Solutions uses derivatives to hedge its gas purchases. Con Edison does not generally use derivatives to hedge its purchases of electricity, fuel (to produce electricity and steam) and gas, because the related commodity price risks are mitigated by the fuel adjustment provisions of its current rate agreements. At December 31, 1997 neither the fair value of the derivatives outstanding nor potential, near-term derivative losses from reasonably possible near-term changes in market prices were material to the financial position, results of operations or liquidity of CEI or Con Edison. See Note A to the financial statements for additional information about the fuel cost provisions of the rate agreements and gas hedging.

## YEAR 2000 EXPOSURE

Many information systems have been designed to function based on years that begin with 19. CEI expects that by the Year 2000 it will have adapted its systems, to the extent it considers necessary, to process years that begin with 20, and does not expect that the costs of doing so will be material. However, the company cannot predict the effect on it of any Year 2000 problems of other entities such as suppliers, customers and service providers.

## AIR QUALITY

The Clean Air Act amendments of 1990 impose limits on sulfur dioxide and nitrogen dioxide emissions from electric generating units. Under the "Reasonably Available Control Technology" provisions of the Clean Air Act, New York and ten other member states of the Northeast Ozone Transport Commission have entered into a Memorandum of Understanding that calls for the states to adopt more stringent nitrogen oxide standards. Con Edison does not expect that compliance with the sulfur dioxide and nitrogen oxide standards will have a material adverse effect on its financial condition, results of operations or liquidity.

In July 1997 the United States Environmental Protection Agency adopted new ambient air quality standards for ozone and particulate matter. Con Edison does not expect that compliance with the ozone standard will have a material adverse effect on its financial condition, results of operations or liquidity. If ambient air quality monitoring identifies New York City as a non-attainment area for the particulate matter standard, the New York State Department of Environmental Conservation (DEC) will be required to adopt regulations to achieve compliance with the standard. Depending on the regulations, compliance with the standard may require increased operating costs and capital expenditures.

## NUCLEAR GENERATION

**INDIAN POINT STATION** Con Edison has operated its approximately 1,000 MW Indian Point 2 nuclear generating unit since it was first placed into service in 1973. At December 31, 1997 Indian Point 2 had a net book value of approximately \$479 million. See Note A to the financial statements for a discussion of costs of decommissioning Indian Point 2 and the retired Indian Point 1 unit.

**RATE RECOVERY** The Settlement Agreement provides that, following the Transition, Con Edison will have a reasonable opportunity to recover, through a non-bypassable charge, its investment in Indian Point 2 and the costs of decommissioning its nuclear operations. See "PSC Settlement Agreement - Recovery of Prior Investments and Commitments," above.

The Settlement Agreement does not contemplate the divestiture or transfer of Con Edison's Indian Point 2 nuclear generating unit. The PSC is expected to institute a collaborative process to further consider issues raised by an August 1997 PSC staff report on nuclear generating facilities.\*

**OPERATION** Under normal operating conditions, scheduled refueling and maintenance outages, such as the outage completed in July 1997, are generally required for Indian Point 2 after each cycle of approximately 22 months of operation. The unit was out of service from January 25, 1997 to March 15, 1997 and has been out of service since October 15, 1997 for unscheduled maintenance.\*

**FUEL DISPOSAL** The United States Department of Energy (DOE) has defaulted on its obligation under a contract with Con Edison pursuant to which DOE was to begin to take title to Con Edison's spent nuclear fuel (SNF) generated at Indian Point 2 as DOE transports the fuel to a federal repository for permanent disposal. In July 1996 the United States Court of Appeals for the District of Columbia held that the DOE has an obligation "reciprocal to the utilities' obligation to pay fees, to start disposing of the spent nuclear fuel no later than January 31, 1998." In January 1997 Con Edison and a number of other utilities petitioned the court for an order directing the DOE to begin acceptance of SNF, authorizing payment into escrow accounts of fees that would otherwise be payable to DOE pursuant to SNF disposal contracts, and instituting enhanced judicial oversight of DOE's performance under the contracts. In November 1997 the court ruled that the petition was premature pending a determination of whether provisions of the contracts would afford an adequate remedy.

\* In March 1998, the PSC instituted a proceeding on nuclear generation and the NRC issued a Confirmatory Action Letter regarding Indian Point 2. See "Electric Facilities - Generating Facilities" in Item 2.

Con Edison estimates that it has adequate on-site capacity for interim storage of its spent fuel until 2005. Absent regulatory or technological developments by 2005, Con Edison expects that it will require additional on-site or other spent fuel storage facilities. Such additional facilities would require regulatory approvals. In the event that it is unable to make appropriate arrangements for the storage of its spent fuel, Con Edison would be required to curtail the operation of Indian Point 2.

#### SUPERFUND AND ASBESTOS CLAIMS AND OTHER CONTINGENCIES

Reference is made to Note F to the financial statements for information concerning potential liabilities of Con Edison arising from the Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 (Superfund), from claims relating to alleged exposure to asbestos, and from certain other contingencies to which Con Edison is subject.

#### IMPACT OF INFLATION

CEI is affected by the decline in the purchasing power of the dollar caused by inflation. Regulation permits Con Edison to recover through depreciation only the historical cost of its plant assets even though in an inflationary economy the cost to replace the assets upon their retirement will substantially exceed historical costs. This is, however, partially offset by the repayment of Con Edison's long-term debt in dollars of lesser value than the dollars originally borrowed.

#### FORWARD-LOOKING STATEMENTS

This discussion and analysis includes forward-looking statements, which are statements of future expectation and not facts. Words such as "estimates," "expects," "anticipates," "intends," "plans" and similar expressions identify forward-looking statements. Actual results or developments might differ materially from those included in the forward-looking statements because of factors such as competition and industry restructuring, changes in economic conditions, changes in historical weather patterns, changes in laws, regulations or regulatory policies, developments in legal or public policy doctrines, technological developments and other presently unknown or unforeseen factors.

RESULTS OF OPERATIONS

Basic and diluted earnings per share were \$2.95 in 1997 and \$2.93 in 1996 and 1995. The average numbers of common shares outstanding for 1997, 1996 and 1995 were 235.1 million, 235.0 million and 234.9 million, respectively.

The increase in earnings for the year 1997 was primarily the result of lower operations and maintenance expenses, reflecting ongoing productivity improvements, partially offset by the impact of weather on net revenues and reduced incentive earnings under agreements covering electric rates.

Earnings for 1997, 1996 and 1995 reflect the electric, gas and steam rate increases and decreases and other provisions of the related rate agreements discussed above.

OPERATING REVENUES AND FUEL COSTS

Operating revenues in 1997 and 1996 increased from the prior year by \$161.5 million and \$422.8 million, respectively. The principal increases and decreases in revenue were:

(Millions of Dollars)	Increase (Decrease)	
	1997 over 1996	1996 over 1995
Electric, gas and steam rate changes	\$(24.7)	\$ 0.8
Fuel rider billings*	145.0	319.7
Sales volume changes		
Electric**	45.0	2.9
Gas	(8.1)	124.2
Steam	(28.9)	8.1
Gas weather normalization	17.2	(18.5)
Electric:		
ERAM/Modified ERAM accruals	7.9	45.4
Recoveries (refunds) of prior rate year ERAM accruals	(18.8)	(25.9)
Rate refund provisions	10.5	(8.2)
Off-system sales	(11.6)	(4.8)
Other	28.0	(20.9)
Total	\$161.5	\$422.8

\* Excludes costs of fuel, purchased power and gas purchased for resale reflected in base rates.

\*\* Includes Con Edison direct customers and delivery service for NYPA and municipal agencies.

The increases in fuel billings in 1997 and 1996 reflect increases in the unit costs of purchased power, fuel used to produce electricity and steam, and gas purchased for resale. Electric fuel costs increased \$52.0 million in 1997, primarily because of the increased unit cost of fuel, partially offset by lower generation. Electric purchased power costs increased by \$50.4 million in 1997 over the 1996 period due to increased purchases. The increases in electric fuel and purchased power costs in 1997 are also attributable to decreased availability of nuclear generation from Indian Point 2. Electric fuel costs increased \$23.3 million in 1996, reflecting a higher unit cost of fuel, partially offset by lower generation. Electric purchased power costs increased by \$161.9 million in 1996 over the 1995 period, reflecting a higher unit cost of power purchased under NUG contracts. The increases in electric fuel and purchased power costs in 1996 were mitigated by the greater availability in 1996 of nuclear generation from Indian Point 2.

The cost of gas purchased for resale increased \$60.9 million and \$158.5 million in 1997 and 1996, respectively, reflecting higher unit costs of purchased gas and higher sendout. The unit cost of gas was 14 percent higher in 1997 and 43 percent higher in 1996. Steam fuel costs decreased \$28.4 million in 1997 due to decreased generation of steam by Con Edison, partially offset by the higher unit cost of fuel. Steam purchased power costs increased \$26.2 million in 1997 due to increased purchases and higher unit costs. Steam fuel and purchased power costs increased \$49.7 million in 1996 due to the higher unit cost of fuel.

Electricity sales volume in Con Edison's service territory increased 1.1 percent in 1997 and 0.8 percent in 1996. Gas sales volume to firm customers decreased 6.2 percent in 1997 and increased 8.9 percent in 1996. Transportation of customer-owned gas (other than for the New York Power Authority), which comprised approximately 5.4 percent of the gas sold or transported for customers in 1997, increased 68.9 percent in 1997 reflecting increased purchases of gas from third party suppliers by Con Edison customers. Steam sales volume decreased 8.6 percent in 1997 and increased 1.9 percent in 1996.

Con Edison's electricity, gas and steam sales vary seasonally in response to weather. Electric peak load occurs in the summer, while gas and steam sales peak in the winter. After adjusting for variations, principally weather and billing days, in each period, electricity sales volume increased 1.8 percent in 1997 and 0.9 percent in 1996. Similarly adjusted, gas sales volume to firm customers decreased 0.8 percent in 1997 and increased 1.9 percent in 1996, and steam sales volume decreased 1.0 percent in 1997 and 0.1 percent in 1996. Weather-adjusted sales represent Con Edison's estimate of the sales that would have been made if historical average weather conditions had prevailed.





OTHER OPERATIONS AND MAINTENANCE EXPENSES

Other operations and maintenance expenses decreased 2.4 percent in 1997 and 1.8 percent in 1996. For 1997 the decrease reflects lower costs for pensions and retiree benefits, a 4.9 percent reduction in the workforce and reductions in the Enlightened Energy program, partially offset by expenses for Indian Point 2 outages. For 1996 the decrease reflects lower production expenses, principally because there was an Indian Point 2 refueling and maintenance outage in 1995, but no outage in 1996. The decrease was offset in part by higher costs for pensions and retiree benefits due to changes in actuarial assumptions.

In 1997 and 1996 Con Edison accrued \$3 million and \$10 million, respectively, for environmental liabilities related to various Superfund sites. During 1995 Con Edison accrued \$10 million for environmental remediation costs relating to Con Edison facilities, pursuant to a 1994 settlement of a DEC civil administrative proceeding against the company, and \$5 million for two Superfund sites. See Note F to the financial statements for additional information about the settlement.

TAXES, OTHER THAN FEDERAL INCOME TAX

At \$1.2 billion, taxes other than federal income tax remain one of Con Edison's largest operating expenses. The principal components of and variations in operating taxes were:

(Millions of Dollars)	Increase (Decrease)		
	1997 Amount	1997 over 1996	1996 over 1995
Property taxes	\$ 590.7	\$ 19.1	\$ 37.6
State and local taxes on revenues	474.8	0.9	13.6
Payroll taxes	59.3	(1.5)	2.6
Other taxes	56.3	(3.6)	(7.8)
Total	\$1,181.1*	\$ 14.9	\$ 46.0

\* Including sales taxes on customers' bills, total taxes, other than federal income taxes, billed to customers in 1997 were \$1,500.6 million.

The increase in property taxes in 1997 reflects an increase in tax rates and the increase in 1996 reflects higher assessed valuations.

OTHER INCOME

Other income decreased \$3.5 million in 1997 due principally to the start-up and business development expenses of Con Edison Solutions and Con Edison Development, partially offset by increased investment income. Other income decreased \$7.5 million in 1996, reflecting primarily lower investment income.

NET INTEREST CHARGES AND  
PREFERRED STOCK DIVIDEND REQUIREMENTS

Interest on long-term debt increased \$10.3 million in 1997 and \$5.9 million in 1996 principally as a result of new debt issues. The increase in 1996 relates to the preferred stock refunding discussed above, which substantially reduced Con Edison's preferred stock dividend requirements. Other interest expense decreased \$11.6 million in 1996, principally as a result of lower interest costs associated with certain tax settlements and customer overpayments.

FEDERAL INCOME TAX

Federal income tax decreased \$16.5 million in 1997 and \$1.4 million in 1996, reflecting the changes each year in income before tax and in tax credits. See Note I to the financial statements.

February 24, 1998

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For information about the Company's primary market risks associated with activities in derivative financial instruments, other financial instruments and derivative commodity instruments, see "Liquidity and Capital Resources - Financial Market Risks" in Item 7.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

A. Financial Statements

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Consolidated Income Statement for the years ended December 31, 1997, 1996 and 1995	47
Consolidated Statement of Cash Flows for the years ended December 31, 1997, 1996 and 1995	48
Consolidated Statement of Capitalization at December 31, 1997 and 1996	49-50
Consolidated Statement of Retained Earnings for the years ended December 31, 1997, 1996 and 1995	51
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The following Schedule is filed as a "Financial Statement Schedule" pursuant to Item 14 of this report:	
Schedule VIII - Valuation and Qualifying Accounts	63

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

B. Supplementary Financial Information

Selected Quarterly Financial Data for the years ended December 31, 1997 and 1996 (Unaudited)

The following table shows selected quarterly financial data for Con Edison. CEI became the holding company for Con Edison on January 1, 1998 when the Holding Company Proposal was implemented. See Item 4.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1997				
Operating revenues	\$ 1,886.2	\$ 1,504.0	\$ 2,011.0	\$ 1,720.1
Operating income	247.5	130.0	437.9	230.0
Net income	166.6	47.6	355.0	143.6
Net income for common stock	162.0	43.0	350.4	139.1
Basic and diluted earnings per common share	\$ .69	\$ .18	\$ 1.49	\$ .59
1996				
Operating revenues	\$ 1,867.4	\$ 1,539.7	\$ 1,920.3	\$ 1,632.3
Operating income	252.7	152.3	409.4	199.2
Net income	174.5	71.4	328.0	120.2
Net income for common stock	182.5	66.8	323.4	115.5
Basic and diluted earnings per common share	\$ .78	\$ .28	\$ 1.38	\$ .49

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

Report of Independent Accountants

To the Stockholders and Boards of Directors (Trustees) of  
Consolidated Edison, Inc. and Consolidated Edison Company of New York, Inc.

In our opinion, the consolidated financial statements listed under Item 8.A in the index appearing on page 42 present fairly, in all material respects, the financial position of Consolidated Edison, Inc. and its subsidiaries and of Consolidated Edison Company of New York, Inc. and its subsidiaries (collectively, the "Company") at December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse LLP

1177 Avenue of the Americas  
New York, N.Y. 10036

February 24, 1998

CONSOLIDATED BALANCE SHEET CONSOLIDATED EDISON, INC.

ASSETS		
At December 31 (Thousands of Dollars)	1997	1996
-----		
Utility plant, at original cost (Note A)		
Electric	\$11,743,745	\$11,588,344
Gas	1,741,562	1,642,231
Steam	576,206	536,672
General	1,203,427	1,152,001
-----		
Total	15,264,940	14,919,248
Less: Accumulated depreciation	4,392,377	4,285,732
-----		
Net	10,872,563	10,633,516
Construction work in progress	292,218	332,333
Nuclear fuel assemblies and components, less accumulated amortization	102,321	101,461
-----		
Net utility plant	11,267,102	11,067,310
-----		
Current assets		
Cash and temporary cash investments (Note A)	183,458	106,882
Funds held for refunding of debt	328,874	-
Accounts receivable - customer, less allowance for uncollectible accounts of \$21,600 in 1997 and 1996	581,163	544,004
Other receivables	60,759	42,056
Regulatory accounts receivable (Note A)	(1,682)	45,397
Fuel, at average cost	53,697	64,709
Gas in storage, at average cost	37,209	44,979
Materials and supplies, at average cost	191,759	204,801
Prepayments	75,516	64,492
Other current assets	16,457	15,167
-----		
Total current assets	1,527,210	1,132,487
-----		
Investments and nonutility property (Note A)	292,397	177,224
-----		
Deferred charges (Note A)		
Enlightened Energy program costs	117,807	133,718
Unamortized debt expense	126,085	130,786
Recoverable fuel costs (Note A)	98,301	101,462
Power contract termination costs	80,978	58,835
Other deferred charges	239,559	271,081
-----		
Total deferred charges	662,730	695,882
-----		
Regulatory asset - future federal income taxes (Notes A and I)	973,079	984,282
-----		
Total	\$14,722,518	\$14,057,185
-----		

CAPITALIZATION AND LIABILITIES

At December 31 (Thousands of Dollars)	1997	1996
Capitalization (see Consolidated Statement of Capitalization)		
Common shareholders' equity	\$5,930,079	\$5,727,568
Preferred stock subject to mandatory redemption (Note B)	84,550	84,550
Other preferred stock (Note B)	233,468	238,098
Long-term debt	4,188,906	4,238,622
<b>Total capitalization</b>	<b>10,437,003</b>	<b>10,288,838</b>
Noncurrent liabilities		
Obligations under capital leases	39,879	42,661
Other noncurrent liabilities	106,137	80,499
<b>Total noncurrent liabilities</b>	<b>146,016</b>	<b>123,160</b>
Current liabilities		
Long-term debt due within one year (Note B)	529,385	106,256
Accounts payable	440,114	431,115
Customer deposits	161,731	159,616
Accrued taxes	65,736	27,342
Accrued interest	85,613	83,090
Accrued wages	82,556	80,225
Other current liabilities	183,122	147,968
<b>Total current liabilities</b>	<b>1,548,257</b>	<b>1,035,612</b>
Provisions related to future federal income taxes and other deferred credits (Notes A and I)		
Accumulated deferred federal income tax	2,307,835	2,289,092
Accumulated deferred investment tax credits	163,680	172,510
Other deferred credits	119,727	147,973
<b>Total deferred credits</b>	<b>2,591,242</b>	<b>2,609,575</b>
Contingencies (Note F)		
<b>Total</b>	<b>\$14,722,518</b>	<b>\$14,057,185</b>

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

CONSOLIDATED INCOME STATEMENT CONSOLIDATED EDISON, INC.

Year Ended December 31 (Thousands of Dollars)	1997	1996	1995
Operating revenues (Note A)			
Electric	\$ 5,635,575	\$ 5,541,117	\$ 5,389,408
Gas	1,093,880	1,015,070	813,356
Steam	391,799	403,549	334,133
Total operating revenues	7,121,254	6,959,736	6,536,897
Operating expenses			
Purchased power	1,349,421	1,272,854	1,107,223
Fuel	596,824	573,275	504,104
Gas purchased for resale	479,218	418,271	259,789
Other operations	1,108,845	1,163,159	1,139,732
Maintenance	474,788	458,815	512,102
Depreciation and amortization (Note A)	502,779	496,412	455,776
Taxes, other than federal income tax	1,181,081	1,166,199	1,120,232
Federal income tax (Notes A and I)	382,910	397,160	396,560
Total operating expenses	6,075,866	5,946,145	5,495,518
Operating income	1,045,388	1,013,591	1,041,379
Other income (deductions)			
Investment income (Note A)	11,554	8,327	16,966
Allowance for equity funds used during construction (Note A)	4,448	3,468	3,763
Other income less miscellaneous deductions	(18,696)	(8,749)	(8,149)
Federal income tax (Notes A and I)	3,190	970	(1,060)
Total other income	496	4,016	11,520
Income before interest charges	1,045,884	1,017,607	1,052,899
Interest on long-term debt	318,158	307,820	301,917
Other interest	17,083	17,331	28,954
Allowance for borrowed funds used during construction (Note A)	(2,180)	(1,629)	(1,822)
Net interest charges	333,061	323,522	329,049
Net income	712,823	694,085	723,850
Preferred stock dividend requirements	(18,344)	(19,859)	(35,565)
Gain on refunding of preferred stock (Note B)	-	13,943	-
Net income for common stock	\$ 694,479	\$ 688,169	\$ 688,285
Basic and diluted earnings per common share	\$ 2.95	\$ 2.93	\$ 2.93
Average number of shares outstanding during each year (235,082,063; 234,976,697 and 234,930,301)			

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



CONSOLIDATED STATEMENT OF CASH FLOWS CONSOLIDATED EDISON, INC.

Year Ended December 31 (Thousands of Dollars)	1997	1996	1995
<b>Operating activities</b>			
Net income	\$ 712,823	\$ 694,085	\$ 723,850
Principal non-cash charges (credits) to income			
Depreciation and amortization	502,779	496,412	455,776
Deferred recoverable fuel costs	3,161	(42,008)	(61,937)
Federal income tax deferred	22,620	40,600	69,020
Common equity component of allowance for funds used during construction	(4,321)	(3,274)	(3,546)
Other non-cash charges	17,268	9,602	14,382
Changes in assets and liabilities			
Accounts receivable - customer, less allowance for uncollectibles	(37,159)	(46,789)	(56,719)
Regulatory accounts receivable	47,079	(51,878)	32,827
Materials and supplies, including fuel and gas in storage	31,824	(26,505)	43,341
Prepayments, other receivables and other current assets	(31,017)	5,117	4,566
Enlightened Energy program costs	15,911	10,564	25,919
Power contract termination costs	11,551	30,827	55,387
Accounts payable	8,999	10,263	46,383
Other - net	(62,978)	(19,679)	(72,785)
<b>Net cash flows from operating activities</b>	<b>1,238,540</b>	<b>1,107,337</b>	<b>1,276,464</b>
<b>Investing activities including construction</b>			
Construction expenditures	(654,221)	(675,233)	(692,803)
Nuclear fuel expenditures	(14,579)	(48,705)	(12,840)
Contributions to nuclear decommissioning trust	(21,301)	(21,301)	(18,893)
Common equity component of allowance for funds used during construction	4,321	3,274	3,546
<b>Net cash flows from investing activities including construction</b>	<b>(685,780)</b>	<b>(741,965)</b>	<b>(720,990)</b>
<b>Financing activities including dividends</b>			
Issuance of long-term debt	480,000	525,000	228,285
Retirement of long-term debt	(106,256)	(183,524)	(10,889)
Advance refunding of preferred stock and long-term debt	-	(412,311)	(155,699)
Issuance and refunding costs	(8,930)	(18,480)	(5,269)
Funds held for refunding of debt	(328,874)	-	-
Common stock dividends	(493,711)	(488,756)	(479,262)
Preferred stock dividends	(18,413)	(22,711)	(35,569)
<b>Net cash flows from financing activities including dividends</b>	<b>(476,184)</b>	<b>(600,782)</b>	<b>(458,403)</b>
<b>Net increase (decrease) in cash and temporary cash investments</b>	<b>76,576</b>	<b>(235,410)</b>	<b>97,071</b>
Cash and temporary cash investments at January 1	106,882	342,292	245,221
Cash and temporary cash investments at December 31	\$ 183,458	\$ 106,882	\$ 342,292
<b>Supplemental disclosure of cash flow information Cash paid during the period for:</b>			
Interest	\$ 310,310	\$ 309,279	\$ 309,953
Income taxes	335,631	346,755	344,754

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

CONSOLIDATED STATEMENT OF CAPITALIZATION CONSOLIDATED EDISON, INC.

At December 31 (Thousands of Dollars)	Shares outstanding		1997	1996
	December 31, 1997	December 31, 1996		
Common shareholders' equity (Note B)				
Common stock, \$ .10 par value, authorized 500,000,000 shares	235,489,650	234,993,596	\$ 1,482,351	\$ 1,478,536
Retained earnings			4,484,703	4,283,935
Capital stock expense			(36,975)	(34,903)
<b>Total common shareholders' equity</b>			<b>5,930,079</b>	<b>5,727,568</b>
Preferred stock (Note B)				
Subject to mandatory redemption				
Cumulative Preferred, \$100 par value,				
7.20% Series I	475,000	475,000	47,500	47,500
6-1/8% Series J	370,500	370,500	37,050	37,050
<b>Total subject to mandatory redemption</b>			<b>84,550</b>	<b>84,550</b>
Other preferred stock				
\$5 Cumulative Preferred, without par value, authorized 1,915,319 shares	1,915,319	1,915,319	175,000	175,000
Cumulative Preferred, \$100 par value, authorized 6,000,000 shares*				
5-3/4% Series A	70,612	70,612	7,061	7,061
5-1/4% Series B	138,438	138,438	13,844	13,844
4.65% Series C	153,296	153,296	15,330	15,330
4.65% Series D	222,330	222,330	22,233	22,233
Cumulative Preference, \$100 par value, authorized 2,250,000 shares				
6% Convertible Series B	-	46,305	-	4,630
<b>Total other preferred stock</b>			<b>233,468</b>	<b>238,098</b>
<b>Total preferred stock</b>			<b>\$ 318,018</b>	<b>\$ 322,648</b>

\* Represents total authorized shares of cumulative preferred stock, \$100 par value, including preferred stock subject to mandatory redemption.

At December 31 (Thousands of Dollars)

1997

1996

Long-term debt (Note B)

Maturity	Interest Rate	Series		
<b>Debentures:</b>				
1997	5.30 %	1993 E	\$ -	\$ 100,000
1998	6-1/4	1993 A	100,000	100,000
1998	5.70	1993 F	100,000	100,000
1999	6-1/2	1992 D	75,000	75,000
1999	*	1994 B	150,000	150,000
2000	7-3/8	1992 A	150,000	150,000
2000	7.60	1992 C	125,000	125,000
2001	6-1/2	1993 B	150,000	150,000
2001	*	1996 B	150,000	150,000
2002	6-5/8	1993 C	150,000	150,000
2002	*	1997 A	150,000	-
2003	6-3/8	1993 D	150,000	150,000
2004	7-5/8	1992 B	150,000	150,000
2005	7-3/8	1992 E	75,000	75,000
2005	6-5/8	1995 A	100,000	100,000
2007	6.45	1997 B	330,000	-
2023	7-1/2	1993 G	380,000	380,000
2026	7-3/4	1996 A	100,000	100,000
2027	8.05	1992 F	100,000	100,000
2029	7-1/8	1994 A	150,000	150,000
<b>Total debentures</b>			<b>2,835,000</b>	<b>2,455,000</b>
<b>Tax-exempt debt - notes issued to New York State Energy Research and Development Authority for Facilities Revenue Bonds:</b>				
2020	6.10 %	1995 A	128,285	128,285
2020	5-1/4	1993 B	127,715	127,715
2021	7-1/2	1986 A	150,000	150,000
2022	7-1/8	1987 A	100,855	100,855
2022	9-1/4	1987 B	29,385	29,385
2022	5-3/8	1993 C	19,760	19,760
2024	7-3/4	1989 A	150,000	150,000
2024	7-3/8	1989 B	100,000	100,000
2024	7-1/4	1989 C	150,000	150,000
2025	7-1/2	1990 A	150,000	150,000
2026	7-1/2	1991 A	128,150	128,150
2027	6-3/4	1992 A	100,000	100,000
2027	6-3/8	1992 B	100,000	100,000
2028	6	1993 A	101,000	101,000
2029	7-1/8	1994 A	100,000	100,000
<b>Total tax-exempt debt</b>			<b>1,635,150</b>	<b>1,635,150</b>
<b>Subordinated deferrable interest debentures:</b>				
2031	7-3/4 %	1996 A	275,000	275,000
<b>Other long-term debt</b>			<b>1,722</b>	<b>8,848</b>
<b>Unamortized debt discount</b>			<b>(28,581)</b>	<b>(29,120)</b>
<b>Total</b>			<b>4,718,291</b>	<b>4,344,878</b>
<b>Less: Long-term debt due within one year</b>			<b>529,385</b>	<b>106,256</b>
<b>Total long-term debt</b>			<b>4,188,906</b>	<b>4,238,622</b>
<b>Total capitalization</b>			<b>\$ 10,437,003</b>	<b>\$ 10,288,838</b>

\* Rate reset quarterly. At December 31, 1997 the rates for Series 1994 B, Series 1996 B and Series 1997 A were 5.96484%, 6.0375% and 5.9975%, respectively.

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

CONSOLIDATED STATEMENT OF RETAINED EARNINGS CONSOLIDATED EDISON, INC.

Year Ended December 31 (Thousands of Dollars)	1997	1996	1995
Balance, January 1	\$4,283,935	\$4,097,035	\$3,888,010
Net income for the year	712,823	694,085	723,850
<b>Total</b>	<b>4,996,758</b>	<b>4,791,120</b>	<b>4,611,860</b>
Dividends declared on capital stock			
Cumulative Preferred, at required annual rates	18,146	18,145	35,259
Cumulative Preference, 6% Convertible Series B	198	284	304
Common, \$2.10, \$2.08 and \$2.04 per share	493,711	488,756	479,262
<b>Total dividends declared</b>	<b>512,055</b>	<b>507,185</b>	<b>514,825</b>
Balance, December 31	\$4,484,703	\$4,283,935	\$4,097,035

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CORPORATE RESTRUCTURING

On January 1, 1998 Consolidated Edison Company of New York, Inc. (Con Edison), the regulated utility, became a subsidiary of its new parent holding company, Consolidated Edison, Inc. (CEI), when the outstanding shares of common stock, \$2.50 par value, of Con Edison were exchanged on a share-for-share basis for shares of common stock, \$.10 par value, of CEI. Con Edison's debt securities and preferred stock remained securities of Con Edison.

OPERATIONS

CEI, through its subsidiaries, provides a wide range of energy-related products and services to its customers. The principal subsidiaries, in addition to Con Edison, are Con Edison Solutions and Con Edison Development. Con Edison supplies electric service in all of New York City (except part of Queens) and most of Westchester County, a service area with a population of more than eight million. It also supplies gas in Manhattan, The Bronx and parts of Queens and Westchester, and steam in part of Manhattan. Con Edison Solutions is a full-service energy company offering wholesale and retail electricity and natural gas sales, as well as energy-related products and services, primarily in the Northeast. Con Edison Development invests in energy infrastructure projects and markets technical services worldwide.

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**PRINCIPLES OF CONSOLIDATION** The accompanying consolidated financial statements include the accounts of Con Edison and its wholly-owned subsidiaries and, therefore, also represent the consolidated financial statements of CEI and its wholly-owned subsidiaries. Intercompany transactions have been eliminated.

**PSC SETTLEMENT AGREEMENT** The New York State Public Service Commission (PSC), by order issued and effective May 20, 1996 in its Competitive Opportunities proceeding, endorsed a fundamental restructuring of the electric utility industry in New York State, based on competition in the generation and energy services sectors of the industry. The PSC, by order issued and effective September 23, 1997, approved a settlement agreement between Con Edison, the PSC staff and certain other parties (the Settlement Agreement).

The Settlement Agreement provides for a transition to a competitive electric market through the development of a "retail access" plan, a rate plan for the period ending March 31, 2002 (the Transition), a reasonable opportunity for recovery of "strandable costs" and the divestiture by Con Edison to unaffiliated third parties of at least 50 percent of its New York City fossil-fueled electric generating capacity.

The "retail access" plan will eventually permit all of Con Edison's electric customers to buy electricity from other suppliers. The delivery of electricity to customers will continue to be through Con Edison's transmission and distribution systems. Con Edison's electric fossil-fueled generating capacity not divested to third parties will be transferred by December 31, 2002 to an unregulated subsidiary of CEI. Con Edison's contracts with non-utility

generators (NUGs), absent renegotiation of these contracts, will remain contractual obligations of Con Edison, which could resell electricity provided under the contracts in the competitive energy supply market. The Settlement Agreement does not contemplate the divestiture or transfer of Con Edison's Indian Point 2 nuclear generating unit. In August 1997 the PSC solicited comments as to the future treatment of nuclear generating facilities in New York.

Con Edison's potential electric "strandable costs" are those prior utility investments and commitments that may not be recoverable in a competitive energy supply market, including the unrecovered cost of Con Edison's electric generating plants, the future cost of decommissioning the Indian Point nuclear generating station and charges under contracts with NUGs. During the Transition Con Edison will continue to recover its potential electric strandable costs in the rates it charges all customers, including those customers purchasing electricity from others. Following the Transition Con Edison will be given a reasonable opportunity to recover, through a non-bypassable charge to customers, remaining strandable costs, including a reasonable return on investments. For remaining fossil-related strandable costs, the recovery period will be 10 years. For remaining nuclear-related strandable costs, the recovery period will be the then-remaining life of Con Edison's Indian Point 2 nuclear unit (the operating license for which extends to 2013). With respect to its NUG contracts, Con Edison will be permitted to recover at least 90 percent of the amount, if any, by which the actual costs of its purchases under the contracts exceed market value after the Transition. potential NUG contract disallowance after the Transition will be limited to the lower of (i) 10 percent of the above-market costs or (ii) \$300 million (net present value in 2002). The potential disallowance will be offset by the amount of NUG contract mitigation achieved by Con Edison after April 1, 1997 and 10 percent of the gross proceeds of generating unit sales to third parties. Con Edison will be permitted a reasonable opportunity to recover any costs subject to disallowance that are not offset by these two factors if it makes good faith efforts in implementing provisions of the Settlement Agreement leading to the development of a competitive electric market in its service territory and the development of an independent system operator (which is expected to administer the wholesale electric market in New York State).

**ACCOUNTING POLICIES** The accounting policies of CEI and its subsidiaries conform to generally accepted accounting principles. For regulated public utilities, generally accepted accounting principles include Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation," and, in accordance with SFAS No. 71, the accounting requirements and rate-making practices of the Federal Energy Regulatory Commission (FERC) and the PSC.

In September 1997 Con Edison applied the standards in SFAS No. 101, "Regulated Enterprises - Accounting for the Discontinuation of Application of the Financial Accounting Standards Board (FASB) Statement No. 71," to the non-nuclear electric supply portion of its business that is being deregulated as a result of the Settlement Agreement (the Deregulated Business). The Deregulated Business includes all of Con Edison's fossil electric generating assets, which had a net book value of approximately \$1.4 billion at December 31, 1997, including approximately \$196 million relating to Con Edison's share of the Bowline Point and Roseton stations (which are located outside New York City and operated by other utilities). The application of SFAS No. 101 to the Deregulated Business had no material adverse effect on Con Edison's financial position or results of operations.

SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," requires certain assets to be reviewed for impairment if the carrying amount of the assets may not be recoverable, requires that assets to be disposed of be carried at the lower of net book value or fair value, and amends SFAS No. 71 to require that regulatory assets be charged to earnings if such assets are no longer considered probable of recovery. Con Edison has not recognized an impairment of its fossil generating assets because the estimated cash flows from the operation and/or sale of the assets, together with the cash flows from the strandable cost recovery provisions of the Settlement Agreement, will not be less than the net carrying amount of the generating assets.

Certain deferred charges (regulatory assets) principally relating to future federal income taxes and certain deferred credits (regulatory liabilities) have resulted from transactions relating or allocated to the Deregulated Business. At December 31, 1997 regulatory assets net of regulatory liabilities amounted to approximately \$1.4 billion, of which approximately \$300 million is attributable to the Deregulated Business. Con Edison has not written-off against earnings any net regulatory assets because recovery of the assets is probable under the Settlement Agreement.

SFAS No. 5, "Accounting for Contingencies," requires accrual of a loss if it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Con Edison has not accrued a loss for its contracts with NUGs because it is not probable that the charges by NUGs under the contracts will exceed the cash flows from the sale by Con Edison of the electricity provided by the NUGs, together with the cash flows provided pursuant to the Settlement Agreement.

**UTILITY PLANT AND DEPRECIATION** The capitalized cost of additions to utility plant includes indirect costs such as engineering, supervision, payroll taxes, pensions, other benefits and an allowance for funds used during construction (AFDC). The original cost of property, together with removal cost, less salvage, is charged to accumulated depreciation as property is retired.



The cost of repairs and maintenance is charged to expense, and the cost of betterments is capitalized.

Rates used for AFDC include the cost of borrowed funds and a reasonable rate on Con Edison's own funds when so used, determined in accordance with PSC and FERC regulations. The AFDC rate was 9.1 percent in 1997, 9.0 percent in 1996 and 9.1 percent in 1995. The rate was compounded semiannually, and the amounts applicable to borrowed funds were treated as a reduction of interest charges.

The annual charge for depreciation is computed on the straight-line method for financial statement purposes using rates based on average lives and net salvage factors, with the exception of the Indian Point 2 nuclear unit, Con Edison's share of the Roseton generating station, certain leaseholds and certain general equipment, which are depreciated on a remaining life amortization method. Depreciation rates averaged approximately 3.4 percent in 1997 and 1996 and 3.3 percent in 1995. In 1996 an additional provision for depreciation of \$13.9 million was accrued in connection with a preferred stock refunding. See Note B.

Con Edison is a joint owner of two 1,200-megawatt (MW) electric generating stations: (1) Bowline Point, operated by Orange and Rockland Utilities, Inc., with Con Edison owning a two-thirds interest, and (2) Roseton, operated by Central Hudson Gas & Electric Corp., with Con Edison owning a 40 percent interest. Central Hudson has the option to acquire Con Edison's interest in the Roseton station in 2004. Con Edison's share of the investment in these stations at original cost and as included in its balance sheet at December 31, 1997 and 1996 was:

(Thousands of Dollars)	1997	1996
Bowline Point: Plant in service	\$206,128	\$204,484
Construction work in progress	1,796	2,788
Roseton: Plant in service	146,066	146,623
Construction work in progress	652	846

Con Edison's share of accumulated depreciation for the Roseton station at December 31, 1997 and 1996 was \$75.3 million and \$70.3 million, respectively. A separate depreciation account is not maintained for Con Edison's share of the Bowline Point station. Con Edison's share of operating expenses for these stations is included in its income statement. Both Orange and Rockland and Central Hudson have agreed to divest generation as part of their Competitive Opportunities settlements with the PSC.

NUCLEAR DECOMMISSIONING Depreciation charges include a provision for decommissioning both the Indian Point 2 and the retired Indian Point 1 nuclear units. Decommissioning costs are being accrued ratably over the Indian Point 2 license period, which extends to the year 2013. Con Edison has been accruing for the costs of decommissioning within the internal accumulated depreciation reserve since 1975. In 1989 the PSC permitted Con Edison to establish an external trust fund for the costs of decommissioning the nuclear portions of the plants, pursuant to Nuclear Regulatory Commission (NRC) regulations. Accordingly, beginning in 1989, Con Edison has made contributions to such a trust. The external trust fund is discussed below under "Investments" in this Note A.

Accumulated decommissioning provisions at December 31, 1997 and 1996, which include earnings on funds externally invested, were as follows:

(Millions of Dollars)	Amounts Included in Accumulated Depreciation	
	1997	1996
Nuclear	\$ 211.7	\$ 164.7
Non-Nuclear	58.2	57.0
Total	\$ 269.9	\$ 221.7

In 1994 a site-specific decommissioning study was prepared for both the Indian Point 2 and the retired Indian Point 1 nuclear units. Based upon this study, the estimated decommissioning cost in 1993 dollars is approximately \$657 million, of which \$252 million is for extended on-site storage of spent nuclear fuel. Using a 3.25 percent annual escalation factor, the estimated cost in 2016, the assumed midpoint for decommissioning expenditures, is approximately \$1,372 million. Under a 1995 electric rate agreement, effective April 1995, the PSC approved an annual decommissioning expense allowance for the nuclear and non-nuclear portions of the plants of \$21.3 million and \$1.8 million, respectively, to fund the future estimated costs of decommissioning. The annual expense allowance assumes a 6 percent after-tax annual return on fund assets.

The FASB is currently reviewing the utility industry's accounting treatment of nuclear and certain other plant decommissioning costs. In an exposure draft issued in February 1996, the FASB concluded that decommissioning costs should be accounted for as a liability at present value, with a corresponding asset in utility plant, rather than as a component of depreciation. Discussions of issues addressed in the exposure draft are ongoing.

**NUCLEAR FUEL** Nuclear fuel assemblies and components are amortized to operating expenses based on the quantity of heat produced in the generation of electricity. Fuel costs also include provisions for payments to the U.S. Department of Energy (DOE) for future off-site storage of the spent fuel and for a portion of the costs to decontaminate and decommission the DOE facilities used to enrich uranium purchased by Con Edison. Such payments amounted to \$7.4 million in 1997. Nuclear fuel costs are recovered in revenues through base rates or through the fuel adjustment clause.

**LEASES** In accordance with SFAS No. 71, those leases that meet the criteria for capitalization are capitalized for accounting purposes. For rate-making purposes, all leases have been treated as operating leases.

**REVENUES** Revenues for electric, gas and steam service are recognized on a monthly billing cycle basis. Pursuant to the 1992 and 1995 electric rate agreements, actual electric net revenues (operating revenues less fuel and purchased power costs and revenue taxes) were adjusted by accrual to target levels established under the agreements in accordance with an electric revenue adjustment mechanism (ERAM). Revenues were also increased (or decreased) each month to reflect rewards (or penalties) earned under incentive mechanisms for the Enlightened Energy (demand-side management) program and for customer service activities. The agreements provided that the net regulatory asset (or liability) thus accrued in each rate year would be reflected in customers' bills in the following rate year. Effective April 1, 1997 the Settlement Agreement eliminated the ERAM and the Enlightened Energy and electric customer service incentives. The Settlement Agreement includes a penalty mechanism (estimated maximum, \$26 million per year) for failure to maintain certain customer service standards.

The 1994 gas rate agreement provided for revenues to be increased (or decreased) each month to reflect rewards (or penalties) earned under incentive mechanisms related to gas customer service and system improvement targets. The 1997 gas rate agreement discontinued the incentive mechanisms effective October 1, 1997, after which Con Edison is subject to a penalty (maximum, \$1.7 million per year) if it fails to maintain targeted levels of customer service.

**RECOVERABLE FUEL COSTS** Fuel and purchased power costs that are above the levels included in base rates are recoverable under electric, gas and steam fuel adjustment clauses. If costs fall below these levels, the difference is credited to customers. For electric and steam, such costs are deferred until the period in which they are billed or credited to customers (40 days for electric, 30 days for steam). For gas, the excess or deficiency is accumulated for refund or surcharge to customers on an annual basis.

Effective April 1992 a partial pass-through electric fuel adjustment clause (PPFAC) was implemented with monthly targets for electric fuel and purchased power costs. Con Edison retains for stockholders 30 percent of any savings in actual costs below the target amount, but must bear 30 percent of any excess of actual costs over the target. For each rate year there is a \$35 million cap on the maximum incentive or penalty, with a limit (within the \$35 million) of \$10 million for costs associated with generation at Con Edison's Indian Point 2 nuclear unit.

**REGULATORY ACCOUNTS RECEIVABLE** Regulatory accounts receivable at December 31, 1997 amounted to a credit due customers of \$1.7 million, reflecting an accrual for the PPFAC. The amounts accrued under the PPFAC are billed or credited to customers on a monthly basis through the electric fuel adjustment clause. Effective April 1, 1997 the Settlement Agreement eliminated the modified ERAM and the Enlightened Energy and electric customer service incentives; at that time, the regulatory accounts receivable recorded for the modified ERAM and these incentives were, along with certain other debit and credit balances in Con Edison's financial statements, eliminated. The elimination of these balances had no material adverse effect on Con Edison's financial position or results of operations.

**ENLIGHTENED ENERGY PROGRAM COSTS** In accordance with PSC directives, Con Edison deferred the costs of its Enlightened Energy program for future recovery from ratepayers. Such deferrals amounted to \$117.8 million at December 31, 1997 and \$133.7 million at December 31, 1996. In accordance with the 1992 and 1995 electric rate agreements, deferred charges for the Enlightened Energy program are generally recoverable over a five-year period.

**TEMPORARY CASH INVESTMENTS** Temporary cash investments are short-term, highly liquid investments which generally have maturities of three months or less. They are stated at cost which approximates market. CEI and Con Edison consider temporary cash investments to be cash equivalents.

**INVESTMENTS** For 1997 investments consisted primarily of the nuclear decommissioning trust fund (\$211.7 million at December 31, 1997) and investments of Con Edison Solutions and Con Edison Development (\$66.0 million at December 31, 1997). For 1996 investments consisted primarily of the nuclear decommissioning trust fund (\$164.7 million at December 31, 1996). The nuclear decommissioning trust fund is stated at market; investments of Con Edison Solutions and Con Edison Development are stated at cost. Earnings on the nuclear decommissioning trust fund are not recognized in income but are included in the accumulated depreciation reserve. See Nuclear Decommissioning in this Note A.

**GAS HEDGING** Con Edison purchases put options and sells futures contracts under its gas hedging program in order to protect its gas inventory against adverse market price fluctuations. Con Edison defers the related hedging gains and losses until the underlying gas commodity is withdrawn from storage and then adjusts the cost of its gas in storage accordingly.





All hedging gains or losses are credited or charged to customers through Con Edison's gas fuel adjustment clause. Con Edison Solutions uses futures contracts to hedge natural gas transactions in order to minimize the risk of unfavorable market price fluctuations. Gains or losses on these futures contracts are deferred until gas is purchased, at which time gas expense is adjusted accordingly. At December 31, 1997 deferred gains or losses on open positions were not material.

Neither CEI nor any of its consolidated subsidiaries, including Con Edison, enters into derivative transactions that do not meet the criteria for hedges and that do not qualify for deferred accounting treatment. If for any reason a derivative transaction were no longer classified as a hedge, inventory or gas expense, as appropriate, would be adjusted for unrealized gains and losses relating to the transaction.

FEDERAL INCOME TAX In accordance with SFAS No. 109, "Accounting for Income Taxes," Con Edison has recorded an accumulated deferred federal income tax liability for substantially all temporary differences between the book and tax bases of assets and liabilities at current tax rates. In accordance with rate agreements, Con Edison has recovered amounts from customers for a portion of the tax expense it will pay in the future as a result of the reversal or "turn-around" of these temporary differences. As to the remaining temporary differences, in accordance with SFAS No. 71, Con Edison has established a regulatory asset for the net revenue requirements to be recovered from customers for the related future tax expense. In 1993 the PSC issued an Interim Policy Statement proposing accounting procedures consistent with SFAS No. 109 and providing assurances that these future increases in taxes will be recoverable in rates. The final policy statement is not expected to differ materially from the interim policy statement. See Note I.

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

Con Edison and its subsidiaries file, and CEI expects that it and its subsidiaries will file, a consolidated federal income tax return. Income taxes are allocated to each company based on its taxable income.

RESEARCH AND DEVELOPMENT COSTS Research and development costs relating to specific construction projects are capitalized. All other such costs are charged to operating expenses as incurred. Research and development costs in 1997, 1996 and 1995, amounting to \$25.9 million, \$32.3 million and \$45.0 million, respectively, were charged to operating expenses. No research and development costs were capitalized in these years.

NEW FINANCIAL ACCOUNTING STANDARDS The FASB has issued the following two standards effective for fiscal years beginning after December 15, 1997: SFAS No. 130, "Reporting Comprehensive Income," and SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." The application of these standards will not have a material effect on CEI's financial position or results of operations or materially change its current disclosure practices.

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

ESTIMATES The accompanying consolidated financial statements reflect judgments and estimates made in the application of the above accounting policies.

NOTE B CAPITALIZATION

COMMON STOCK AND PREFERRED STOCK NOT SUBJECT TO MANDATORY REDEMPTION In December 1997 Con Edison redeemed its Series B preference stock. Each share of Series B preference stock was convertible into 13 shares of common stock at a conversion price of \$7.69 per share. During 1997, 1996 and 1995, 38,158 shares, 2,869 shares and 3,928 shares of Series B preference stock were converted into 496,054 shares, 37,297 shares and 51,064 shares of common stock, respectively.

The prices at which Con Edison has the option to redeem its preferred stock other than Series I and Series J (in each case, plus accrued dividends) are as follows:

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\$5 Cumulative Preferred Stock	\$ 105.00
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Cumulative Preferred Stock:	
Series A	\$ 102.00
Series B	102.00
Series C	101.00
Series D	101.00
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PREFERRED STOCK SUBJECT TO MANDATORY REDEMPTION Con Edison is required to redeem 25,000 of the Series I shares on May 1 of each year in the five-year period commencing with the year 2002 and to redeem the remaining Series I shares on May 1, 2007. Con Edison is required to redeem the Series J shares on August 1, 2002. In each case the redemption price is \$100 per share plus accrued and unpaid dividends to the redemption date. In addition, Con Edison may redeem Series I shares at a redemption price of \$103.60 per share, plus accrued dividends, if redeemed prior to May 1, 1998 (and thereafter at prices declining annually to \$100 per share, plus accrued dividends, after April 30, 2002). Neither Series I nor Series J shares may be called for redemption while dividends are in arrears on outstanding shares of \$5 cumulative preferred stock or cumulative preferred

stock.

**PREFERRED STOCK REFUNDING** In March 1996 Con Edison canceled approximately \$227 million of its preferred stock purchased pursuant to a tender offer and redeemed an additional \$90 million of its preferred stock. In accordance with the PSC order approving the issuance of subordinated deferrable interest debentures to refund the preferred stock, Con Edison offset the net gain of \$13.9 million by accruing an additional provision for depreciation equal to the net gain.

**DIVIDENDS** Beginning in 1998, dividends on CEI's common shares will depend primarily on the dividends and other distributions that Con Edison and the other subsidiaries will pay to CEI and the capital requirements of CEI and its subsidiaries. The PSC Settlement Agreement limits the dividends that Con Edison may pay to not more than 100 percent of Con Edison's income available for dividends, calculated on a two-year rolling average basis. Excluded from the calculation of "income available for dividends" are non-cash charges to income resulting from accounting changes or charges to income resulting from significant unanticipated events. The restriction also does not apply to dividends necessary to transfer to CEI proceeds from major transactions, such as asset sales, or to dividends reducing Con Edison's equity ratio to a level appropriate to Con Edison's business risk.

Payment of Con Edison common stock dividends to CEI is subject to certain additional restrictions. No dividends may be paid, or funds set apart for payment, on Con Edison's common stock until all dividends accrued on the \$5 cumulative preferred stock and cumulative preferred stock have been paid, or declared and set apart for payment, and unless Con Edison is not in arrears on its mandatory redemption obligation for the Series I and Series J cumulative preferred stock. No dividends may be paid on any of Con Edison's capital stock during any period in which Con Edison has deferred payment of interest on its subordinated deferrable interest debentures.

**LONG-TERM DEBT** In December 1997 Con Edison issued \$330 million of 10-year 6.45% Series 1997 B debentures to refund in January 1998 three series of tax-exempt debt that Con Edison issued through the New York State Energy Research and Development Authority: 7-1/2% Series 1986 A, 9-1/4% Series 1987 B and 7-3/4% Series 1989 A.

Long-term debt maturing in the period 1998-2002 is as follows:

1998	\$200,000,000
1999	225,000,000
2000	275,000,000
2001	300,000,000
2002	300,000,000

Con Edison's long-term debt is stated at cost which, as of December 31, 1997, approximates fair value. The fair value of the company's long-term debt is estimated based on current rates for debt of the same remaining maturities.

#### NOTE C SHORT-TERM BORROWING

Con Edison has been authorized by FERC to issue short-term debt of up to \$500 million outstanding at any one time. At December 31, 1997 Con Edison had no short-term debt outstanding. In January 1998 Con Edison initiated a \$500 million commercial paper program, supported by revolving credit agreements with banks. Bank commitments under the revolving credit agreements may terminate upon a change in control of CEI and borrowings under the agreements are subject to certain conditions, including that Con Edison's ratio (calculated in accordance with the agreements) of debt to total capital not at any time exceed 0.65 to 1. At December 31, 1997 this ratio was 0.43 to 1. Borrowings under the commercial paper program or the revolving credit facilities are expected to be at prevailing market rates.

#### NOTE D PENSION BENEFITS

Con Edison has pension plans that cover substantially all of its employees and certain employees of other CEI subsidiaries. The plans are designed to comply with the Employee Retirement Income Security Act of 1974 (ERISA). Contributions are made solely by Con Edison and the other subsidiaries based on an actuarial valuation, and are not less than the minimum amount required by ERISA. Con Edison's policy is to fund the actuarially computed net pension cost as such cost accrues subject to statutory maximum (and minimum) limits. Benefits are generally based on a final five-year average pay formula.

In accordance with SFAS No. 87, "Employers' Accounting for Pensions," Con Edison uses the projected unit credit method for determining pension cost. Pension costs for 1997, 1996 and 1995 amounted to \$11.8 million, \$73.2 million and \$11.4 million, respectively, of which \$9.3 million for 1997, \$57.8 million for 1996 and \$8.9 million for 1995 was charged to operating expenses. Pension costs reflect the amortization of a regulatory asset established pursuant to SFAS No. 71 to offset the \$33.3 million increase in pension obligations from a special retirement program Con Edison offered in 1993, which provided special termination benefits as described in SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits." Pension cost for 1995 also includes an actuarially determined credit of \$7.3 million representing a prepayment on one of the plans. This credit reduced pension funding in 1996.

Con Edison recognizes investment gains and losses over five years and amortizes unrecognized actuarial gains and losses over ten years.



The components of net periodic pension cost for 1997, 1996 and 1995 were as follows:

(Millions of Dollars)	1997	1996	1995
Service cost - benefits earned during the period	\$ 111.4	\$120.2	\$ 98.2
Interest cost on projected benefit obligation	334.3	320.1	296.7
Actual return on plan assets	(878.6)	(593.6)	(865.8)
Unrecognized investment gain (loss) deferred	471.3	217.6	521.6
Net amortization	(28.8)	6.7	(41.5)
Net periodic pension cost	9.6	71.0	9.2*
Amortization of regulatory asset	2.2	2.2	2.2
Total pension cost	\$ 11.8	\$ 73.2	\$ 11.4

\* Includes a prepayment credit of \$7.3 million.

The funded status of the pension plans as of December 31, 1997, 1996 and 1995 was as follows:

(Millions of Dollars)	1997	1996	1995
Actuarial present value of benefit obligation:			
Vested	\$ 3,800.7	\$ 3,525.9	\$ 3,319.2
Nonvested	175.9	190.5	267.9
Accumulated to date	3,976.6	3,716.4	3,587.1
Effect of projected future compensation levels	964.0	986.6	1,070.3
Total projected benefit obligation	4,940.6	4,703.0	4,657.4
Plan assets at fair value	5,988.7	5,269.3	4,775.8
Plan assets less projected benefit obligation	1,048.1	566.3	118.4
Unrecognized net gain	(1,157.4)	(703.8)	(240.3)
Unrecognized prior service cost*	90.4	100.1	85.3
Unrecognized net transition liability at January 1, 1987*	11.3	14.3	17.2
Accrued pension cost**	\$ (7.6)	\$ (23.1)	\$ (19.4)

\* Being amortized over approximately 15 years.

\*\* Accrued liability primarily for special retirement program, reduced in 1997 by a prepayment credit.

To determine the present value of the projected benefit obligation, the discount rates assumed were 7.25 percent for 1997 and 1996 and 7 percent for 1995. A weighted average rate of increase in future compensation levels of 5.8 percent and long-term rate of return on plan assets of 8.5 percent were assumed for all years.

The pension plan assets consist primarily of corporate common stocks and bonds, group annuity contracts and debt of the United States government and its agencies.

NOTE E POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Con Edison has a contributory comprehensive hospital, medical and prescription drug program for all retirees, their dependents and surviving spouses. Con Edison also provides life insurance benefits for approximately 6,400 retired employees. All of Con Edison's employees become eligible for these benefits upon retirement, except that the amount of life insurance is limited and is available only to management employees and to those bargaining unit employees who participated in the optional program prior to retirement. Con Edison has reserved the right to amend or terminate these programs.

Con Edison's policy is to fund in external trusts the actuarially determined annual costs for retiree health and life insurance subject to statutory maximum limits.

Con Edison recognizes investment gains and losses over five years and amortizes unrecognized actuarial gains and losses over ten years.

The cost to Con Edison for retiree health benefits for 1997, 1996 and 1995 amounted to \$76.7 million, \$89.2 million and \$65.5 million, respectively, of which \$61.0 million for 1997, \$70.5 million for 1996 and \$51.6 million for 1995 was charged to operating expenses. The cost of the retiree life insurance plan for 1997, 1996 and 1995 amounted to \$20.8 million, \$22.8 million and \$18.0 million, respectively, of which \$16.5 million for 1997, \$18.0 million for 1996 and \$14.2 million for 1995 was charged to operating expenses.

The components of postretirement benefit (health and life insurance) costs for 1997, 1996 and 1995 were as follows:

(Millions of Dollars)	1997	1996	1995
Service cost - benefits earned during the period	\$ 15.7	\$ 17.4	\$ 10.7
Interest cost on accumulated postretirement benefit obligation	71.0	68.9	61.2
Actual return on plan assets	(100.3)	(51.3)	(60.8)
Unrecognized investment gain (loss) deferred	63.8	23.5	40.4
Amortization of transition obligation and unrecognized net loss	47.3	53.5	32.0
Net periodic postretirement benefit cost	\$ 97.5	\$ 112.0	\$ 83.5

The following table sets forth the program's funded status at December 31, 1997, 1996 and 1995:

(Millions of Dollars)	1997	1996	1995
Accumulated postretirement benefit obligation:			
Retirees	\$ 470.6	\$ 471.1	\$ 447.7
Employees eligible to retire	240.1	248.8	250.7
Employees not eligible to retire	253.4	279.2	305.6
Total projected benefit obligation	964.1	999.1	1,004.0
Plan assets at fair value	574.1	444.2	322.2
Plan assets less accumulated postretirement benefit obligation	(390.0)	(554.9)	(681.8)
Unrecognized net loss	41.3	139.9	240.8
Unrecognized net transition liability at January 1, 1993*	322.6	415.0	441.0
Accrued postretirement benefit cost	\$ (26.1)	\$ 0	\$ 0

\* Being amortized over a period of 20 years.

To determine the accumulated postretirement benefit obligation, the discount rates assumed were 7.25 percent for 1997 and 1996 and 7 percent for 1995. The assumed long-term rate of return on plan assets was 8.5 percent for these years. The health care cost trend rate assumed for 1997 was 8.5 percent, for 1998, 8 percent, and then declining one-half percent per year to 5 percent for 2004 and thereafter. If the assumed health care cost trend rate were to be increased by one percentage point each year, the accumulated postretirement benefit obligation would increase by approximately \$114.8 million and the service cost and interest component of the net periodic postretirement benefit cost would increase by \$12.6 million.

Postretirement plan assets consist of corporate common stocks and bonds, group annuity contracts, debt of the United States government and its agencies and short-term securities.

NOTE F CONTINGENCIES

INDIAN POINT Nuclear generating units similar in design to Con Edison's Indian Point 2 unit have experienced problems that have required steam generator replacement. Inspections of the Indian Point 2 steam generators since 1976 have revealed various problems, some of which appear to have been arrested, but the remaining service life of the steam generators is uncertain. The projected service life of the steam generators is reassessed periodically in the light of the inspections made during scheduled outages of the unit. Based on the latest available data and current NRC criteria, Con Edison estimates that steam generator replacement will not be required before 2001. Con Edison has replacement steam generators, which are stored at the site. Replacement of the steam generators would require estimated additional expenditures of approximately \$108 million (1997 dollars, exclusive of replacement power costs) and an outage of approximately four months. However, securing necessary permits and approvals or other factors could require a substantially longer outage if steam generator replacement is required on short notice.

NUCLEAR INSURANCE The insurance policies covering Con Edison's nuclear facilities for property damage, excess property damage, and outage costs permit assessments under certain conditions to cover insurers' losses. As of December 31, 1997, the highest amount that could be assessed for losses during the current policy year under all of the policies was \$24 million. While assessments may also be made for losses in certain prior years, Con Edison is not aware of any losses in such years that it believes are likely to result in an assessment.

Under certain circumstances, in the event of nuclear incidents at facilities covered by the federal government's third-party liability indemnification program, Con Edison could be assessed up to \$79.3 million per incident, of which not more than \$10 million may be assessed in any one year. The per-incident limit is to be adjusted for inflation not later than 1998 and not less than once every five years thereafter.

Con Edison participates in an insurance program covering liabilities for injuries to certain workers in the nuclear power industry. In the event of such injuries, Con Edison is subject to assessment up to an estimated maximum of

approximately \$3.1 million.



**ENVIRONMENTAL MATTERS** The normal course of Con Edison's operations necessarily involves activities and substances that expose it to potential liabilities under federal, state and local laws protecting the environment. Such liabilities can be material and in some instances may be imposed without regard to fault, or may be imposed for past acts, even though such past acts may have been lawful at the time they occurred. Sources of such potential liabilities include (but are not limited to) the Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 (Superfund), a 1994 settlement with the New York State Department of Environmental Conservation (DEC), asbestos, and electric and magnetic fields (EMF).

**SUPERFUND** By its terms Superfund imposes joint and several strict liability, regardless of fault, upon generators of hazardous substances for resulting removal and remedial costs and environmental damages. Con Edison has received process or notice concerning possible claims under Superfund or similar state statutes relating to a number of sites at which it is alleged that hazardous substances generated by Con Edison (and, in most instances, a large number of other potentially responsible parties) were deposited. Estimates of the investigative, removal, remedial and environmental damage costs (if any) that Con Edison will be obligated to pay with respect to each of these sites range from extremely preliminary to highly refined. Based on these estimates Con Edison had accrued at December 31, 1997 a liability of approximately \$25.4 million. There will be additional costs with respect to these and possibly other sites, the materiality of which is not presently determinable.

**DEC SETTLEMENT** In 1994 Con Edison agreed to a consent order settling a civil administrative proceeding instituted by the DEC alleging environmental violations by the company. Pursuant to the consent order, Con Edison has conducted an environmental management systems evaluation and an environmental compliance audit. Con Edison also must implement "best management practices" plans for certain facilities and undertake a remediation program at certain sites. At December 31, 1997 Con Edison had an accrued liability of \$16.9 million for these sites. Expenditures for environmental-related capital projects in the five years 1998-2002, including expenditures to comply with the consent order, are estimated at \$148 million. These estimated expenditures do not reflect divestiture by Con Edison of generating plants pursuant to the Settlement Agreement (see Note A) or otherwise.

**ASBESTOS CLAIMS** Suits have been brought in New York State and federal courts against Con Edison and many other defendants, wherein several hundred plaintiffs sought large amounts of compensatory and punitive damages for deaths and injuries allegedly caused by exposure to asbestos at various premises of Con Edison. Many of these suits have been disposed of without any payment by Con Edison, or for immaterial amounts. The amounts specified in all the remaining suits total billions of dollars but Con Edison believes that these amounts are greatly exaggerated, as were the claims already disposed of. Based on the information and relevant circumstances known to Con Edison at this time, it is the opinion of Con Edison that these suits will not have a material adverse effect on the company's financial position, results of operations or liquidity.

**EMF** Electric and magnetic fields are found wherever electricity is used. Con Edison is the defendant in several suits claiming property damage resulting from EMF. The aggregate amount sought in these suits is not material. In the event, however, that a causal relationship between EMF and adverse health effects is established, or independently of any such causal determination, in the event of adverse developments in related legal or public policy doctrines, there could be a material adverse effect on the electric utility industry, including Con Edison.

#### NOTE G NON-UTILITY GENERATORS (NUGS)

Con Edison has contracts with NUGs for 2,059 MW of electric generating capacity. Payments by Con Edison under the contracts are reflected in rates. Assuming performance by the NUGs, Con Edison is obligated over the terms of these contracts (which extend for various periods, up to 2036) to make capacity and other fixed payments.

For the years 1998 - 2002, capacity and other fixed payments are estimated to be \$510 million, \$508 million, \$478 million, \$485 million and \$494 million. Such payments gradually increase to approximately \$600 million in 2013, and thereafter decline significantly.

For energy delivered under these contracts, Con Edison is obligated to pay variable prices that are estimated to be approximately at market levels.

#### NOTE H STOCK-BASED COMPENSATION

Under CEI's Stock Option Plan, options may be granted to officers and key employees for up to 10,000,000 shares of CEI's common stock. Generally, options become exercisable three years after the grant date and remain exercisable until ten years from the grant date.

As permitted by SFAS No. 123, "Accounting for Stock-Based Compensation," CEI has elected to follow Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees" and related interpretations in accounting for its employee stock options. Under APB 25, because the exercise price of CEI's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

Disclosure of pro-forma information regarding net income and earnings per share is required by SFAS No. 123. This information has been determined as if CEI had accounted for its employee stock options under the fair value method of that statement. The fair values of 1997 and 1996 options are \$2.84 and \$2.49 per share, respectively. They were estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 1997 and 1996, respectively: risk-free interest rates of 6.46 percent and 6.74 percent; expected lives of eight years for 1997 and 1996; expected volatility of 14.08 percent and 16.28 percent; and dividend yields of 6.67 percent and 7.46 percent.

Had CEI used SFAS No. 123, basic and diluted earnings per share for 1997 and 1996 would be unaffected and pro-forma net income for common stock would be \$693,680,000 or \$799,000 less than the amount reported for 1997, and \$687,938,000 or \$231,000 less than the amount reported for 1996.

A summary of the status of the Plan as of December 31, 1997 and 1996 and changes during those years is as follows:

	1997		1996	
	Options	Exercise Price	Options	Exercise Price
Outstanding at beginning of year	697,200	\$27.875	0	\$ --
Granted	834,600	31.50	704,200	27.875
Exercised	0		0	
Forfeited	(14,100)	29.62	(7,000)	27.875
Outstanding at end of year	1,517,700	\$ 29.85	697,200	\$27.875
Options exercisable at end of year	0		0	
Fair value of options granted during the year	\$ 2.84		\$ 2.49	

The following summarizes the Plan's stock options outstanding at December 31, 1997 and 1996:

Plan Year	Exercise Price	Options Outstanding at 12/31/97	Remaining Contractual Life
1997	\$ 31.50	827,800	9 years
1996	\$27.875	689,900	8 years

NOTE I FEDERAL INCOME TAX

The net revenue requirements for the future federal income tax component of accumulated deferred federal income taxes (see Note A) at December 31, 1997 and 1996 are shown on the following table:

(Millions of Dollars)	1997	1996
Future federal income tax liability		
Temporary differences between the book and tax bases of assets and liabilities:		
Property related	\$5,791.0	\$5,595.0
Reserve for injuries and damages	(57.4)	(55.7)
Other	(112.9)	16.7
Total	5,620.7	5,556.0
Future federal income tax computed at statutory rate - 35%	1,967.2	1,944.6
Less: Accumulated deferred federal income taxes previously recovered	1,334.7	1,304.8
Net future federal income tax expense to be recovered	632.5	639.8
Net revenue requirements for above (Regulatory asset - future federal income taxes)*	973.1	984.3
Add: Accumulated deferred federal income taxes previously recovered		
Depreciation	1,188.7	1,115.5
Unbilled revenues	(98.3)	(94.6)
Advance refunding of long-term debt	30.1	32.7
Other	214.2	251.2
Subtotal	1,334.7	1,304.8
Total accumulated deferred federal income tax	\$2,307.8	\$2,289.1

\* Net revenue requirements will be offset by the amortization to federal income tax expense of accumulated deferred investment tax credits, the tax benefits of which Con Edison has already realized. Including the full effect therefrom, the net revenue requirements related to future federal income taxes at

December 31, 1997 and 1996 are \$809.4 million and \$811.8 million, respectively.

NOTE I FEDERAL INCOME TAX, continued

Year Ended December 31 (Thousands of Dollars)	1997	1996	1995
Charged to: Operations	\$ 382,910	\$ 397,160	\$ 396,560
Other income	(3,190)	(970)	1,060
Total federal income tax	379,720	396,190	397,620
Reconciliation of reported net income with taxable income			
Federal income tax - current	357,100	355,590	328,600
Federal income tax - deferred	31,450	49,510	78,330
Investment tax credits deferred	(8,830)	(8,910)	(9,310)
Total federal income tax	379,720	396,190	397,620
Net income	712,823	694,085	723,850
Income before federal income tax	1,092,543	1,090,275	1,121,470
Effective federal income tax rate	34.8%	36.3%	35.5%
Adjustments decreasing (increasing) taxable income Tax depreciation in excess of book depreciation:			
Amounts subject to normalization	215,370	201,760	202,230
Other	(64,502)	(99,576)	(85,538)
Deferred recoverable fuel costs	(3,161)	42,008	61,937
Regulatory accounts receivable	(47,079)	51,878	(32,827)
Excess research and development	14,980	(13,025)	(2,969)
Pension and other postretirement benefits	(6,820)	(34,136)	38,102
Power contract termination costs	(40,657)	(38,759)	(56,397)
Other - net	(9,200)	(45,729)	25,356
Total	58,931	64,421	149,894
Taxable income	1,033,612	1,025,854	971,576
Federal income tax - current			
Amount computed at statutory rate - 35%	361,764	359,049	340,052
Tax credits	(4,664)	(3,459)	(11,452)
Total	357,100	355,590	328,600
Charged to: Operations	359,300	357,000	328,200
Other income	(2,200)	(1,410)	400
Total	357,100	355,590	328,600
Federal income tax - deferred			
Charged to: Operations	32,440	49,070	77,670
Other income	(990)	440	660
Total	\$ 31,450	\$ 49,510	\$ 78,330

NOTE J FINANCIAL INFORMATION BY BUSINESS SEGMENTS (a)

(Thousands of Dollars)	Electric			Steam		
	1997	1996	1995	1997	1996	1995
Operating revenues*	\$ 5,646,916	\$ 5,552,247	\$ 5,401,524	\$ 393,418	\$ 405,040	\$ 335,694
Operating expenses						
Purchased power	1,319,472	1,269,092	1,107,223	29,949	3,762	--
Fuel	429,324	377,351	354,086	167,500	195,924	150,018
Other operations and maintenance*	1,311,983	1,331,801	1,372,715	82,100	83,837	79,929
Depreciation and amortization	429,407	425,397	393,382	16,239	15,900	13,064
Taxes, other than federal income	989,791	980,309	951,095	53,108	51,361	45,788
Federal income tax	311,878	330,103	339,863	8,442	14,131	12,598
Total operating expenses*	4,791,855	4,714,053	4,518,364	357,338	364,915	301,397
Operating income	855,061	838,194	883,160	36,080	40,125	34,297
Construction expenditures	504,644	515,006	538,454	29,905	38,290	27,559
Net utility plant**	9,251,149	9,150,261	9,027,031	489,091	458,019	399,028
Fuel	51,629	64,231	40,444	2,068	478	62
Other identifiable assets	1,669,957	1,703,906	1,724,005	66,448	42,817	51,969

\* Intersegment rentals included in segments' income but eliminated for total:

Operating revenues	\$ 11,341	\$ 11,130	\$ 12,116	\$ 1,619	\$ 1,491	\$ 1,561
Operating expenses	2,605	2,472	2,513	12,519	12,190	13,102

	Gas			Total		
	1997	1996	1995	1997	1996	1995
Operating revenues*	\$ 1,096,057	\$ 1,017,124	\$ 815,307	\$ 7,121,254	\$ 6,959,736	\$ 6,536,897
Operating expenses						
Purchased power	--	--	--	1,349,421	1,272,854	1,107,223
Fuel	--	--	--	596,824	573,275	504,104
Gas purchased for resale	479,218	418,271	259,789	479,218	418,271	259,789
Other operations and maintenance*	204,687	221,011	214,818	1,583,633	1,621,974	1,651,834
Depreciation and amortization	57,133	55,115	49,330	502,779	496,412	455,776
Taxes, other than federal income	138,182	134,529	123,349	1,181,081	1,166,199	1,120,232
Federal income tax	62,590	52,926	44,099	382,910	397,160	396,560
Total operating expenses*	941,810	881,852	691,385	6,075,866	5,946,145	5,495,518
Operating income	154,247	135,272	123,922	1,045,388	1,013,591	1,041,379
Construction expenditures	119,672	121,937	126,790	654,221	675,233	692,803
Net utility plant**	1,526,862	1,459,030	1,388,344	11,267,102	11,067,310	10,814,403
Fuel and gas in storage	37,209	44,979	26,452	90,906	109,688	66,958
Other identifiable assets	165,977	197,033	177,374	1,902,382	1,943,756	1,953,348
Other corporate assets				1,462,128	936,431	1,115,181
Total assets				\$14,722,518	\$14,057,185	\$13,949,890

\* Intersegment rentals included in segments' income but eliminated for total:

Operating revenues	\$ 2,177	\$ 2,054	\$ 1,951	\$ 15,137	\$ 14,675	\$ 15,628
Operating expenses	13	13	13	15,137	14,675	15,628

\*\* General Utility Plant was allocated to Electric and Gas on the basis of the departmental use of such plant. Pursuant to PSC requirements the Steam department is charged an interdepartmental rent for general plant used in Steam operations, which is credited to the Electric and Gas departments.

(a) Con Edison supplies electric service in all of New York City (except part of Queens) and most of Westchester County. It also supplies gas in Manhattan, The Bronx and parts of Queens and Westchester, and steam in part of Manhattan.

SCHEDULE VIII

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

VALUATION AND QUALIFYING ACCOUNTS  
FOR THE YEARS ENDED DECEMBER 31, 1997, 1996 and 1995

(Thousands of Dollars)

COLUMN A	COLUMN B	COLUMN C Additions		COLUMN D	COLUMN E
Description	Balance at Beginning of Period	Charged to Costs and Expenses (1)	Charged to Other Accounts (2)	Deductions	Balance At End of Period
Valuation Accounts deducted in the balance sheet from the assets to which they apply:					
Accumulated Provision for uncollectible accounts receivable Electric, Gas and Steam Customers:					
	1997 \$ 21,600	\$ 30,936	-	\$ 30,936*	\$ 21,600
	1996 \$ 21,600	\$ 30,771	-	\$ 30,771*	\$ 21,600
	1995 \$ 21,600	\$ 32,589	-	\$ 32,589*	\$ 21,600

\*Accounts written off less cash collections, miscellaneous adjustments and amounts reinstated as receivables previously written off.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

NONE.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

ITEM 11. EXECUTIVE COMPENSATION

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by Part III is incorporated by reference from the joint CEI's and Con Edison's definitive joint proxy statement for their Annual Meetings of Stockholders to be held on May 18, 1998. The joint proxy statement is to be filed pursuant to Regulation 14A not later than 120 days after December 31, 1997, the close of the fiscal year covered by this report.

In accordance with General Instruction G(3) to Form 10-K, other information regarding CEI and Con Edison's Executive Officers may be found in Part I of this report under the caption "Executive Officers of the Registrant."

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Documents filed as part of this report:

1. List of Financial Statements

Consolidated Balance Sheet at December 31, 1997 and 1996

Consolidated Income Statement for the years ended December 31, 1997, 1996 and 1995

Consolidated Statement of Cash Flows for the years ended December 31, 1997, 1996 and 1995

Consolidated Statement of Capitalization at December 31, 1997 and 1996

Consolidated Statement of Retained Earnings for the years ended December 31, 1997, 1996 and 1995

Notes to Consolidated Financial Statements

2. List of Financial Statement Schedules

Valuation and Qualifying Accounts (Schedule VIII)

3. List of Exhibits

3.1.1 Restated Certificate of Incorporation of Consolidated Edison, Inc. ("CEI")(Designated in the Registration Statement on Form S-4 of CEI (No. 333-39164) as Exhibit 3.1.)

3.1.2.1 Restated Certificate of Incorporation of Consolidated Edison Company of New York, Inc.("Con Edison") filed with the Department of State of the State of New York on December 31, 1984. (Designated in the Annual Report on Form 10-K of Con Edison for the year ended December 31, 1989 (File No. 1-1217) as Exhibit 3(a).)

3.1.2.2 The following certificates of amendment of Restated Certificate of Incorporation of Con Edison filed with the Department of State of the State of New York, which are designated as follows:

Date Filed With Department of State	Securities Exchange Act File No. 1-1217		
	Form	Date	Exhibit
5/16/88	10-K	12/31/89	3(b)
6/2/89	10-K	12/31/89	3(c)
4/28/92	8-K	4/24/92	4(d)
8/21/92	8-K	8/20/92	4(e)

\*3.1.2.3 Certificate of Amendment of Restated Certificate of Incorporation of Con Edison filed with the Department of State of the State of New York on February 18, 1998.

3.2.1 By-laws of CEI. (Designated in the Registration Statement on Form S-4 of CEI (No. 333-39164) as Exhibit 3.2.)

3.2.2 By-laws of Con Edison, effective as of January 1, 1997. (Designated in Con Edison's Annual Report on Form 10-K for the year ended December 31, 1996 (File No. 1-1217) as Exhibit 3.2.)

4.1 Participation Agreement, dated as of August 15, 1985, between New York State Energy Research and Development Authority (NYSERDA) and Con Edison. (Designated in Con Edison's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1990 (File No. 1-1217) as Exhibit 4(a)(1).)



4.2 The following Supplemental Participation Agreements supplementing the Participation Agreement, dated as of August 15, 1985, between NYSERDA and Con Edison, which are designated as follows:

	Supplemental Participation Agreement		Securities Exchange Act		
	Number	Date	File No.	1-1217	
			Form	Date	Exhibit
1.	Fifth	7/1/89	10-Q	6/30/90	4(a)(6)
2.	Sixth	11/1/89	10-Q	6/30/90	4(a)(7)
3.	Seventh	7/1/90	10-Q	6/30/90	4(a)(8)
4.	Eighth	1/1/91	10-K	12/31/90	4(e)(8)
5.	Ninth	1/15/92	10-K	12/31/91	4(e)(9)

4.3 Participation Agreement, dated as of December 1, 1992, between NYSERDA and Con Edison. (Designated in Con Edison's Annual Report on Form 10-K for the year ended December 31, 1992 (File No. 1-1217) as Exhibit 4(f).)

4.4 The following Supplemental Participation Agreements supplementing the Participation Agreement, dated as of December 1, 1992, between NYSERDA and Con Edison, which are designated as follows:

	Supplemental Participation Agreement		Securities Exchange Act		
	Number	Date	File No.	1-1217	
			Form	Date	Exhibit
1.	First	3/15/93	10-Q	6/30/93	4.1
2.	Second	10/1/93	10-Q	9/30/93	4.3
3.	Third	12/1/94	10-K	12/31/94	4.7.3
4.	Fourth	7/1/95	10-Q	6/30/95	4.2

4.5 Indenture of Trust, dated as of August 15, 1985, between NYSERDA and Morgan Guaranty Trust Company of New York, as Trustee (Morgan Guaranty). (Designated in Con Edison's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1990 (File No. 1-1217) as Exhibit 4(b)(1).)

4.6 The following Supplemental Indentures of Trust supplementing the Indenture of Trust, dated as of August 15, 1985, between NYSERDA and Morgan Guaranty.

	Supplemental Indenture of Trust		Securities Exchange Act		
	Number	Date	File No.	1-1217	
			Form	Date	Exhibit
1.	Fifth	7/1/89	10-Q	6/30/90	4(b)(6)
2.	Sixth	11/1/89	10-Q	6/30/90	4(b)(7)
3.	Seventh	7/1/90	10-Q	6/30/90	4(b)(8)
4.	Eighth	1/1/91	10-K	12/31/90	4(g)(8)
5.	Ninth	1/15/92	10-K	12/31/91	4(g)(9)

4.7 Indenture of Trust, dated as of December 1, 1992, between NYSERDA and Morgan Guaranty. (Designated in Con Edison's Annual Report on Form 10-K for the year ended December 31, 1992 (File No. 1-1217) as Exhibit 4(i).)

4.8 The following Supplemental Indentures of Trust supplementing the Indenture of Trust, dated as of December 1, 1992, between NYSERDA and Morgan Guaranty.

Supplemental Indenture of Trust Number	Date	Securities Exchange Act File No. 1-1217		
		Form	Date	Exhibit
1. First	3/15/93	10-Q	6/30/93	4.2
2. Second	10/1/93	10-Q	9/30/93	4.4
3. Third	12/1/94	10-K	12/31/94	4.11.3
4. Fourth	7/1/95	10-Q	6/30/95	4.3

4.9 Indenture, dated as of December 1, 1990, between Con Edison and The Chase Manhattan Bank (National Association), as Trustee (the "Debenture Indenture"). (Designated in Con Edison's Annual Report on Form 10-K for the year ended December 31, 1990 (File No. 1-1217) as Exhibit 4(h).)

4.10 First Supplemental Indenture (to the Debenture Indenture), dated as of March 6, 1996, between Con Edison and The Chase Manhattan Bank (National Association), as Trustee. (Designated in Con Edison's Annual Report on Form 10-K for the year ended December 31, 1995 (File No. 1-1217) as Exhibit 4.13.)

4.11 The following forms of Con Edison's Debentures:

Debenture	Securities Exchange Act File No. 1-1217		
	Form	Date	Exhibit
7 3/8%, Series 1992 A	8-K	2/5/92	4(a)
7 5/8%, Series 1992 B	8-K	2/5/92	4(b)
7.60%, Series 1992 C	8-K	2/25/92	4
6 1/2%, Series 1992 D	8-K	8/26/92	4(a)
6 1/4%, Series 1993 A	8-K	1/13/93	4
6 1/2%, Series 1993 B	8-K	2/4/93	4(a)
6 5/8%, Series 1993 C	8-K	2/4/93	4(b)
6 3/8%, Series 1993 D	8-K	4/7/93	4
5.70%, Series 1993 F	8-K	5/19/93	4(b)
7 1/2%, Series 1993 G	8-K	6/7/93	4
7 1/8%, Series 1994 A	8-K	2/8/94	4
Floating Rate Series 1994 B	8-K	6/29/94	4
6 5/8%, Series 1995 A	8-K	6/21/95	4
7 3/4%, Series 1996 A	8-K	4/24/96	4
Floating Rate Series 1996 B	8-K	11/25/96	4
Floating Rate Series 1997 A	8-K	6/17/97	4
6.45%, Series 1997 B	8-K	11/24/97	4
6 1/4%, Series 1998 A	8-K	1/29/98	4.1
7.10%, Series 1998 B	8-K	1/29/98	4.2

4.12 Form of Con Edison's 7 3/4% Quarterly Income Capital Securities (Series A Subordinated Deferrable Interest Debentures). (Designated in Con Edison's Current Report on Form 8-K, dated February 29, 1996, (File No. 1-1217) as Exhibit 4.)

10.1 Amended and Restated Agreement and Settlement, dated September 19, 1997, between Con Edison and the Staff of the New York State Public Service Commission (without Appendices). (Designated in Con Edison's Current Report on Form 8-K, dated September 23, 1997, (File No. 1-1217) as Exhibit 10.)

- 10.2.1 Agreement dated as of October 31, 1968 among Central Hudson Gas & Electric Corporation, Con Edison and Niagara Mohawk Power Corporation. (Designated in Registration Statement No. 2-31884 as Exhibit 7.)
- 10.2.2 Amendment dated November 23, 1976 to Agreement dated as of October 31, 1968 among Central Hudson Gas & Electric Corporation, Con Edison and Niagara Mohawk Power Corporation and Additional Agreement dated as of November 23, 1976 between Central Hudson and Con Edison. (Designated in Con Edison's Annual Report on Form 10-K for the year ended December 31, 1991 (File No. 1-1217) as Exhibit 10(b).)
- 10.3.1 General Agreement between Orange and Rockland Utilities, Inc. and Con Edison dated October 10, 1969. (Designated in Registration Statement No. 2-35734 as Exhibit 7-1.)
- 10.3.2 Letters, dated November 18, 1970 and November 23, 1970, between Orange and Rockland Utilities, Inc. and Con Edison pursuant to Article 14(a) of the aforesaid General Agreement. (Designated in Registration Statement No. 2-38807 as Exhibit 5-3.)
- 10.4.1 Planning and Supply Agreement, dated March 10, 1989, between Con Edison and the Power Authority of the State of New York. (Designated in Con Edison's Annual Report on Form 10-K for the year ended December 31, 1992 (File No. 1-1217) as Exhibit 10(gg).)
- 10.4.2 Delivery Service Agreement, dated March 10, 1989, between Con Edison and the Power Authority of the State of New York. (Designated in Con Edison's Annual Report on Form 10-K for the year ended December 31, 1992 (File No. 1-1217) as Exhibit 10(hh).)
- 10.5.1 Employment contract, dated August 24, 1982, between Con Edison and Arthur Hauspurg, as amended. (Designated in Con Edison's Annual Report on Form 10-K for the year ended December 31, 1991 (File No. 1-1217) as Exhibit 10(i).)
- 10.5.2 Agreement, dated January 24, 1991, between Con Edison and Arthur Hauspurg. (Designated in Con Edison's Annual Report on Form 10-K for the year ended December 31, 1990 (File No. 1-1217) as Exhibit 10(l).)
- 10.6.1 Employment Contract, dated May 22, 1990, between Con Edison and Eugene R. McGrath. (Designated in Con Edison's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1990 (File No. 1-1217) as Exhibit 10.)
- 10.6.2 The following amendments to Employment Contract, dated May 22, 1990, between Con Edison and Eugene R. McGrath:

Amendment Date	Securities Exchange Act File No. 1-1217		
	Form	Date	Exhibit
8/27/91	10-Q	9/30/91	19
8/25/92	10-Q	9/30/92	19
2/18/93	10-K	12/31/92	10(o)
8/24/93	10-Q	9/30/93	10.1
8/24/94	10-Q	9/30/94	10.1
8/22/95	10-Q	9/30/95	10.3
7/23/96	10-Q	6/30-96	10.2
7/22/97	10-Q	6/30/97	10

- 10.7.1 Employment Agreement, dated June 25, 1991, between Con Edison and J. Michael Evans. (Designated in Con Edison's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1991 (File No. 1-1217) as Exhibit 19.)
- 10.7.2 Amendment, dated March 29, 1993, to Employment Agreement, dated June 25, 1991, between Con Edison and J. Michael Evans. (Designated in Con Edison's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1993 (File No. 1-1217) as Exhibit 10.)
- 10.7.3 Amendment, dated November 8, 1993, to Employment Agreement, dated June 25, 1991, between Con Edison and J. Michael Evans. (Designated in Con Edison's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1993 (File No. 1-1217) as Exhibit 10.2.)
- 10.8.1 Employment Agreement, dated November 28, 1995, between Con Edison and Peter J. O'Shea, Jr. (Designated in Con Edison's Annual Report on Form 10-K for the year ended December 31, 1995 (File No. 1-1217) as Exhibit 10.46.)
- \*10.8.2 Amendment, dated November 4, 1997 to Employment Agreement, dated November 28, 1995, between Con Edison and Peter J. O'Shea, Jr.
- 10.9 Agreement and Plan of Exchange, entered into on October 28, 1997, between CEI and Con Edison. (Designated in the Registration Statement on Form S-4 of CEI (No. 333-39164) as Exhibit 2.)
- 10.10 Amendment and Restatement, dated January 29, 1992 and effective as of December 1, 1991, of The Consolidated Edison Company of New York, Inc. Executive Incentive Plan. (Designated in Con Edison's Annual Report on Form 10-K for the year ended December 31, 1991 (File No. 1-1217) as Exhibit 10(s).)
- 10.11.1 The Consolidated Edison Retirement Plan for Management Employees, as amended and restated. (Designated in Con Edison's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1995 (File No. 1-1217) as Exhibit 10.1.)
- 10.11.2 The following amendments to the Consolidated Edison Retirement Plan for Management Employees.

Amendment Date	Securities Exchange Act File No. 1-1217		
	Form	Date	Exhibit
12/29/95	10-K	12/31/95	10.29
7/1/96	10-K	12/31/96	10.22
- \*10.11.3 Amendment No. 3, dated as of June 1, 1997, to the Consolidated Edison Retirement Plan for Management Employees.
- \*10.11.4 Amendment No. 4, dated November 14, 1997, to the Consolidated Edison Retirement Plan for Management Employees.
- 10.12.1 Con Edison Supplemental Retirement Income Plan, adopted July 22, 1987, effective January 1, 1987. (Designated in Con Edison's Annual Report on Form 10-K for the year ended December 31, 1992 (File No. 1-1217) as Exhibit 10(cc).)

- 10.12.2 Amendment No. 1, dated March 21, 1997, to the Con Edison Supplemental Retirement Income Plan. (Designated in Con Edison's Annual Report on Form 10-K for the year ended December 31, 1996 (File No. 1-1217) as Exhibit 10.24.)
- 10.13.1 Consolidated Edison Company of New York, Inc. Retirement Plan for Trustees, effective as of July 1, 1988. (Designated in Con Edison's Annual Report on Form 10-K for the year ended December 31, 1992 (File No. 1-1217) as Exhibit 10(ee).)
- 10.13.2 Amendment No. 1, dated September 28, 1990, to the Consolidated Edison Company of New York, Inc. Retirement Plan for Trustees. (Designated in Con Edison's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1990 (File No. 1-1217) as Exhibit 19(c).)
- 10.14 The Con Edison Thrift Savings Plan for Management Employees and Tax Reduction Act Stock Ownership Plan, as amended and restated. (Designated in Con Edison's Annual Report on Form 10-K for the year ended December 31, 1996 (File No. 1-1217) as Exhibit 10.5.)
- 10.15 Deferred Compensation Plan for the Benefit of Trustees of Con Edison, dated February 27, 1979, and amendments thereto, dated September 19, 1979 (effective February 27, 1979), February 26, 1980, and November 24, 1992 (effective January 1, 1993). (Designated in Con Edison's Annual Report on Form 10-K for the year ended December 31, 1991 (File No. 1-1217) as Exhibit 10(i).)
- 10.16 Supplemental Medical Plan for the Benefit of Con Edison's officers. (Designated in Con Edison's Annual Report on Form 10-K for the year ended December 31, 1991 (File No. 1-1217) as Exhibit 10(aa).)
- 10.17.1 The Con Edison Discount Stock Purchase Plan. (Designated in Con Edison's Annual Report on Form 10-K for the year ended December 31, 1991 (File No. 1-1217) as Exhibit 10(bb).)
- 10.17.2 Amendment, dated December 29, 1995, to the Con Edison Discount Stock Purchase Plan. (Designated in Con Edison's Annual Report on Form 10-K for the year ended December 31, 1995 (File No. 1-1217) as Exhibit 10.38.)
- 10.18.1 The Consolidated Edison Retiree Health Program for Management Employees, effective as of January 1, 1993. (Designated in Con Edison's Annual Report on Form 10-K for the year ended December 31, 1992 (File No. 1-1217) as Exhibit 10(ll).)
- 10.18.2 The following amendments to the Consolidated Edison Retiree Health Program for Management Employees.

Amendment Date	Securities Exchange Act File No. 1-1217		
	Form	Date	Exhibit
10/31/94	10-Q	9/30/94	10.3
12/28/94	10-K	12/31/95	10.44
12/29/95	10-K	12/31/95	10.45
7/1/96	10-K	12/31/96	10.39

- \*10.18.3 Amendment No. 5, dated November 14, 1997, to the Consolidated Edison Retiree Health Program for Management Employees.

- 10.19 The Con Edison Severance Pay Plan for Management Employees. (Designated in Con Edison's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1997 (File No. 1-1217) as Exhibit 10.)
- \*10.20 CEI 1996 Stock Option Plan, as amended and restated effective February 24, 1998.
- 12 Statement of computation of ratio of earnings to fixed charges for the years ended December 31, 1997, 1996, 1995, 1994 and 1993. (Designated in the Registration Statement on Form S-3 of CEI (No. 333-39603) as Exhibit 12.)
- 21 Subsidiaries of CEI and Con Edison. (Incorporated by reference from Form U-3A-2 of CEI, dated February 26, 1998 - File No: 069-00425.)
- \*23 Consent of Price Waterhouse LLP.
- \*24 Powers of Attorney of each of the persons signing this report by attorney-in-fact.
- \*27 Financial Data Schedule. (To the extent provided in Rule 402 of Regulation S-T, this exhibit shall not be deemed "filed", or otherwise subject to liabilities, or be deemed part of a registration statement.)

Exhibits listed above which have been filed with the Securities and Exchange Commission pursuant to the Securities Act of 1933 and the Securities Exchange Act of 1934, and which were designated as noted above, are hereby incorporated by reference and made a part of this report with the same effect as if filed with the report.

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\* Filed herewith

(b) Reports on Form 8-K:

Con Edison filed Current Reports on Form 8-K, dated November 24, 1997 and January 29, 1998, reporting (under Item 5) the sale of debentures and refunding of certain series of outstanding debt securities. CEI and Con Edison each filed a Current Report on Form 8-K, dated December 12, 1997, reporting the approval and implementation of the Holding Company Proposal discussed in Item 4 and the stock repurchase discussed in "Liquidity and Capital Resources - Stock Repurchase" in Item 7.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By JOAN S. FREILICH  
Joan S. Freilich  
Executive Vice President  
and Chief Financial Officer

By JOAN S. FREILICH  
Joan S. Freilich  
Executive Vice President  
and Chief Financial Officer

Date: March 26, 1998

Date: March 26, 1998

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of each Registrant and in the capacities and on the dates indicated.

Date	Signature	Title (CEI and Con Edison, unless otherwise noted)
March 26, 1998	Eugene R. McGrath*	Chairman of the Board, President, Chief Executive Officer and Director of CEI; Chairman of the Board, Chief Executive Officer and Trustee of Con Edison (Principal Executive Officer)
March 26, 1998	Joan S. Freilich*	Executive Vice President, Chief Financial Officer and Director (Trustee) (Principal Financial Officer)
March 26, 1998	Hyman Schoenblum*	Vice President, Controller and Chief Accounting Officer (Principal Accounting Officer)
	E. Virgil Conway*	Director (Trustee)
	Gordon J. Davis*	Director (Trustee)
	Ruth M. Davis*	Director (Trustee)
	Ellen V. Futter*	Director (Trustee)
	Arthur Hauspurg*	Director (Trustee)
	Sally Hernandez-Pinero*	Director (Trustee)
	Peter W. Likins*	Director (Trustee)
	Donald K. Ross*	Director (Trustee)
	Robert G. Schwartz*	Director (Trustee)
	Richard A. Voell*	Director (Trustee)
March 26, 1998	*By JOAN S. FREILICH Joan S. Freilich	Attorney-in-Fact

CERTIFICATE OF ADMENDMENT  
OF THE  
CERTIFICATE OF INCORPORATION  
OF  
CONSOLIDATED EDISON COMPANY OF  
NEW YORK, INC.

Under Section 805 of the Business Corporation Law

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We, JOAN S. FREILICH and ARCHIE M. BANKSTON, being respectively a Senior Vice President and the Secretary of Consolidated Edison Company of New York, Inc., a corporation formed under the laws of the State of New York (hereinafter sometimes called the "Company"), DO HEREBY CERTIFY as follows:

1. The name of the Company is CONSOLIDATED EDISON COMPANY OF NEW YORK, INC. It was originally incorporated under the name of Consolidated Gas Company of New York.

2. The Certificate of Incorporation of the Company (being the Consolidation Agreement dated September 29, 1884, pursuant to which it was organized) was filed in the Office of the Secretary of State of the State of New York on November 10, 1884. The Restated Certificate of Incorporation of the Company was filed by the Department of State of the State of New York on December 31, 1984.

3. The Certificate of Incorporation of the Company, as amended, is hereby further amended to change the authorized number of Trustees.

4. To effect the foregoing:

Article Eighth, is hereby amended, in the following form:

"EIGHTH: The number of Trustees shall be not more than 16."

5. This amendment of the Certificate of Incorporation was duly authorized and approved by the unanimous vote of the Trustees present at a meeting of the Board of Trustees of the Company duly called and held on December 12, 1997, at which meeting a quorum was present and acting throughout and by the vote of the holders of more than a majority of the outstanding shares of \$5 Cumulative Preferred Stock and Common Stock of the Company, voting together as a single class, at a meeting thereof duly called and held on December 12, 1997, at which meeting a quorum was present and acting throughout.

- 2 -

IN WITNESS WHEREOF, we have made and subscribed this certificate, and affirm the same as true under the penalties of perjury, this 17th day of February, 1998.

-----  
Joan S. Freilich  
Senior Vice President

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Archie M. Bankston  
Secretary



AMENDMENT TO EMPLOYMENT AGREEMENT

AMENDMENT, dated this 4th day of November, 1997, between CONSOLIDATED EDISON COMPANY OF NEW YORK, INC., a New York corporation (the "Company"), and PETER J. O'SHEA, JR. (the "Executive") (hereinafter called the "Amendment") to the Employment Agreement, dated November 28, 1995, between the Company and the Executive (hereinafter called the "Employment Agreement").

WHEREAS, the Company and the Executive desire to amend the terms and conditions of the Executive's employment by the Company;

NOW, THEREFORE, in consideration of the premises and the covenants contained herein, the Company and the Executive agree as follows:

A. The Employment Agreement shall remain in full force and effect, except as expressly modified herein.

B. The term of employment specified in paragraph 2 of the Employment Agreement shall terminate on March 31, 1998. On March 31, 1998 or, if the Company terminates the Executive's employment prior to March 31, 1998, on such earlier termination, the Executive shall become entitled to the following:

1. payment of his salary to March 31, 1998, at the annual rate then in effect, to the extent not theretofore paid by the Company;
2. the mandatory deferred portion of his award under the Company's Executive Incentive Plan (the "EIP") for 1996;
3. an EIP award for 1997, the entire amount of which shall be paid to the Executive in February 1998;
4. in lieu of an EIP award for the three month period from January 1 to March 31, 1998, a payment of \$24,000, which shall be made on March 31, 1998;
5. a supplemental pension, described in paragraph C 1 below, and
6. a retainer agreement for legal services, the terms of which are outlined in paragraph D below.

C. The provisions of this paragraph C amend and are in full substitution of paragraph 4(a) of the Employment Agreement. Upon termination of the Executive's employment under paragraph B above or by reason of his death or disability:

1. The Company shall provide the Executive with a supplemental pension for his life in the amount of \$30,000 per annum and his Surviving Spouse (as determined in accordance with the marriage requirements for surviving spouse benefits under The Consolidated Edison Retirement Plan for Management Employees (the "Retirement Plan") ) shall be paid a 100% survivor's spouse benefit of the same amount for her life. The benefit shall be paid at the same time as, and shall be increased by the same cost of living adjustment provisions applicable to, benefits paid under the Retirement Plan. The supplemental pension benefit shall be paid to the Executive commencing in January 1999 or, if the Executive should die prior to that month, to the Executive's Surviving Spouse commencing in the month immediately following the Executive's death.

2. The Executive shall be deemed to be retired for purposes of determining his entitlement to employee benefits available to retired officers of the Company, including but not limited to the retired officers supplemental medical plan, The Consolidated Edison Retiree Health Program, and the non-contributory and contributory retiree life insurance plan.

3. The Executive's termination of employment with the Company shall be deemed to be with the Company's consent under the Consolidated Edison Company of New York, Inc. 1996 Stock Option Plan (the "SOP") and any options awarded under the SOP to the Executive that are unexercised at his termination of employment shall be extended to the earlier of three years after such termination or the tenth anniversary of the grant date.

D. 1. The retainer agreement referred to in paragraph B 6 above shall be for legal services to be performed personally by the Executive as a non-employee for the period commencing on his termination of employment to December 31, 1998. The retainer shall be in the amount of \$255,000, payable by the Company in three equal installments on the first day of April, July and October, 1998. Payment shall be made to the Executive or to a law firm that the Executive designates. The Executive's legal services shall be charged at the rate of \$450 an hour; disbursements shall be charged separately and shall not be part of the retainer. The Company shall be entitled to receive 567 hours of services from the Executive under the retainer. If the number of hours of service performed by the Executive for the Company under the retainer is less than or equal to 567, no part of the retainer shall be returned to the Company. To the extent that such number of hours of service performed by the Executive exceeds 567 but is less than the sum of 567 and the number of hours of service owed by the Executive to the Company under paragraph D 2 below, such excess number of hours of services shall be charged at the rate of \$0 an

hour. To the extent that the number of hours of service performed by the Executive exceeds the sum of 567 and the number of hours of service owed by the Executive to the Company under paragraph D 2 below, such excess number of hours of service shall be charged at the rate of \$450 an hour.

2. During the period from January 1, 1998 through March 31, 1998, the Executive may perform legal services for third parties who are independent from and not affiliated with the Company. The Company consents to the Executive's performing such services, provided that such services do not exceed 20% of the time the Executive would otherwise devote to the Company and such services do not interfere with the performance of the Executive's obligations to the Company. The Executive shall account to the Company for the time spent on such matters for third parties and shall reimburse the Company by performing an equal number of hours of service for the Company without charge under the retainer referred to in paragraph D 1 above.

E. This Amendment has been authorized by the Board of Trustees of the Company.

IN WITNESS WHEREOF, the parties have executed this Amendment on the day and year first above written.

Consolidated Edison Company  
of New York, Inc.

By \_\_\_\_\_  
Richard P. Cowie  
Vice President-Employee Relations

By \_\_\_\_\_  
Peter J. O'Shea, Jr.

Amendment No. 3  
To  
The Consolidated Edison  
Retirement Plan for  
Management Employees

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Dated as of June 1, 1997

Pursuant to resolutions adopted by the Board of Trustees of Consolidated Edison Company of New York, Inc. at a meeting duly called and held on July 23, 1996, the undersigned hereby approves the amendments set forth below to The Consolidated Edison Retirement Plan for Management Employees, as heretofore amended by Amendments Nos 1 and 2 thereto:

1. Effective January 1, 1997, Paragraph 2 A is amended by the addition of the following new definitions at the end thereof:

"The following definitions shall be effective January 1, 1997:

"Adjusted Section 417(e)-Interest Rate-The rate of interest used in conjunction with the Section 417(e) Interest Rate in the calculation of the present value of benefits, to take account of prospective Cost of Living Adjustments, pursuant to Paragraph 24 C. It shall be determined by:

- (i) dividing the Section 417(e) Interest Rate, as determined for a Participant's Annuity Starting Date, by 100;
- (ii) adding 1.0000 to the amount determined in clause(i);
- (iii) dividing the amount determined in clause(ii) by the lesser of:
  - (A) the sum of:
    - (I) 0.9694, plus
    - (II) the product of 0.7194 and the amount determined in clause(i), or
  - (B) 1.0300;
- (iv) subtracting 1.0000 from the amount determined in clause(iii); and
- (v) multiplying the amount determined in clause(iv) by 100;

provided, however, that in no event shall the Adjusted Section 417(e) Interest Rate exceed the Section 417(e) Interest Rate, as of any date of determination.

"Consolidated RPA 94 Lump Sum Conversion Factors-The table of actuarial factors used to convert an immediate or deferred annuity into an actuarially equivalent lump sum. Such factors shall be based on the Section 417(e) Mortality Table and shall take into account the Section 417(e) Interest Rate for the period prior to a Participant's Normal Retirement Date and the Adjusted Section 417(e) Interest Rate for the period subsequent to the Participant's Normal Retirement Date. The enrolled actuary shall provide to the Plan Administrator tables of the Consolidated RPA 94 Lump Sum Conversion Factors determined on the basis of the Section 417(e) Interest Rate in effect in each Lookback Month."

"Section 417(e) Interest Rate-The annual rate of interest on 30-year Treasury securities for the third month prior to the month that includes a Participant's Annuity Starting Date. For the purposes of regulations promulgated under Section 417(e) of the Code, the calendar month shall be deemed the "Stability Period" and the third month prior to the month that includes a Participant's Annuity Starting Date shall be deemed the "Lookback Month."

"Section 417(e) Mortality Table-The mortality table prescribed by the Secretary of the Treasury, pursuant to Section 417(e)(3)(A)(ii)(I) of the Code, as in effect for the Stability Period that includes a Participant's Annuity Starting Date."

2. Effective December 1, 1996, Paragraph 6 is amended by deleting from the caption thereof the phrase "OPTIONAL TEN YEAR CERTAIN PENSION" and by inserting in lieu thereof the new phrase "OPTIONAL TWELVE YEAR CERTAIN PENSION AND LEVEL INCOME PENSION".
3. Effective December 1, 1996, Paragraph 6 A is amended by deleting from the second sentence the phrase "Optional Ten Year Certain Pension provided below" and by inserting in lieu thereof the new phrase "Optional Twelve Year Certain Pension provided under Paragraph 6 E or Paragraph 6 F, or the Optional Joint and 100% Surviving Spouse Annuity under Paragraph 6 G".
4. Effective December 1, 1996, Paragraphs 6 D, 6 E, and 6 F are amended (i) by deleting from the caption of each such paragraph the phrase "Optional Ten Year Certain Pension" and inserting in lieu thereof the new phrase "Optional Twelve Year Certain Pension"; (ii) by deleting the phrase "ten year certain" in each place that it appears and inserting in lieu thereof the new phrase "twelve year certain"; (iii) by deleting the phrase "one hundred twenty" in each place that it appears and inserting in lieu thereof the new phrase "one hundred forty-four"; (iv) by deleting the number "120" in each place that it appears and inserting in lieu thereof the new number "144"; and (v) by deleting the phrase "ten years" in each place that it appears and inserting in lieu thereof the new phrase "twelve years".
5. Effective December 1, 1996, Paragraph 6 is amended by adding at the end thereof the following new Paragraphs 6 G and 6 H.

"G. Optional Joint and 100% Surviving Spouse Annuity

"(i) A Participant who is married may elect to receive his Pension in the form of a Joint and 100% Spouse Annuity and may further elect that the Joint and 100% Surviving Spouse Annuity include a Pop-Up Feature. Such election must be made not less than 30 days nor more than 90 days prior to the Participant's Annuity Starting Date and must be in writing on a form furnished by and filed with the Plan Administrator.

"(ii) If a Participant elects the Joint and 100% Surviving Spouse Annuity, but does not elect the Pop-Up Feature, then the amount payable for the life of the Participant shall be equal to the Pension otherwise payable to the Participant, in the absence of an election under this paragraph, reduced by the appropriate factor in Table G, and the Participant's surviving spouse shall receive for life a surviving spouse annuity equal to the amount payable to the Participant.

"(iii) If a Participant elects the Joint and 100% Surviving Spouse Annuity and further elects the inclusion of the Pop-Up Feature, then the amount payable to the Participant during the period that the Participant and his spouse are both alive shall be the Pension otherwise payable to the Participant, in the absence of an election under this paragraph, reduced by the appropriate factor in Table H; the amount payable to the Participant during any period subsequent to the death of his spouse

shall be equal to the Pension otherwise payable to the Participant in the absence of an election under this paragraph; and the Participant's surviving spouse shall receive for life a surviving spouse annuity equal to the amount payable to the Participant during the period that the Participant and his spouse were both alive."

"H. Level Income Option

- "(i) A Participant who is eligible to commence receipt of a pension and whose Annuity Starting Date precedes his attainment of the age at which he is eligible to receive unreduced Social Security benefits may elect to receive his Pension under the Level Income Option and may further elect as a Leveling Month, for purposes of subparagraph (ii), either the month following the month in which he attains age 62 or the earliest month for which he is eligible to receive unreduced Social Security benefits. The election of the Level Income Option may be made in addition to an election under Paragraph 6 D, 6 E, 6 F, or 6 G. Such election must be made not less than 30 days nor more than 90 days prior to the Participant's Annuity Starting Date and must be in writing on a form furnished by and filed with the Plan Administrator.
- "(ii) If a Participant elects the Level Income Option, the amount payable to the Participant during the period commencing with his Annuity Starting Date and ending with the month prior to the Leveling Month shall be

increased and the amount payable during the period commencing with the Leveling Month and ending in the month of the Participant's death shall be decreased from the Pension otherwise payable to the Participant, based on factors specified in Table I. The present value of the benefits payable under the Level Income Option shall be equal to the present value of the Pension otherwise payable to the Participant, determined on the actuarial bases specified in Table I.

"(iii) The amounts payable under the Level Income Option shall be determined on the basis of an estimate of the Social Security benefit that the Participant would be eligible to commence to receive in the Leveling Month so that the amount payable for the month next preceding the Leveling Month shall be approximately equal to the sum of the amount payable for the Leveling Month plus the estimated Social Security benefit commencing in the Leveling Month, without taking into account any prospective Cost of Living Adjustment pursuant to Paragraph 24 C.

"(iv) The amount payable to the Participant under the Level Income Option shall not be adjusted after the Participant's Annuity Starting Date, and prior to the Leveling Month, regardless of any difference between the estimate taken into account in the determination thereof and the Social Security benefits actually paid to or payable to the Participant and regardless of whether the Participant elects to commence to receive



Social Security benefits in any month other than the Leveling Month. Commencing in the Leveling Month, the amount payable to a Participant shall be reduced by an amount equal to the product of (1) the estimated Social Security benefit taken into account for purposes of Paragraph 6 H(ii) and (2) a fraction, the numerator of which shall be the amount payable to the Participant in the month next preceding the Leveling Month, taking into account any Cost of Living Adjustments pursuant to Paragraph 24 C, and the denominator of which shall be the amount determined to be payable as of the Participant's Annuity Starting Date, in accordance with Paragraph 6 H(ii).

"(v) In the event that a Participant who elects to receive his Pension under the Level Income Option has also made an election under Paragraph 6 D, 6 E, 6 F, or 6 G, then the amount of Pension taken into account in the determination under Paragraph 6 H(ii) shall be the amount payable to the Participant after giving effect to his election under Paragraph 6 D, 6 E, 6 F, or 6 G, as applicable. In such event, the Participant's election to receive his Pension under the Level Income Option shall have no effect on the amount payable to his surviving spouse or beneficiary under any other election he has made. In the event that the amount payable to a Participant who has elected to receive his Pension under the Level Income Option and also made an election under Paragraph 6 G(iii) is increased on account of the death of his spouse,

the amount of such increase shall be disregarded for purposes of Paragraph 6 H(iv)."

6. Effective July 1, 1996, Paragraph 8 D(ii) is amended by deleting from the first sentence the comma (,) and all that follows the phrase "Management Plan", by inserting in lieu thereof a period (.), and by inserting immediately after the first sentence, as so amended, the following new sentence:

"No portion of such period shall constitute Service for accrual or computation of benefits under the Management Plan, except that with respect to leaves for maternity or paternity reasons granted after July 1, 1996 the first six (6) months of absence from work shall constitute Service for accrual and computation of benefits; provided that the Participant returns to active employment for a period equal to the lesser of the leave or six (6) months."

7. Effective January 1, 1997, Paragraph 10 B is amended by deleting the second sentence and by inserting in lieu thereof the following two new sentences:

"In the event that a pension, deferred pension, or annuity shall have a present value of \$3,500 or less, such present value shall be paid in a single lump sum to the Participant or surviving spouse, in lieu of the pension, deferred pension, or annuity otherwise payable. Effective January 1, 1997, the calculation of the present value of a pension, deferred pension, or annuity, for the purpose of the foregoing sentence, shall be made on the basis of the Consolidated RPA 94 Lump Sum Conversion Factor for the Participant's age, as in effect for the month in which payment is to be made; provided, however, that the resulting amount shall not be less than the present value of the annual pension determined in accordance with

Paragraph 10 A, taking into account only the Participant's employment and Annual Basic Straight-Time Compensation prior to January 1, 1997, calculated on the basis of the lump sum factors set forth in Table B and the Participant's age as of the date of determination."

8. Effective January 1, 1997, Paragraph 10 B(5)(ii) is amended in its entirety to read as follows:  
"(ii) Effective January 1, 1997, a surviving spouse entitled under Paragraph 6 B(ii) to receive a preretirement survivor benefit shall receive an immediate lump sum payment equal to fifty percent (50%) of the Cash-Out, determined in accordance with Paragraph 10 B(9)(a), that the deceased would have received, if he had terminated employment and elected a Cash-Out on the date of his death. If the lump sum amount determined in accordance with the foregoing sentence exceeds \$3,500, it shall not be paid unless the surviving spouse consents to such payment in writing, on a form provided by the Plan Administrator. If the consent of the surviving spouse is required for the payment of a lump sum amount and the surviving spouse does not consent to such payment, then he or she shall receive an annuity. Unless the surviving spouse elects otherwise, such annuity shall commence on the first day of the month following the Participant's death and the amount thereof shall be determined by dividing the lump sum amount payable to the surviving spouse, in accordance with the first sentence of this subparagraph, by an annuity conversion factor determined on the basis of the Section 417(e) Mortality Table, the Adjusted Section 417(e) Interest Rate and the surviving spouse's age as of the month of determination. If the surviving spouse elects to defer the commencement of such annuity, the amount thereof shall be increased so that the deferred annuity commencing on the date elected by the surviving spouse is of equivalent actuarial value to the immediate

annuity otherwise payable, on the basis of the Section 417(e) Mortality Table and the Section 417(e) Interest Rate."

9. Effective January 1, 1997, Paragraph 10 B(9) is amended in its entirety to read as follows:

"(a) The Cash-Out is a lump sum payment representing the present value of the deferred pension payable to the Participant at Normal Retirement Date. Effective January 1, 1997, the amount of a Cash-Out will be the greater of (i) the product of the deferred pension amount determined in accordance with Paragraph 10 B(7) and the Consolidated RPA 94 Lump Sum Conversion Factor, as in effect for the Participant's Annuity Starting Date, for the Participant's age in such month, or (ii) the product of the deferred pension amount determined in accordance with Paragraph 10 B(7), taking into account only the Participant's employment and Annual Basic Straight-Time Compensation prior to January 1, 1997, and the factor in Table B for the Participant's age as of his Annuity Starting Date. For the purpose of the foregoing sentence, a Participant's age in any month shall be his age on the birthday nearer in time to the first of such month."

" (b) In lieu of the Cash-Out, the Participant may receive an immediate annuity, commencing in the month in which the Cash-Out would otherwise have been payable. The amount of such immediate annuity shall be the greater of (i) the amount determined by dividing the Cash-Out, computed in accordance with Paragraph 10 B(9)(a)(i), by an annuity conversion factor

determined on the basis of the Section 417(e) Mortality Table, the Adjusted Section 417(e) Interest Rate, and the Participant's age as of the month of determination; or (ii) the product of the deferred pension amount determined for the purpose of Paragraph 10 B(9)(a)(ii) and a reduction factor for early commencement based on the same mortality and interest assumptions used for Table B and the Participant's age as of the month of determination."

10. Effective December 1, 1996, the caption "Ten Year Certain Optional Pension" for Paragraph 10 B(10) is deleted and in lieu thereof the caption "Optional Twelve Year Certain Pension and Level Income Pension" is inserted and Paragraph 10 B(10) is amended in its entirety to read as follows:

- "(i) The Pension payable to a Participant who elects an optional form of Pension pursuant to Paragraph 6 D, 6 E, 6 F, or 6 G shall be the Pension determined by the appropriate subsection of Paragraph 10 B above, multiplied by the appropriate factor in Table C, D, G, or H, as applicable. In the case of Table C, the factor shall correspond to the Participant's age at his Annuity Starting Date. In the case of Tables D, G, and H, the factor shall correspond to the ages of the Participant and the Participant's spouse as of the Participant's Annuity Starting Date.
- "(ii) The Pension payable to a Participant who has elected the Level Income Option pursuant to Paragraph 6 H shall be the Pension determined by the appropriate

subsection of Paragraph 10 B above, then adjusted in accordance with Paragraph 10 B(10)(i), if applicable, and then further adjusted as follows:

(A) For the period commencing with the Participant's Annuity Starting Date and ending with the month prior to the Leveling Month, by adding an amount equal to the product of:

(I) the Participant's estimated Social Security benefit, and

(II) a fraction, the numerator of which is the factor in Table I corresponding to the Participant's age at his Annuity Starting Date and the denominator of which is the factor in Table I corresponding to the Participant's age in the Leveling Month,

provided, however, that if the product of item (I) and item (II) is less than the excess, if any, of the Participant's estimated Social Security benefit over his Pension as determined prior to any adjustment under this clause (A), then there shall be substituted for such product an amount equal to the product of:

(III) the Pension payable to the Participant at his Annuity Starting Date prior to any adjustment under this clause (A), and

(IV) a fraction, the numerator of which is the factor in Table I corresponding to the Participant's age at his Annuity Starting Date and the denominator of which is the excess of (x) the factor in Table I corresponding to the Participant's age in the Leveling Month over (y) the factor in Table I corresponding to the Participant's age at his Annuity Starting Date.

(B) For the period commencing with the Leveling Month, by subtracting from the Pension amount, as adjusted in accordance with clause (A), the amount of the Participant's estimated Social Security benefit, provided, however, that the resulting amount shall not be less than zero.

For the purpose of this subparagraph, the term "estimated Social Security benefit" shall refer to the Social Security benefit expected to be payable to the Participant, commencing in the Leveling Month, determined on the basis of the Social Security Act as in effect on the Participant's Annuity Starting Date, taking into account the Participant's actual earnings during his period of employment with the Company, estimating his earnings for years prior to his employment with the Company by discounting his earnings in his first year of employment with the Company by the national average earnings factors developed by the Social Security Administration, and assuming that he will have no earnings subsequent to his Annuity Starting Date. The term Leveling Month shall refer to the month elected by the Participant in accordance with Paragraph 6 H(i)."

11. Effective January 1, 1997, Paragraph 11 A is amended by deleting the paragraph that begins with the phrase "Actuarial equivalent ..." and by inserting in lieu thereof the following new paragraph:

"Effective January 1, 1997, for the purpose of this Paragraph, actuarial equivalence shall be determined on the basis of the Section 417(e) Mortality Table and an interest rate of 5%, except that the actuarial equivalent of a benefit payable in the form of a lump sum shall be

determined on the basis of the Section 417(e) Mortality Table and the Section 417(e) Interest Rate."

12. Effective December 1, 1996, Paragraph 12 A(1) is amended by deleting the period (.) at the end of the third paragraph and by inserting in lieu thereof the new phrase ", or in accordance with the provisions of Paragraph 6 H, as applicable to a Participant who has elected the Level Income Option."
13. Effective January 1, 1997, Paragraph 24 G is deleted in its entirety.
14. Effective December 1, 1996, Table C and Table D are amended by deleting from the caption of each such table the phrase "10 Year Certain" and by inserting in lieu thereof the new phrase "12 Year Certain".
15. Effective December 1, 1996, the Plan is amended by appending at the end thereof new Tables G, H, and I, as attached hereto.

IN WITNESS WHEREOF, the undersigned has subscribed his name to this instrument this \_\_\_\_ day of \_\_\_\_\_, 1997.

\_\_\_\_\_  
Richard P. Cowie  
Vice President-Employee Relations  
Consolidated Edison Company  
of New York, Inc.



Amendment No. 4  
To  
The Consolidated Edison  
Retirement Plan for  
Management Employees

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Dated November 14, 1997

165957

Pursuant to resolutions adopted by the Board of Trustees of Consolidated Edison Company of New York, Inc. at meetings duly called and held on November 24, 1992 and January 27, 1997 and to provisions in The Consolidated Edison Retirement Plan for Management Employees authorizing changes to the retiree health benefits, the undersigned hereby approves the amendments set forth below to The Consolidated Edison Retirement Plan for Management Employees, as heretofore amended by Amendments Nos. 1, 2 and 3 thereto:

1. Effective February 1, 1997, the following paragraph shall be added at the end of Paragraph 1: "Effective February 1, 1997, the Management Plan is amended to provide that Management Employees of the Company who are transferred to and become employees of an Affiliate of the Company shall continue to participate in and accrue pension benefits under the Management Plan and shall be eligible for retiree health benefits provided under the Management Plan. The period of employment and the base compensation of such Employees with the Affiliate shall be counted for purposes of determining Service, Accredited Service, Hours of Service, Annual Basic Straight-Time Compensation and eligibility for benefits under Paragraph 23-Retiree Health Program under the Management Plan. The cost of such Employees' pension and retiree health benefits shall be allocated between the Company and the Affiliate."

2. Effective February 1, 1997, Paragraph 2 A is amended by adding the following definitions at the end thereof: "Affiliate means (a) any corporation which is a member of the same controlled group of corporations (within the meaning of Section 414(b) of the Code) as the Company, (b) any other trade or business (whether or not incorporated) which is under common control with the Company within the meaning of Section 414(c) of the Code, and (c) any organization which (along with the Company) is a member of an affiliated service group (within the meaning of Section 414(m) of the Code); provided that, for purposes of Paragraph 11 A of the Management Plan, in determining common control under Sections 414(b) and (c) of the Code, the phrase "more than 50 percent" shall be substituted for the phrase "at least 80 percent" each place the latter appears in Section 1563 of the Code (and regulations thereunder) and in regulations under Section 414(c) of the Code.

"Company means Consolidated Edison Company of New York, Inc., provided that for any person who is an Employee by reason of having transferred from employment by Consolidated Edison Company of New York, Inc. to employment by an Affiliate, any reference to 'Company' shall include the Affiliate for purposes of determining Annual Basic Straight-Time Compensation, Accredited Service, Service, Hours of Service and eligibility for benefits under Paragraph 23-Retiree Health Program."

3. Effective February 1, 1997, the definition of the following terms in Paragraph 2 A is amended to read as follows: "Employee means (a) any person employed by the Company and (b) any person employed by the Company who is transferred to the employment of an Affiliate.

"Management Employee means (a) an Employee on the Company's management payroll and (b) an Employee who is transferred from the Company's management payroll to an Affiliate's payroll."

4. Effective April 1, 1997, in Appendix I, Part A-Benefits, I. Hospital/Medical Benefits (a) in the paragraph entitled Annual Deductibles-MEDICAL, the individual annual deductible increases from \$200 to \$250, and the annual deductible for families with four or more members increases from \$600 to \$750, and (b) the paragraph entitled Medical Expense Copayments is changed to read as

follows: "After the individual annual deductible is met, 20% for expenses to \$7,500 per person per year. None for expenses over \$7,500 per person per year."

5. Effective April 1, 1997, under the paragraph entitled Required Deductible and Copayment for Prescription Drugs in Appendix I, Part B-Costs, the family annual deductible increases from \$25 to \$50.

6. Effective January 1, 1998, immediately following the paragraph entitled Required Monthly Contribution for Medical/Hospital Benefits in Appendix I, Part B-Costs, a new paragraph entitled Required Monthly Contribution for Prescription Drug Benefits is added to read as follows: "Effective January 1, 1998, a contribution in the amount of \$10 shall be deducted each month from the Pension or Annuity payments to a retiree or surviving spouse who enrolls or has prescription drug coverage. The monthly contribution will cover the retiree or surviving spouse and any family members covered for prescription drug benefits."

7. Effective January 1, 1998, the second paragraph under Paragraph 23 C is amended in its entirety to read as follows: "Effective January 1, 1998, participants shall make a monthly contribution toward the cost of prescription drug benefits and shall be required to pay an annual deductible and copayment for each prescription or refill as set forth in Appendix I, Part B."

8. Effective January 1, 1998, the following sentences shall be added at the end of subdivision (d) of Paragraph 23 E: "Each retiree or surviving spouse who first becomes eligible for prescription drug benefits on or after January 1, 1998 shall be required to enroll in the Retiree Health Program to obtain such benefits. The enrollment procedure shall be similar to the enrollment procedure for medical/hospital benefits set forth in subdivision (c) above. For those retirees and spouses of retirees who have other continuous group coverage for prescription drug benefits, enrollment may be deferred on terms similar to those set forth in subdivision (b) above relating to medical/hospital benefits."

9. Effective January 1, 1998, in paragraph I. under the heading Benefits Hospital in Appendix I, Part A, I. Hospital/Medical Benefits, relating to the inpatient treatment of alcoholism and substance abuse, delete the words ", but not more than 60 days in a lifetime" in the two places the words appear. The lifetime maximum of 60 days for the treatment of alcoholism or drug abuse shall no longer apply.

10. Effective January 1, 1998, in paragraph B under the heading Benefits Medical, in Appendix I, Part A, I. Hospital/Medical Benefits, delete the following words: "Outpatient treatment of mental, psychoneurotic and personality disorders (effective January 1, 1993, subject to a \$1,500 annual maximum per person provided, however, that a minimum reimbursement of \$30 a visit will apply)", and add a new paragraph E to read as follows: "Effective January 1, 1998, payment of 80% of reasonable and customary charges, subject to deductible, of up to \$70 for each outpatient visit in a calendar year for treatment of mental, psychoneurotic or personality disorders, and payment, subject to deductible, of \$60 per visit for three crisis intervention visits in a calendar year."

IN WITNESS WHEREOF, the undersigned has executed this instrument this \_\_\_\_ day of November, 1997.

-----  
Richard P. Cowie  
Vice President-Employee Relations  
Consolidated Edison Company  
of New York, Inc.

Amendment No. 5

To

The Consolidated Edison  
Retiree Health Program  
For Management Employees

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Dated: November 14, 1997

166214

Pursuant to resolutions adopted by the Board of Trustees of Consolidated Edison Company of New York, Inc. at meetings duly called and held on November 24, 1992 and January 27, 1997 and to provisions in The Consolidated Edison Retiree Health Program for Management Employees authorizing changes to the retiree health benefits, the undersigned hereby approves the amendments set forth below to The Consolidated Edison Retiree Health Program for Management Employees, as heretofore amended by Amendments Nos. 1, 2, 3 and 4 thereto:

1. Effective February 1, 1997, a new Section 1.03 shall be added to read as follows:

"Section 1.03 Transfers to Affiliates. Effective February 1, 1997, The Program is amended to provide that Employees of the Company who are transferred to and become employees of an Affiliate of the Company shall continue to be eligible for retiree health benefits provided under the Program. The cost of such Employees' retiree health benefits shall be allocated between the Company and the Affiliate."

2. Effective February 1, 1997, Section 2.01 is amended by adding the following definition at the end thereof:

"Affiliate means (a) any corporation which is a member of the same controlled group of corporations (within the meaning of Section 414(b) of the Code) as the Company, (b) any other trade or business (whether or not incorporated) which is under common control with the Company within the meaning of Section 414(c) of the Code, and (c) any organization which (along with the Company) is a member of an affiliated service group (within the meaning of Section 414(m) of the Code)."

3. Effective February 1, 1997, the definition of the following terms in Section 2.01 is amended to read as follows:

"Company means Consolidated Edison Company of New York, Inc., provided that for any individual who is an Employee by reason of having transferred from employment by Consolidated Edison Company of New York, Inc. to employment by an Affiliate, any reference to 'Company' shall include the Affiliate for purposes of determining eligibility for benefits under the Management Plan.

"Employee means (a) any individual employed on the management payroll of the Company and (b) any individual employed on the management payroll of the Company who is transferred to the employment of an Affiliate."

4. Effective April 1, 1997, in Appendix I, Benefits, I. Hospital/Medical Benefits (a) in the paragraph entitled Annual Deductibles-MEDICAL, the individual annual deductible increases from \$200 to \$250, and the annual deductible for families with four or more

members increases from \$600 to \$750, and (b) the paragraph entitled Medical Expense Copayments is changed to read as follows:

"After the individual annual deductible is met, 20% for expenses to \$7,500 per person per year. None for expenses over \$7,500 per person per year."

5. Effective April 1, 1997, as set forth in Section 5.01(b), the family annual deductible increases from \$25 to \$50.

6. Effective January 1, 1998, the following sentences shall be added at the end of Section 3.02(b):

"Each retired Employee or Surviving Spouse who first becomes eligible for prescription drug benefits on or after January 1, 1998 shall be required to enroll in the Retiree Health Program to obtain such benefits. The enrollment procedure shall be similar to the enrollment procedure for medical/hospital benefits set forth in Section 3.02(a) above. For those retired Employees and Spouses who have other continuous group coverage for prescription drug benefits, enrollment may be deferred on terms similar to those set forth in Section 3.01(b) above relating to medical/hospital benefits."

7. Effective January 1, 1998, Section 5.01(b) is amended to read as follows:

"Effective January 1, 1998, a contribution in the amount of \$10 shall be deducted each month from the pension or annuity payment to a retired Employee or Surviving Spouse who enrolls or has prescription drug coverage. The monthly contribution will cover the retired Employee or Surviving Spouse and any family members covered for prescription drug benefits. An annual deductible of \$50 per family is required to be met before any prescription drugs may be obtained under the prescription card program, and participants are required to make a copayment for each prescription or refill obtained under the prescription card program. Effective July 1, 1996, the required copayment for basic coverage shall be \$8.00 for brand name drugs and \$5.00 for generic drugs."

8. Effective January 1, 1998, in paragraph I. under the heading Benefits Hospital in Appendix I, I. Hospital/Medical Benefits, relating to the inpatient treatment of alcoholism and substance abuse, delete the words ", but not more than 60 days in a lifetime" in the two places the words appear. The lifetime maximum of 60 days for the treatment of alcoholism or drug abuse shall no longer apply.

9. Effective January 1, 1998, in paragraph B under the heading Benefits Medical, in Appendix I, I. Hospital/Medical Benefits, delete the following words: "Outpatient

treatment of mental, psychoneurotic and personality disorders (subject to a \$1,500 annual maximum per person provided, however that a minimum reimbursement of \$30 a visit will apply)", and add a new paragraph E to read as follows:

"Effective January 1, 1998, payment of 80% of reasonable and customary charges, subject to deductible, of up to \$70 for each outpatient visit in a calendar year for treatment of mental, psychoneurotic or personality disorders, and payment, subject to deductible, of \$60 per visit for three crisis intervention visits in a calendar year."

IN WITNESS WHEREOF, the undersigned has executed this instrument this \_\_\_\_ day of November, 1997.

-----  
Richard P. Cowie  
Vice President-Employee Relations  
Consolidated Edison Company  
of New York, Inc.

1996 STOCK OPTION PLAN, AS AMENDED

AND RESTATED FEBRUARY 24, 1998

ARTICLE 1  
Purpose

Section 1.1. Purpose. The purpose of this plan (the "Plan") is to promote the interests of Consolidated Edison, Inc. (the "Company") and its shareholders by providing long-term incentives to those persons with significant responsibility for the success and growth of the Company, by strengthening the Company's ability to attract and retain officers and other employees of the Company and its subsidiaries on a competitive basis and by aligning the interests of the officers and other employees with the Company's shareholders, through facilitating their acquisition of equity interests in the Company.

ARTICLE 2  
Definitions

For purposes of the Plan, the following terms shall have the meanings provided herein:

Section 2.1. "Board" means the Board of Directors of the Company.

Section 2.2. "Code" means the Internal Revenue Code of 1986, as amended from time to time.

Section 2.3. "Committee" means the Executive Personnel and Pension Committee of the Board or such other committee as may be appointed by the Board to administer the Plan; provided, however, that the Committee shall consist of three or more non-employee members of the Board who shall qualify to administer the Plan as contemplated by both Rule 16b-3 under the Exchange Act and Section 162(m) of the Code.

Section 2.4. "Disability" means permanent and total disability as defined under the Long-Term Disability Plan for Management Employees of Consolidated Edison Company of New York, Inc. ("CECONY"), as in effect from time to time.

Section 2.5. "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time.

Section 2.6. "Fair Market Value" means the closing price of a Share in the Consolidated Reporting System as reported in the Wall Street Journal or in a similarly readily available public source for the trading day immediately prior to the applicable transaction date under the Plan. If no trading of Shares occurred on such date, the closing price of a Share in such System as reported for the preceding day on which sales of Shares occurred shall be used.

Section 2.7. "Incentive Option" means an option granted under the Plan to purchase Shares and which is intended to qualify as an incentive stock option under Section 422 of the Code.

Section 2.8. "Non-qualified Option" means an option granted under the Plan to purchase Shares and which is not intended to qualify as an Incentive Option.

Section 2.9. "Option" means, collectively, Incentive Options and Non-qualified Options.

Section 2.10. "Shares" means shares of the Company's common shares, \$ .10 par value.

ARTICLE 3  
Administration

Section 3.1. Administration. (a) The Plan shall be administered by the Committee. The Committee shall have authority in its sole discretion, subject to and not inconsistent with the express provisions of the Plan, to administer the Plan and to exercise all the powers and authorities either specifically granted to it under the Plan or necessary or advisable in the administration of the Plan, including without limitation authority to select the employees to be granted Options, to determine the size and terms of the Options to be granted to each employee selected, to determine the time or times when Options will be granted, the period or periods during which Options will be exercisable, and to prescribe the form of the agreements embodying Options granted under the Plan. The Committee shall be authorized to interpret the Plan and the Options granted under the Plan, to establish, amend and rescind any rules and regulations relating to the Plan, and to make any other determinations which it believes necessary or advisable for the administration of the Plan. The Committee may correct any defect, supply any omission or reconcile any inconsistency in the Plan or in any Option in the manner and to the extent the Committee deems necessary or desirable to carry it into effect. In no event,

however, shall the Committee have the right to grant dividend equivalents in respect of Options or to cancel outstanding Options for the purpose of replacing or regranting such Options with a purchase price that is less than the purchase price of the original Option.

(b) The Committee shall maintain a written record of its proceedings. Any decision of the Committee in the administration of the Plan, as described herein, shall be final and conclusive and binding on all persons affected by the decision, including the Company, any employee or optionee or any person claiming any rights under the Plan from or through any employee or optionee. The Committee may delegate to one or more of its members or to any officer or officers of the Company or CECONY such administrative duties under the Plan as the Committee may deem advisable.

ARTICLE 4  
Eligibility and Participation

Options may be granted to officers and other employees of the Company as the Committee may from time to time select. Any officer or employee of the Company shall be eligible to receive one or more Options, subject to the limitation set forth in Section 5.1. In determining the persons to whom Options are to be granted and the number of Shares subject to each Option, the Committee shall take into consideration the person's present and potential contribution to the success of the Company and such other factors as the Committee may deem proper and relevant. For purposes of participation in the Plan, the term "Company" shall include any entity that is directly or indirectly controlled by the Company or any entity, including an acquired entity, in which the Company has a significant equity interest, as determined by the Committee.

ARTICLE 5  
Shares Subject to Plan

Section 5.1. Amount of Stock. There may be delivered under the Plan an aggregate of not more than 10,000,000 Shares, subject to adjustment as provided in Section 5.2. The aggregate number of Shares that may be covered by Options granted to a single individual under the Plan shall not exceed 1,500,000 Shares. Shares delivered pursuant to the Plan may consist in whole or in part of authorized and unissued Shares or reacquired Shares, and no fractional Shares shall be delivered under the Plan. Cash may be paid in lieu of any fractional Shares in the exercise of Options under the Plan. In the event that Options shall be forfeited or cancelled or shall terminate or expire without being exercised in whole or in part, new Options may be granted covering the Shares not purchased under such forfeited, cancelled, terminated or expired Options. For purposes of this Section, the number of Shares deemed to be delivered under the Plan upon the exercise of an Option shall equal the number of Shares as to which the Option is exercised less the number of Shares tendered, if any, pursuant to Section 6.5. However, the number of Shares deemed exercised by the optionee under the applicable option(s) shall be the full number of Shares specified in the exercise notice required under Section 6.5.

Section 5.2. Dilution and Other Adjustments. In the event of any change in the number of outstanding Shares or Share price by reason of any stock split, stock dividend, recapitalization, merger, consolidation, reorganization, combination or exchange of equity securities or other distribution (other than normal cash dividends) of Company assets to stockholders, or any other similar change, if the Committee shall determine, in its sole discretion, that such change equitably requires an adjustment in the limitations on the numbers of Shares that may be delivered as set forth in

Section 5.1, in the number or kind of shares that may be delivered under the Plan, or in the number or kind of shares which are subject to outstanding Options and in the exercise price per Share relating thereto, such adjustment shall be made by the Committee and shall be conclusive and binding for all purposes of the Plan.

ARTICLE 6  
Terms and Conditions of Options

Section 6.1. Terms and Options. An Option granted under the Plan shall be in such form as the Committee may from time to time approve. Each Option shall be subject to the terms and conditions provided in this Article 6 and shall contain such other or additional terms and conditions as the Committee may deem desirable, but in no event shall such terms and conditions be inconsistent with the Plan and, in the case of Incentive Options, with the provisions of the Code applicable to "incentive stock options" as described in Section 422 of the Code.

Section 6.2. Option Price. The purchase price per Share under an Option shall be determined by the Committee, but may not be less than 100 percent of the Fair Market Value of a Share on the date the Option is granted.

Section 6.3. Option Period. The period during which an Option may be exercised shall be fixed by the Committee; provided, that no Option shall be exercisable after the expiration of ten years from the date such Option is granted, except that, in the event of the death of an optionee holding one or more options, the option(s) may remain exercisable for up to one year following the optionee's death.

Section 6.4 Exercisability of Options. The Committee may provide in the Option agreement that such Option may be immediately exercisable, or that such Option shall become exercisable at such times or upon such events as the Committee may specify.

Section 6.5. Exercise of Option. (a) An Option may be exercised in whole or in part from time to time during the Option period (or, if determined by the Committee, in specified installments during the Option period) by giving written notice of exercise to the Secretary of the Company specifying the number of Shares to be purchased. Notice of exercise of an Option must be accompanied by payment in full of the purchase price either by cash or such other method as may be permitted by the Committee, including but not limited to (i) check, (ii) tendering (either actually or by attestation) Shares owned by the optionee having a Fair Market Value at the date of exercise equal to such purchase price, (iii) a third-party exercise procedure, or (iv) in a combination of the foregoing. The Committee, in its sole discretion, may, in lieu of delivering Shares covered by an Option upon its exercise, settle the exercise of the Option by means of a cash payment to the optionee equal to the positive difference between the Fair Market Value on the exercise date and the option price, or by delivering Shares having an aggregate Fair Market Value equal to such a payment, or by a combination of both.

(b) No Shares shall be delivered in connection with the exercise of an Option until full payment therefor has been made. An optionee shall have the rights of a shareholder only with respect to Shares for which certificates have been issued to such person.

Section 6.6. Nontransferability of Options. No Option granted under the Plan shall be transferable by the optionee otherwise than by will or by the laws of descent and distribution, except that the Committee may provide for the transferability of an Option:

(a) by gift or other transfer to (i) a spouse or other immediate relative, or (ii) a trust or an estate in which the original optionee or the optionee's spouse or other immediate relative has a substantial interest;

(b) pursuant to a qualified domestic relations order; and (c) as may be otherwise permitted by Rule 16b-3 under the Exchange Act; provided, however, that any Option so transferred shall continue to be subject to all the terms and conditions contained in the Option agreement. If so permitted by the Committee, an optionee may designate a beneficiary or beneficiaries to exercise the rights of the optionee under the Plan upon the death of the optionee.

Section 6.7. Termination of Employment. The Committee shall provide in the Option agreement the terms and conditions applicable to the Option in the event of the optionee's termination of employment by reason of retirement, death, Disability or any other reason.

Section 6.8. Annual Limitation. The maximum aggregate Fair Market Value of



Shares (determined as of the date of grant of the Incentive Option) for which Incentive Options are exercisable for the first time by an employee during any calendar year (under the Plan and any other plan of the Company or its subsidiaries) shall not exceed \$100,000 as and to the extent required by Section 422(d) of the Code.

Section 6.9. Withholding Obligations. (a) As a condition to the delivery of any Shares pursuant to the exercise of an Option, the Committee may require that the optionee, at the time of such exercise, pay to the Company an amount sufficient to satisfy any applicable tax withholding obligations or such greater amount of withholding as the Committee shall determine from time to time, or the Committee may take such other action as it may deem necessary to satisfy any such withholding obligations.

(b) The Committee, in its sole discretion, may permit or require an optionee to satisfy all or a part of the tax withholding obligations incident to the exercise of an Option by having the Company withhold a portion of the Shares that would otherwise be issuable to the optionee. Such Shares shall be valued based on their Fair Market Value on the date the tax withholding is required to be made. Any such Share withholding with respect to an optionee subject to Section 16(a) of the Exchange Act shall be subject to such limitations as the Committee may impose to comply with the requirements of Section 16 of the Exchange Act.

#### ARTICLE 7 Miscellaneous Provisions

Section 7.1. No Implied Rights. No employee or other person shall have any claim or right to be granted an Option under the Plan. Neither the Plan nor any action taken hereunder shall be construed as giving any employee any right to be retained in the employ of the Company or any subsidiary or affect any right of the Company or any subsidiary to terminate any employee's employment.

Section 7.2. Securities Law Compliance. No Shares shall be delivered hereunder unless counsel for the Company shall be satisfied that such delivery will be in compliance with applicable Federal and state securities laws.

Section 7.3. Ratification of Actions. By accepting any Option or other benefit under the Plan, each employee and each person claiming under or through such person shall be conclusively deemed to have indicated such person's acceptance and ratification of, and consent to, any action taken under the Plan by the Company, the Board or the Committee.

Section 7.4. Unfunded Plan. Unless otherwise determined by the Committee, the Plan shall be unfunded and shall not create (or be construed to create) a trust or a separate fund or funds. The Plan shall not establish any fiduciary relationship between the Company and any employee, optionee or other person. To the extent any person holds any rights by virtue of an Option granted under the Plan, such rights shall constitute general, unsecured liabilities of the Company and shall not confer upon such person any right, title or interest in any assets of the Company.

#### ARTICLE 8 Amendments or Discontinuance

The Plan may be amended at any time and from time to time by the Board and without the approval of shareholders of the Company, except that no amendment which increases the aggregate number of Shares which may be delivered pursuant to the Plan or which, in the absence of shareholder approval, would cause the Plan not to comply with Rule 16b-3 under the Exchange Act or Section 162(m) of the Code shall be effective unless and until the same is approved by the shareholders of the Company. No amendment of the Plan shall materially adversely affect any of the rights or obligations of any person, without such person's written consent, under any Option theretofore granted under the Plan.

#### ARTICLE 9 Termination

The Plan shall terminate upon the earlier of the following dates or events to occur: (a) upon the adoption of a resolution of the Board terminating the Plan; or (b) May 20, 2006. After termination of the Plan, no Options may be granted. No termination of the Plan shall materially adversely affect any of the rights or obligations of any person, without such person's written consent,

under any Option theretofore granted under the Plan.

ARTICLE 10  
Change in Control; Dissolution or Merger

Either in contemplation of the Company's undergoing, or in the event the Company undergoes, a change in control (as determined by the Committee) or in the event of a merger, consolidation, other business combination, liquidation or reorganization of the Company, the Committee may provide for appropriate adjustments, including (i) rescinding or taking any other action with respect to any Option to the extent necessary to permit the Company to engage in a merger, consolidation or business combination intended to be accounted for as a pooling of interests transaction or (ii) accelerating any exercisability or expiration dates, and settlements of Options either at the time the Option is granted or at a subsequent date.

ARTICLE 11  
Governing Law and Interpretation

The provisions of the Plan shall take precedence over any conflicting provision contained in an Option. The Plan shall be governed by and construed in accordance with the laws of the State of New York. If any term or provision of the Plan is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms and provisions will remain in full force and effect and will in no way be affected, impaired or invalidated.

We hereby consent to the incorporation by reference of our report dated February 24, 1998, appearing on page 44 of this Annual Report on Form 10-K, in (i) the Prospectus constituting part of the Registration Statement on Form S-8 (No. 333-48475) relating to The Consolidated Edison Discount Stock Purchase Plan, (ii) the Prospectus constituting part of the Registration Statement on Form S-3 (No.333-45745) relating to \$540 million principal amount of unsecured debt securities of Consolidated Edison Company of New York, Inc., (iii) the Prospectus, dated March 14, 1996, as amended by the prospectus supplement dated January 2, 1998, and the Prospectus, dated November 23, 1993, as amended by prospectus supplements dated March 14, 1996 and January 2, 1998, constituting part of the Registration Statement on Form S-3 (No.333-01717-99) relating to the Consolidated Edison, Inc. Automatic Dividend Reinvestment and Cash Payment Plan, and (iv) the Prospectus constituting part of the Registration Statement on Form S-8 (No. 333-04463-99) relating to the Consolidated Edison, Inc. 1996 Stock Option Plan.

PRICE WATERHOUSE LLP

New York, New York  
March 26, 1998

CONSOLIDATED EDISON, INC.

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

POWER OF ATTORNEY

WHEREAS Consolidated Edison, Inc. ("CEI") and Consolidated Edison Company of New York, Inc. ("Con Edison") each intends to file with the Securities and Exchange Commission, under the Securities Exchange Act of 1934, as amended (the "Act"), its Annual Report on Form 10-K for the fiscal year ended December 31, 1997 with any and all exhibits and other documents having relation thereto, as prescribed by the Securities and Exchange Commission pursuant to the Act and the rules and regulations of the Securities and Exchange Commission promulgated thereunder ("Form 10-K").

NOW, THEREFORE,

KNOW ALL PERSONS BY THESE PRESENTS that the undersigned, in his or her capacity as a Director or officer, or both, of CEI (the "CEI Delegated Capacity") and/or a Trustee or officer, or both, of Con Edison (the "Con Edison Delegated Capacity"), as the case may be, does hereby constitute and appoint Eugene R. McGrath, Joan S. Freilich, Hyman Schoenblum and Peter A. Irwin, and each of them severally, his or her true and lawful attorneys-in-fact, with power to act with or without the others and with full power of substitution and resubstitution, to execute in his or her name, place and stead, in the CEI Delegated Capacity the CEI Form 10-K and/or in the Con Edison Delegated Capacity the Con Edison Form 10-K, as the case may be, and any and all amendments thereto, and all instruments necessary or incidental in connection therewith, and to file or cause to be filed the same with the Securities and Exchange Commission. Each of said attorneys shall have full power and authority to do and perform, in the name and on behalf of the undersigned, in any and all capacities, every act whatsoever necessary or desirable to be done in the premises, as fully to all intents and purposes as the undersigned might or could do in person, the undersigned hereby ratifying and confirming all that said attorneys-in-fact or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has executed this instrument this 24th day of March 1998.

E. Virgil Conway

CONSOLIDATED EDISON, INC.

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

POWER OF ATTORNEY

WHEREAS Consolidated Edison, Inc. ("CEI") and Consolidated Edison Company of New York, Inc. ("Con Edison") each intends to file with the Securities and Exchange Commission, under the Securities Exchange Act of 1934, as amended (the "Act"), its Annual Report on Form 10-K for the fiscal year ended December 31, 1997 with any and all exhibits and other documents having relation thereto, as prescribed by the Securities and Exchange Commission pursuant to the Act and the rules and regulations of the Securities and Exchange Commission promulgated thereunder ("Form 10-K").

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IN WITNESS WHEREOF, the undersigned has executed this instrument this 25th day of March 1998.



CONSOLIDATED EDISON, INC.

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has executed this instrument this 24th day of March 1998.

Ruth M. Davis

CONSOLIDATED EDISON, INC.

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has executed this instrument this 24th day of March 1998.

Joan S. Freilich

CONSOLIDATED EDISON, INC.

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has executed this instrument this 24th day of March 1998.

Ellen V. Futter



CONSOLIDATED EDISON, INC.

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has executed this instrument this 20th day of March 1998.

Arthur Hauspurg

CONSOLIDATED EDISON, INC.

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has executed this instrument this 24th day of March 1998.

Sally Herenandez-Pinero

CONSOLIDATED EDISON, INC.

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has executed this instrument this 23rd day of March 1998.

Peter W. Likins

CONSOLIDATED EDISON, INC.

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

POWER OF ATTORNEY

WHEREAS Consolidated Edison, Inc. ("CEI") and Consolidated Edison Company of New York, Inc. ("Con Edison") each intends to file with the Securities and Exchange Commission, under the Securities Exchange Act of 1934, as amended (the "Act"), its Annual Report on Form 10-K for the fiscal year ended December 31, 1997 with any and all exhibits and other documents having relation thereto, as prescribed by the Securities and Exchange Commission pursuant to the Act and the rules and regulations of the Securities and Exchange Commission promulgated thereunder ("Form 10-K").

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IN WITNESS WHEREOF, the undersigned has executed this instrument this 24th day of March 1998.

Eugene R. McGrath

CONSOLIDATED EDISON, INC.

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has executed this instrument this 24th day of March 1998.

Donald K. Ross

CONSOLIDATED EDISON, INC.

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has executed this instrument this 25th day of March 1998.

Robert G. Schwartz

CONSOLIDATED EDISON, INC.

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has executed this instrument this 20th day of March 1998.

Richard A. Voell

CONSOLIDATED EDISON, INC.

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has executed this instrument this 24th day of March 1998.

Hyman Schoenblum



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The schedule contains summary financial information extracted from Consolidated Balance Sheet, Income Statement and Statement of Cash Flows and is qualified in its entirety by reference to such financial statements and the notes thereto.

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Dec-31-1997

Dec-31-1997

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Per-Book

11,267,102

292,397

1,527,210

662,730

973,079

14,722,518

588,724

856,652

4,484,703

5,930,079

84,550

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2.95

2.95