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

FORM 10-K

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

For the fiscal year ended DECEMBER 31, 1998

OR

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

For the transition period from _____ to _____

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

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

Title of each class	Name of each exchange on which registered
Consolidated Edison, Inc. Common Shares ($ .10 par value)	New York Stock Exchange
Consolidated Edison Company of New York, Inc. 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 |X| No |_|

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. |X|

The aggregate market value of the voting stock of Consolidated Edison, Inc. ("CEI") held by non-affiliates of CEI , as of January 31, 1999, was $ 11.6 billion. Not reflected in this amount are the 48,502 CEI Common Shares ($.10 par value) held by CEI's Directors who are the only stockholders of CEI, known to CEI, who might be deemed "affiliates" of CEI. As of February 28, 1999, CEI had outstanding 230,364,594 Common Shares ($.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, 1999, was $161.6 million. Not reflected in this amount are the 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 CEI's and Con Edison's definitive joint proxy statement for their 1999 Annual Meetings of Stockholders, to be filed with the Commission pursuant to Regulation 14A not later than 120 days after December 31, 1998, are incorporated in Part III of this report.

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* Incorporated by reference from CEI's and Con Edison's definitive joint proxy statement for their Annual Meetings of Stockholders to be held on May 17, 1999.

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

Contents of Item 1

CORPORATE STRUCTURE

CEI, incorporated in New York State in 1997, became the holding company for Con Edison on January 1, 1998. CEI has no employees and no significant business operations other than through Con Edison and CEI's other subsidiaries. See "Non-Utility Subsidiaries," below. CEI has agreed to purchase Orange and Rockland Utilities, Inc. ("O&R"). See "Liquidity and Capital Resources - Acquisition" in Item 7.

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. For information about significant changes to Con Edison's operations resulting from Federal and state initiatives promoting the development of competition, see "Electric Operations - Changes" and "Gas Operations - Gas Sales," below.

OPERATING SEGMENTS

For 1998, substantially all of CEI's operating revenues, operating income, net income and total assets were those of Con Edison. In 1998, Con Edison's electric, gas and steam operating revenues were 81.7 percent, 13.7 percent and 4.6 percent, respectively, of Con Edison's operating revenues. For information about CEI's other subsidiaries, see "Non-Utility Subsidiaries," below. For information on CEI's operating revenues, expenses and income for the years ended December 31, 1998, 1997 and 1996, and assets at those dates, relating to CEI's electric, gas and steam operations, see Note J to the financial statements in Item 8. For information about significant changes to Con Edison's operations resulting from Federal and state initiatives promoting the development of competition, see "Electric Operations - Changes" and "Gas Operations - Gas Sales," below.

ELECTRIC OPERATIONS

ELECTRIC SALES. Electric operating revenues were $5.7 billion in 1998 or 81.7 percent of Con Edison's operating revenues. The percentages were 79.1 and 79.6, respectively, in the two preceding years. In 1998, 74.8 percent of the electricity delivered in Con Edison's service area was sold by Con Edison to its customers, 5.0 percent was sold by other suppliers, including Consolidated Edison Solutions, Inc., a CEI subsidiary, to Con Edison's customers under its electric Retail Choice program and the balance was delivered to customers of NYPA and municipal electric agencies. Of Con Edison's sales, 31.0 percent was to residential customers, 64.7 percent was to commercial customers, 2.5 percent was to industrial customers and the balance was to railroads and public authorities. For additional information about electricity sales, see "Operating Statistics," below, and "Results of Operations Operating Revenues and Fuel Costs" in Item 7. For information about significant changes to Con Edison's operations resulting from Federal and state initiatives promoting the development of competition, 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. Con Edison has entered into agreements to sell most of its electric generating capacity. See "Electric Facilities - Generating Facilities" in Item 2.

The sources of electric energy generated and purchased during 1994 through 1998 were:

	1994	1995	1996	1997	1998
Generated:					
Fossil-Fueled*	30.9%	30.1%	22.7%	29.6%	33.0%
Nuclear (Indian Point 2)	18.4%	10.8%	17.7%	7.3%	5.8%
Total Generated	49.3%	40.9%	40.4%	36.9%	38.8%
Firm Purchases:					
NYPA	1.3%	1.3%	2.0%	2.1%	2.8%
Hydro-Quebec	4.8%	5.8%	6.0%	2.4%	4.0%
Non-Utility Generators	12.9%	29.9%	29.5%	35.9%	34.1%
Other Purchases*	31.7%	22.1%	22.1%	22.7%	20.3%
Total Purchased	50.7%	59.1%	59.6%	63.1%	61.2%
Generated & Purchased	100%	100%	100%	100%	100%

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* During 1995 - 1997, Con Edison, for a fee, generated electricity 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 purchased a substantial portion of this energy for sale to its customers.

For further information about electric energy generated and purchased, see "NYPA, Hydro-Quebec, Non-Utility Generators, New York Power Pool and Operating Statistics," below. For information about significant changes to Con Edison's operations resulting from federal and state initiatives promoting the development of competition, 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 22, 1998, the one-hour peak load was 10,919 thousand kilowatts ("MW"). The record peak load for the service area, which occurred on July 15, 1997, was 11,013 MW. The 1998 peak load included an estimated 9,199 MW for Con Edison's customers (including approximately 967 MW delivered by Con Edison under its electric Retail Choice program) and 1,720 MW for NYPA's customers and municipal electric agency customers. The 1998 peak, if adjusted to historical design weather conditions, would have been 11,450 MW, 250 MW higher than the peak in 1997 when similarly adjusted. Con Edison estimates that, under design weather conditions, the 1999 service peak load would be 11,650 MW, including 9,835 MW for Con Edison's customers (approximately 2,000 MW of which would be delivered under Con Edison's electric Retail Choice program). "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 1998 totaled (before outages) 13,686 MW, of which 10,141 MW represented net available generating capacity (including the capacity of NYPA's Poletti and Indian Point 3 units) and 3,545 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 1999. For additional information, see "Liquidity and Capital Resources - Electric Capacity Resources" in Item 7 and "Electric Facilities" in Item 2. For information about significant changes to Con Edison's operations resulting from federal and state initiatives promoting the development of competition, see "Changes," below.

CHANGES. There have been and are continuing to be significant changes to Con Edison's electric operations. Pursuant to a September 1997 settlement agreement (the "Settlement Agreement") in the "Competitive Opportunities" proceeding of the New York State Public Service Commission ("PSC"), by the end of 2001 all of Con Edison's electric customers will be eligible to purchase electricity from suppliers other than Con Edison. Con Edison has entered into agreements to sell most of its electric generating capacity. For additional information about changes to Con Edison's electric operations resulting from a transition to a competitive electric market, see "Liquidity and Capital Resources - CEI's Business, Open Access and the Independent System Operator, PSC Settlement Agreement and Electric Capacity Resources" in Item 7and "Electric Facilities - Generating Facilities" in Item 2.

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 pursuant to arrangements that will terminate effective January 1, 2000. 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 Hydro-Quebec (a government-owned Canadian electric utility) for the five-year period ending March 2004 to purchase 400 MW of firm capacity during the months of April through October (the "Diversity Contract"). The amount and price of a "basic amount" of energy Con Edison is entitled to purchase in each year is subject to negotiation with Hydro-Quebec. In accordance with the Diversity Contract, Con Edison can also purchase additional energy during the summer, which it would be obligated to return to Hydro-Quebec during the following winter. Similar arrangements among Con Edison, NYPA and Hydro-Quebec for 780 MW of capacity expire in March 1999.

NON-UTILITY GENERATORS. For information about Con Edison's contracts with NUGs, see "Liquidity and Capital Resources - 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 1998 and expects to meet it in 1999.

The Power Pool is expected to be replaced by an independent system operator ("ISO") during 1999. For additional information, see "Liquidity and Capital Resources - Open Access and the Independent System Operator" 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 each state that they 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 OPERATIONS

GAS SALES. Gas operating revenues in 1998 were $1.0 billion or 13.7 percent of Con Edison's operating revenues. The percentages were 15.4 and 14.6, respectively, in the two preceding years.

Under Con Edison's gas Retail Choice program, 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 and 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. In 1998, 74.0 percent of the gas delivered in Con Edison's service area was sold by Con Edison to its customers and the balance was sold by other suppliers to Con Edison's customers under the gas Retail Choice program.

In November 1998, the PSC issued a policy statement recommending that all New York State gas utilities terminate their gas supply or "merchant" functions within three to seven years. The policy statement provided that utilities will have a reasonable opportunity to recover any stranded cost. There are expected to be utility-specific proceedings to address exit strategies and rate issues and collaborative discussions to address reliability, provider of last resort and market power issues.

For further information about Con Edison's gas operations, see "Liquidity and Capital Resources - Gas and Steam Rate Agreements" and "Results of Operations - Operating Revenues and Fuel Costs " in Item 7, "Gas Facilities" in Item 2 and "Operating Statistics," 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 would amount to 63,900 thousand dekatherms ("mdth") of gas during the 1998/99 winter heating season and that gas available to Con Edison would amount to 92,600 mdth. For the 1999/2000 winter, Con Edison estimates that the requirements would amount to approximately 61,300 mdth and that the gas available to Con Edison would amount to approximately 93,500 mdth. As of March 15, 1999, the 1998/99 winter peak day sendout to Con Edison 's customers was 654 mdth, which occurred on February 22, 1999. Con Edison estimates that, under the design criteria, the peak day requirements for firm customers during the 1999/2000 winter season would amount to approximately 819 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 sixteen 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 1999.

STEAM OPERATIONS

STEAM SALES. Con Edison sells steam in Manhattan south of 96th Street, mostly to large office buildings, apartment houses and hospitals. In 1998, steam operating revenues were $321.9 million or 4.6 percent of Con Edison's operating revenues. The percentages were 5.5 and 5.8, respectively, in the two preceding years.

For further information about Con Edison's steam operations, see "Liquidity and Capital Resources - Gas and Steam Rate Agreements and Results of Operations - - Operating Revenues and Fuel Costs " in Item 7, "Steam Facilities" in Item 2 and "Operating Statistics" and "Fuel Supply," below.

STEAM SUPPLY. 39.0 percent of the steam sold by Con Edison in 1998 was produced in Con Edison 's steam/electric generating stations, where it is first used to generate electricity. 17.8 percent of the steam sold by Con Edison in 1998 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 1998/99 (through March 15, 1999) occurred on February 23, 1999 when the load reached 9.75 million pounds. Con Edison estimates that for the winter of 1999/2000 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, 1998, the steam system had the capability of delivering about 13.4 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 13.4 million pounds of steam per hour in the 1999/2000 winter.

COMPETITION

For information about significant changes to Con Edison's operations resulting from federal and state initiatives promoting the development of competition, see "Electric Operations - Changes" and "Gas Operations - Gas Sales," above. In addition to competition from other suppliers of electricity or gas, suppliers of oil and other sources of energy, including distributed generation (such as fuel cells and micro-turbines) may provide alternatives for Con Edison customers. CEI's non-utility subsidiaries are also subject to competition. See "Non-Utility Subsidiaries and Regulation and Rates - Electric Gas and Steam Rates," below and "Liquidity and Capital Resources - CEI's Business, Open Access and the Independent System Operator, PSC Settlement Agreement and Electric Capacity Resources" in Item 7.

NON-UTILITY SUBSIDIARIES

CEI, which has agreed to purchase O&R (see "Liquidity and Capital Resources - Acquisition" in Item 7), currently has four operating subsidiaries other than Con Edison. The businesses of these non-utility subsidiaries are subject to competition and different investment risks than Con Edison's utility business.

Consolidated Edison Solutions, Inc. ("CE Solutions") is an energy service company providing competitive gas and electric supply and energy-related products and services.

Consolidated Edison Development, Inc. ("CE Development") invests in energy infrastructure projects and markets technical services. CE Development has invested in electric generating plants in California, Michigan, Guatemala and the Netherlands.

Consolidated Edison Energy, Inc. ("CE Energy") markets specialized energy supply services to wholesale customers in the Northeast and Mid-Atlantic states. In January 1999, CE Energy agreed to purchase 290 MW of electric generating capacity from Western Massachusetts Electric Company for $47 million.

Consolidated Edison Communications, Inc. is exploring opportunities for leveraging the company's expertise in building and managing infrastructure, including fiber optic cable, to build a communications business.

For additional information about CEI's non-utility subsidiaries, see "Liquidity and Capital Resources - Capital Requirements" and "Results of Operations" in Item 7.

CAPITAL REQUIREMENTS AND FINANCING

For information about the Company's capital requirements and financing, see "Liquidity and Capital Resources - Sources of Liquidity and Capital Requirements" in Item 7.

For Con Edison's securities ratings, see "Liquidity and Capital Resources - - Sources of Liquidity and Capital Requirements" 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 1998, 18.7 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 81.3 percent, which was either obtained through firm purchases of energy or generated by Con Edison, oil was used to generate 11.6 percent of the electricity, natural gas 56.9 percent, nuclear power 7.8 percent, hydroelectric power 4.0 percent, and refuse 1.0 percent. In 1998, Con Edison used oil to produce 41.7 percent, and gas to produce 40.5 percent, of the steam supplied to Con Edison's customers. The remaining 17.8 percent was purchased by Con Edison from a NUG. Con Edison expects to continue to have sufficient amounts of oil and gas available in 1999 for its production of electricity and steam for its customers.

Con Edison has entered into agreements to sell most of its electric generating capacity, but not its Indian Point 2 nuclear generating unit. For information about significant changes to Con Edison's operations resulting from federal and state initiatives promoting the development of competition, see "Electric Operations - Changes," above.

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 2000 and 2002 refuelings of Indian Point 2. Con Edison has contracts covering most of its expected requirements for conversion services for the 2002 refueling. Arrangements are expected to be completed in 1999 for the additional conversion services required for the expected 2002 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, including information on fuel disposal, 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.

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"). 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. CEI's acquisition of O&R (see "Liquidity and Capital Resources - Acquisition") is subject to SEC approval, but CEI does not expect that the acquisition will affect its ability to rely on this exemption. 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 - CEI's Business, Open Access and the Independent System Operator, PSC Settlement Agreement, Electric Capacity Resources, Nuclear Generation, and Gas and Steam Rate Agreements" in Item 7.

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 relationships between Con Edison and CEI and its 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.

UNIFORM BUSINESS PRACTICES. The PSC has adopted, effective June 1999, uniform business practice rules governing the relationship between customers, energy service companies ("ESCOs") and utilities. Under its electric and gas Retail Choice programs, Con Edison has allowed customers of ESCOs to elect to receive one bill from their ESCO for all amounts owed to the ESCO and Con Edison and to pay the entire amount of the bill to the ESCO which would be responsible for remitting to Con Edison its share of the payment. Under Con Edison's current practice, if an ESCO does not remit payment to Con Edison the customer remains liable to pay Con Edison. Under the PSC's new rules, the credit requirements for ESCOs that a utility may impose would be restricted and the utility will be prohibited from recovering from a customer amounts owed the utility when the customer has already paid the amounts to an ESCO and the ESCO has failed to pay the utility. The PSC has indicated that the utility "may notify the Commission if it wishes to recover any lost revenues beyond those covered by the security deposits." Con Edison has petitioned the PSC for a rehearing regarding the uniform business practice rules and indicated that Con Edison intends to eliminate the one-bill payment option if the request for rehearing is not granted. For information about significant changes to Con Edison's operations resulting from Federal and state initiatives promoting the development of competition, see "Electric Operations - Changes" and "Gas Operations - Gas Sales," above.

STATE ENERGY PLAN. In November 1998, the New York State Energy Planning Board released its most recent State Energy Plan. The Plan is designed to provide "strategic direction and policy guidance, and to coordinate the State government's activities and responses to the fundamental changes that will occur over the next several years (e.g., giving consumers greater opportunity to chose energy suppliers and lower costs)." The Plan provides broad energy policy direction instead of specifying government actions to be taken. Under New York State law, any energy-related decisions of State agencies must be reasonably consistent with the Plan.

ENVIRONMENTAL MATTERS AND RELATED LEGAL PROCEEDINGS

GENERAL. Con Edison's capital expenditures for environmental protection facilities and related studies were approximately $36 million in 1998 and are estimated to be approximately $39 million in 1999, including $3 million relating to electric generating facilities which Con Edison has agreed to sell (see "Electric Facilities - Generating Facilities" in Item 2), and $15 million in 2000.

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 that Con Edison and its predecessor companies used to operate. 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 "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. See "Superfund" in Item 3.

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. (See Electric Facilities - Generating Facilities" in Item 2.) 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 were 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]." 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

At December 31, 1998, the Company had 14,322 employees, including 14,214 Con Edison employees and 108 employees of CEI's non-utility subsidiaries. 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.

CON EDISON OPERATING STATISTICS

Year Ended December 31	1998	1997	1996	1995	1994
ELECTRIC Energy (MWhrs)					
Generated (a)	16,594,232	15,877,467	17,823,778	18,436,798	20,419,828
Purchased from Others (a)	26,319,422	27,105,143	26,178,042	26,700,594	21,036,437
Total Generated and Purchased	42,913,654	42,982,610	44,001,820	45,137,392	41,456,265
Less: Supplied without direct charge	68	71	71	71	73
Used by Company	155,172	155,934	164,206	165,934	134,940
Distribution losses and other variances	2,429,301	2,799,039	2,716,235	2,977,547	2,762,315
Net Generated and Purchased	40,329,113	40,027,566	41,121,308	41,993,840	38,558,937
Electric Energy Sold:					
Residential	11,282,669	11,002,745	10,867,085	10,848,648	10,660,148
Commercial and Industrial	24,455,265	25,911,199	25,725,502	25,492,489	25,511,974
Railroads and Railways	87,514	75,392	47,004	47,482	47,289
Public Authorities	548,569	538,643	564,363	569,749	554,753
Total Sales to Con Edison Customers	36,374,017	37,527,979	37,203,954	36,958,368	36,774,164
Off-System Sales (a) (b)	3,955,096	2,499,587	3,917,354	5,035,472	1,784,773
Total Electric Energy Sold	40,329,113	40,027,566	41,121,308	41,993,840	38,558,937
Total Sales to Con Edison Customers	36,374,017	37,527,979	37,203,954	36,958,368	36,774,164
Delivery Service for Retail Choice	2,417,321	--	--	--	--
Delivery Service to NYPA Customers and Others	9,039,674	8,793,378	8,816,873	8,855,790	8,773,155
Service for Municipal Agencies	814,575	845,895	617,293	456,728	413,893
Total Sales in Franchise Area	48,645,587	47,167,252	46,638,120	46,270,886	45,961,212
Average Annual kWhr Use Per Residential Customer (c)	4,303	4,225	4,184	4,188	4,136
Average Revenue Per kWhr Sold (cents):					
Residential (c)	16.2	16.6	16.5	16.1	15.8
Commercial and Industrial (c)	12.7	13.0	12.9	12.5	12.2

(a) For 1997, 1996 and 1995, amounts generated include 973,483, 1,672,603 and 3,159,047 MWhrs, respectively, that Con Edison, for a fee, generated for others using as boiler fuel the gas that they provided. These amounts are 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.

(b) For 1998, include sales by Con Edison to CE Solutions. See "Non-Utility Subsidiaries," above.

(c) Includes Municipal Agency sales.

CON EDISON OPERATING STATISTICS

Year Ended December 31	1998	1997	1996	1995	1994
GAS (Dth)					
Purchased	232,560,023	242,296,610	219,439,813	217,268,986	208,328,267
Storage - net change	(4,404,888)	(1,630,463)	(4,032,224)	9,469,767	(4,410,363)
Used as boiler fuel at Electric and Steam Stations	(109,240,109)	(109,508,555)	(84,849,049)	(110,761,124)	(92,680,221)
Gas Purchased for Resale	118,915,026	131,157,592	130,558,540	115,977,629	111,237,683
Less: Gas used by Company	376,577	239,359	272,040	237,688	221,715
Off-System Sales & NYPA	26,104,143	14,216,403	11,023,023	4,887,971	--
Distribution losses and other variances	(820,174)	104,531	176,930	4,654,832	2,443,486
Total Gas Sold to Con Edison Customers	93,254,480	116,597,299	119,086,547	106,197,138	108,572,482
Gas Sold					
Firm Sales:					
Residential	45,106,269	53,217,428	56,590,018	51,702,329	53,981,416
General	30,685,310	39,468,337	42,190,091	39,021,997	39,365,003
Total Firm Sales	75,791,579	92,685,765	98,780,109	90,724,326	93,346,419
Interruptible Sales	17,462,901	23,911,534	20,306,438	15,472,812	15,226,063
Total Gas Sold to Con Edison Customers	93,254,480	116,597,299	119,086,547	106,197,138	108,572,482
Transportation of Customer-Owned Gas:					
Firm Transportation	8,634,659	808,026	--	--	--
NYPA	4,260,908	17,041,695	4,966,983	24,972,796	14,546,325
Other	14,478,269	7,656,874	5,011,124	5,388,393	3,823,176
Off-System Sales	25,982,200	13,958,984	11,293,425	3,376,375	--
Total Sales and Transportation	146,610,516	156,062,878	140,358,079	139,934,702	126,941,983
Average Revenue Per Dth Sold:					
Residential	$ 11.75	$ 11.22	$ 10.00	$ 9.43	$ 9.85
General	$ 7.95	$ 8.14	$ 7.15	$ 6.38	$ 7.05
STEAM Sold (Mlbs):	24,995,694	27,422,561	29,995,762	29,425,780	30,685,155
Average Revenue per Mlbs Sold	$ 12.83	$ 14.23	$ 13.34	$ 11.35	$ 11.10
CUSTOMERS - Average for Year					
Electric	3,030,746	3,010,139	3,001,870	2,994,447	2,980,026
Gas	1,040,410	1,036,098	1,035,528	1,034,784	1,031,675
Steam	1,898	1,920	1,932	1,945	1,964

ITEM 2. PROPERTIES

At December 31, 1998, the capitalized cost of Con Edison's utility plant, net of accumulated depreciation, (and excluding $98.8 million of nuclear fuel assemblies) was as follows:

Classification	Net Capitalized Cost (millions of dollars)	Percentage of Net Utility Plant
In Service:		
Electric:		
Generation	$ 1,512.4	13%
Transmission	1,114.7	10%
Distribution	5,603.0	50%
Gas	1,411.7	13%
Steam	500.5	4%
Common	813.0	7%
Held For Future Use	5.1	--
Construction Work in Progress	347.3	3%
Net Utility Plant	$11,307.7	100%

ELECTRIC FACILITIES

GENERATING FACILITIES. Con Edison has entered into agreements to sell approximately 5,500 MW of its New York City fossil-fueled electric generating capacity, including its Ravenswood, Astoria and Arthur Kill generating stations and associated gas turbines, and its approximately 800 MW interest in the Bowline Point station (which is jointly-owned with, and operated by, O&R). Following completion of the sales, Con Edison plans to meet its continuing obligation to supply electricity to its customers through purchases of electricity principally in the New York ISO's markets for installed capacity and energy; electricity from Con Edison's remaining generating facilities and contracts with NUGs and others is expected to be made available for sale on the ISO's markets. If the generation sales are completed prior to the start of operation of the ISO, Con Edison anticipates that it would meet its customers' requirements using electricity from its remaining generating facilities and existing capacity and energy contracts , including contracts with the buyers of the capacity being sold. For additional information, see "Liquidity and Capital Resources - PSC Settlement Agreement - Generation Divestiture and Recovery of Prior Investments and Commitments and Electric Capacity Resources" in Item 7.

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']." For additional 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.

Con Edison has a 40 percent interest in the jointly-owned Roseton electric generating station. Central Hudson Gas & Electric Corporation ("Central Hudson"), which operates the Roseton station, has a 35 percent interest and Niagara Mohawk Power Corporation ("Niagara Mohawk") a 25 percent interest. Central Hudson has agreed to divest its generation as part of its settlement agreement in the PSC's Competitive Opportunities proceeding. Con Edison, Central Hudson and Niagara Mohawk have reciprocal rights of first refusal on any sale of the others' interest in the station. In addition, Central Hudson has the option, exercisable in 1999, to acquire Con Edison's interest in 2004.

As shown in the following table, at December 31, 1998, Con Edison's net maximum generating capacity (on a summer rating basis) was 8,278 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, 1998 (Megawatts-Summer Rating)	Percentage of Electric Energy Generated and Purchased in 1998*
Fossil-Fueled:		
Ravenswood (3 Units)	1,742	8.6%
Astoria (3 Units)	1,075	10.0%
Arthur Kill (2 Units)	826	2.9%
East River (2 Units)	300	1.1%
Bowline Point (2 Units) - two-thirds interest	810	4.5%
Roseton (2 Units) - 40% interest	482	3.8%
Other (4 Units)	187	1.2%
Subtotal	5,422	32.1%
Nuclear - Indian Point	931	5.7%
Gas Turbines (39 Units)	1,925	1.0%
Total	8,278	38.8%

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* 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.

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, 1998, Con Edison's transmission system had approximately 432 miles of overhead circuits operating at 138, 230, 345 and 500 kilovolts and approximately 381 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, 1998, 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 1998 one-hour peak load in Con Edison's service area was 10,919 MW, of which 9,575 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, 1998, Con Edison's distribution system had 290 distribution substations, with a transformer capacity of 20,168 megavolt amperes, 32,429 miles of overhead distribution lines and 87,910 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 steam/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 October 1998, the PSC approved a long-range plan for Con Edison's steam system. The plan includes further studies on the future structure of the steam system. Con Edison expects to submit its Phase II Steam System Plan to the PSC in 1999.

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. In 1986, EPA designated Con Edison 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). In 1995, the United States, the State of Kentucky and various de minimis PRPs, large private party PRPs (including Con Edison) and large federal agency PRPs entered into consent decrees with respect to the funding and implementation of the cleanup program required by EPA for the site. Under the consent decrees, the large private party PRPs will be responsible for implementing phase one of the program and any corrective actions required during the first 10 years following completion of phase one. The costs of those activities will be shared with the large federal agency PRPs. Also, if during this ten-year period 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. The State of Kentucky will implement and fund the remainder of the cleanup program. Con Edison's share of the cleanup costs is estimated to be between $500,000 and $600,000.

CURCIO SCRAP METAL SITE. In 1987, EPA designated Con Edison, a Superfund PRP for the Curcio Scrap Metal, Inc. Site in Saddle Brook, New Jersey, because Con Edison had previously sold PCB-contaminated scrap electric transformers to a metal broker who in turn sold them to the owner of the site for salvaging. In 1991, EPA issued a Unilateral Administrative Order that required Con Edison and three other PRPs to commence a soil and sediment cleanup at and around the site. In 1997, EPA issued a Record of Decision, which concluded that the soil and sediment cleanup had successfully remediated the principal threats associated with the site and which required periodic groundwater monitoring for five years. Con Edison has agreed to conduct the required groundwater monitoring, which EPA estimates will cost approximately $200,000. Depending on the results of the monitoring, 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 SITE. In 1987, EPA designated Con Edison a Superfund PRP for the Metal Bank of America Site in Philadelphia. The site, a former metal recycling facility, was placed on EPA's national priority list in 1983. PCBs have been found in the site soil and groundwater and in the sediment from areas of a tidal mudflat and the Delaware River along the site's shoreline. During the 1970s, Con Edison sold approximately 125 transformers to scrap metal dealers who salvaged or may have salvaged the transformers at the site. In 1997, EPA issued a Record of Decision that calls for, among other things, the removal and disposal of contaminated sediments in the areas of the tidal mudflat and the Delaware River along the site's shoreline. In 1998, the EPA ordered the electric utility PRPs to design and implement the cleanup program. The cost of the required cleanup program, estimated at between $24 million and $30 million, will be allocated among the utilities, with Con Edison's share expected to be approximately one percent.

NARROWSBURG SITE. In 1987, the New York State Attorney General notified Con Edison that it is a Superfund PRP for the Cortese Landfill Site in Narrowsburg, New York because during 1974 Con Edison had disposed of waste oil at the landfill. The Cortese Landfill is listed on EPA's Superfund National Priorities List. In 1983, the Attorney General commenced an action under Superfund in the United States District Court for the Southern District of New York against the Cortese Landfill site owner and operator and SCA Services ("SCA"), an alleged transporter of hazardous substances to the site. In 1989, SCA commenced a third-party action for contribution against Con Edison and various other parties whose chemical waste was allegedly disposed of at the site. 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 and will pay 6 percent of the first $25 million of remedial costs for 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 and the court has approved a consent decree under which SCA, Con Edison and various other site PRPs have agreed to implement the cleanup program, pay EPA's oversight costs for the site and pay approximately $220,000 for natural resource damages.

CARLSTADT SITE. In 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 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 is estimated at 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. Plaintiffs have completed an interim remedy, which plaintiffs claim cost $10 million, to control releases from the site while the EPA evaluates and develops a final cleanup remedy.

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 Global Landfill Site in Old Bridge, New Jersey because in 1984 Con Edison shipped approximately 10 cubic yards of asbestos waste to the site. The site 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. The site PRP group, including Con Edison, has entered into a consent decree with the NJDEPE to implement, with partial funding from NJDEPE, a Phase I remedy, estimated to cost $30 million. Con Edison's share of the cost of the Phase I remedy is estimated at $150,000. In 1997, the EPA issued a Record of Decision in which it selected a Phase II cleanup program estimated to cost approximately $2.4 million of which Con Edison's share has not been determined.

CHEMSOL SITE. In 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 from 1960 to 1965. 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.. 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 1987, the DEC classified Con Edison's former Echo Avenue substation site in New Rochelle, New York as an "Inactive Hazardous Waste Disposal Site" because of the presence of PCBs in the soil and in the buildings on the site. Remedial action has been taken under a consent order with the DEC. In 1993, the owners of Echo Bay Marina filed suit in the United States District Court for the Southern District of New York alleging that PCBs were being discharged into the Long Island Sound from the substation site. 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 1994, the court dismissed plaintiffs claims for property damage, including loss of business. Con Edison expects to file a motion for summary judgment on the personal injury claims during the second quarter of 1999. Trial on the claims that remain is set for September 1999.

PCB TREATMENT, INC. SITES. In 1994, EPA designated Con Edison as a Superfund PRP for the PCB Treatment, Inc. (PTI) Sites in Kansas City, Kansas and Kansas City, Missouri, because during the mid-1980's it shipped almost 2.9 million pounds of PCB-containing oil and electric equipment to two buildings which had been used by PTI from 1982 until 1987 for the storage, processing, and treatment of PCB-containing electric equipment, dielectric oils, and materials. According to EPA, the buildings' floor slabs and walls and the soil areas outside the buildings' loading docks are contaminated with PCBs. In 1996, Con Edison joined a PRP steering committee that is conducting studies at the sites under an EPA administrative consent order and is negotiating a cost sharing agreement with the federal agency PRPs that had shipped PCB-containing equipment and oil to the sites. 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 lessees of the site indicate the presence of hazardous substances which are associated with the manufactured gas process. Con Edison has agreed to participate with the lessees in further site studies and in the development and implementation of a cleanup plan that is acceptable to the DEC. The site studies are now being conducted under a voluntary agreement between the lessees and the DEC, with funding by Con Edison.

ASTORIA SITE. Con Edison is required to conduct a site investigation and, where necessary, a remediation program as a condition to renewal by the DEC of Con Edison's permit to store PCBs at Con Edison's Astoria generating station site in Queens, New York. The site investigation was completed in 1998 and reports, indicating PCB-contamination of portions of the site, have been submitted to the DEC and the New York State Department of Health. Depending on the remediation action required, the costs of remediation could be material. Con Edison has entered into an agreement to sell the Astoria generating station in which the buyer has generally agreed to assume all environmental liabilities relating to the assets sold other than for prior offsite disposal of hazardous waste. See "Electric Facilities - Generating Facilities" in Item 2.

HUNTS POINT SITE. In 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 1995, Anchor Motor Freight, Inc. notified Con Edison that it had discovered coal tar on its site in Westchester County. A predecessor of Con Edison had operated a manufactured gas plant at that location prior to the 1940's. Coal tar has been found beneath the areas formerly occupied by the manufactured gas plant, 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 will develop a remedial action program under a voluntary cleanup agreement with the DEC. The cost of the cleanup program being considered for the contaminated section of the Hudson River is estimated at almost $2.4 million. The cost of the cleanup program for the coal tar contamination present on the Anchor and asphalt plant properties could exceed $24 million if the DEC requires Con Edison to excavate all of the coal tar.

BORNE CHEMICAL SITE. In 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 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. Con Edison and four other third-party defendants in the lawsuit have entered into a settlement with the third-party plaintiffs under which Con Edison paid $70,434 and agreed to assume responsibility for approximately 0.67% of the expenses that the third-party plaintiffs incur conducting the site investigation study ordered by the NJDEP and any soil or groundwater cleanup program that the NJDEP may require after the site investigation study is completed.

CAPASSO SITE. In 1997, Con Edison was served with a complaint by DMJ Associates seeking to compel Con Edison and 16 other defendants to clean up contamination at the Capasso property located in Long Island City, New York. The complaint alleges that Con Edison sent waste to the Quanta Resources ("Quanta")facility 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.

ARTHUR KILL TRANSFORMER SITE. The United States Attorney for the Southern District of New York and regulatory agencies are investigating Con Edison's response to a September 1998 transformer fire at Con Edison's Arthur Kill generating station. Following the fire, it was determined that oil containing high levels of PCBs was released to the environment during the incident. Con Edison is cooperating with the investigations and is conducting DEC approved cleanup programs for the station's facilities and various soil and pavement areas of the site affected by the PCB release. Con Edison has been advised that DEC intends to designate the waterfront area of the station as an inactive hazardous waste disposal site. Con Edison has entered into an agreement to sell the Arthur Kill generating station in which the buyer has generally agreed to assume all environmental liabilities relating to the assets sold other than those for prior offsite disposal of hazardous waste and liabilities arising out of the transformer fire. See "Electric Facilities Generating Facilities" in Item 2.

ASBESTOS LITIGATION

Asbestos is present in numerous Con Edison facilities. For a discussion of asbestos and suits against Con Edison involving asbestos, see "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. In 1988, Con Edison was served with a complaint and an amended complaint in an action in the New York State Supreme Court, New York County, in which approximately 188 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 sought $1 million in punitive damages, $1 million in damages for mental distress, unspecified additional compensatory damages, and to enjoin Con Edison from violating EPA regulations and exposing employees to asbestos without first taking certain safety measures. In 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. In 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 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. The United State Court of Appeals for the Second Circuit in July 1998 affirmed the dismissal and in September 1998 denied plaintiffs motion for reargument. In January 1998, these plaintiffs sued Con Edison in New York State Supreme Court, County of Kings, claiming violations of New York State law, fraud, unjust enrichment and negligent misrepresentation. In November 1998, the court dismissed the January 1998 lawsuit and denied plaintiffs' motion to certify the class. The plaintiffs are appealing this decision.

CHALLENGE TO SETTLEMENT AGREEMENT

In February 1998, the Public Utility Law Project of New York, Inc. ("PULP") commenced a lawsuit in the Supreme Court of the State of New York, County of Albany 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. In October 1998, the court granted the PSC's motion to appeal the court's September 1998 denial of the motions to dismiss. Con Edison does not expect the lawsuit to result in a material adverse effect on its financial condition, results of operations 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. Plaintiffs are seeking back-pay, compensatory and punitive damages, injunctive relief (including promotions for those allegedly improperly denied promotions), and reformation of Con Edison's personnel practices.

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.

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

None.

EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth certain information about the executive officers of CEI and Con Edison, as of March 1, 1999. 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	57	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	53	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	57	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 4/97 to 2/98 - Senior Vice President, Chief Financial Officer and Trustee 7/96 to 3/97 - 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	62	7/95 to present - Executive Vice President - Central Services 2/89 to 6/95 - Executive Vice President - Customer Service
Stephen B. Bram	56	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	48	7/98 to present - Senior Vice President - Customer Service 3/98 to 6/98 - Senior Vice President - Corporate Planning 3/93 to 2/98 - Vice President - Corporate Planning

Name	Age	Offices and Positions During Past Five Years
Neil S. Carns	59	6/98 to present - Senior Vice President - Nuclear Operations 2/97 to 1/98 - Chief Nuclear Officer, Northeast Utilities 7/93 - 1/97 - Chairman & CEO - Wolf Creek Nuclear Operating Corp.
Mary Jane McCartney	50	10/93 to present - Senior Vice President - Gas
John D. McMahon	47	8/98 to present - Senior Vice President and General Counsel of CEI and Con Edison 10/97 to 8/98 - Deputy General Counsel, Corporate & Regulatory 2/96 to 10/97 - Associate General Counsel, Utility Affairs 4/89 to 1/96 - Assistant General Counsel
Horace S. Webb	58	2/99 to present - Senior Vice President and Executive Assistant to the Chairman 9/92 to 2/99 - Senior Vice President - Public Affairs
Archie M. Bankston	61	12/97 to present - Secretary of CEI 6/89 to present - Secretary and Associate General Counsel
James P. O'Brien	51	3/99 to present - Vice President and General Auditor 1/98 to 2/99 - General Auditor 3/94 to 12/97 - Vice President - Information Resources 6/89 to 3/94 - Assistant Vice President - Employee Relations
Hyman Schoenblum	50	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
Robert P. Stelben	56	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
A. Alan Blind	45	6/98 to present - Vice President - Nuclear 1/98 to 5/98 - Vice President, Nuclear Engineering - American Electric Power 5/94 to 1/98 - Site Vice President, American Electric Power 9/89 to 5/94 - Plant Manager, American Electric Power

Name	Age	Offices and Positions During Past Five Years
James S. Baumstark	56	7/98 to present - Vice President - Nuclear 1/98 to 7/98 - Engineering Director, Crystal River Nuclear Plant, Florida Power Corp. 6/96 to 12/97 - Quality Programs Director, Crystal River Nuclear Plant, Florida Power Corp. 6/94 to 5/96 - Plant Manager, Sequoyah Nuclear Plant, Tennessee Valley Authority
Marilyn Caselli	44	8/98 to present - Vice President - Customer Operations 10/97 to 7/98 - Vice President - Staten Island Customer Service 5/96 to 9/97 - General Manager - Queens 3/96 to 4/96 - General Manager - Gas Operations 2/93 to 2/96 - General Manager - Brooklyn Administration
V. Richard Conforti	60	8/96 to present - Vice President - Transportation & Stores 7/92 to 7/96 - Assistant Vice President - Gas Operations
Richard P. Cowie	52	3/94 to present - Vice President - Employee Relations
Robert F. Crane	62	1/97 to present - Vice President - Gas Operations 3/94 to 12/96 - Vice President - Fuel Supply
Robert W. Donohue, Jr.	56	1/98 to present - Vice President - Brooklyn & Queens Customer Service 2/94 to 12/97 - Vice President - Queens Customer Service
David F. Gedris	50	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
William A. Harkins	53	2/97 to present - Vice President - Energy Management 2/89 to 2/97 - Vice President - Planning and Inter-Utility Affairs
Paul H. Kinkel	54	9/98 to present - Vice President - Northern Region 1/98 to 9/98 - 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.	55	8/96 to present - Vice President - Environment, Health & Safety 5/95 to 8/96 - Vice President - Environmental Affairs 1/91 to 4/95 - Manager , General Electric Company
Richard J. Morgan	63	12/96 to present - Vice President - Steam Operations 7/92 to 11/96 - Assistant Vice President - Steam Operations

Name	Age	Offices and Positions During Past Five Years
John A. Nutant	63	2/94 to present - Vice President - Manhattan Customer Service 7/92 to 1/94 - Vice President - Queens Customer Service
Stephen E. Quinn	52	1/98 to present - Vice President - Maintenance and Construction 9/94 to 12/97 - Vice President - Nuclear Power
Louis Rana	50	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
Edwin W. Scott	60	6/89 to present - Vice President and Deputy General Counsel
Wanda Skalba	49	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	62	1/98 to present - Vice President - Substation Operations 6/91 to 12/97 - Vice President - Bronx Customer Service
Saddie L. Smith	46	8/98 to present - Vice President - Staten Island Customer Service 7/97 to 7/98 - Director - Facilities and Office Services 7/95 to 7/97 - Director - Equal Employment Opportunity Affairs 12/91 to 7/95- Senior Attorney - Labor Relations
Luther Tai	50	7/98 to present - Vice President - Corporate Planning 7/94 to 6/98 - Director - Corporate Planning 1/91 to 6/94 - Chief Forecast Engineer
Alfred R. Wassler	54	8/96 to present - Vice President - Purchasing 3/94 to 8/96 - Vice President - Purchasing, Transportation and Stores

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, 1999, there were 124,900 holders of record of CEI's Common Shares. For information about CEI's stock repurchase program, see " Liquidity and Capital Resources" in Item 7. The outstanding shares of Con Edison's Common Stock ($2.50 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 ON COMMON STOCK

The following table shows the market price range of, and dividends paid on, CEI's Common Shares in 1998 and on Con Edison's Common Stock in 1997. CEI became the holding company for Con Edison on January 1, 1998.

	1998			1997		
	High	Low	Dividends Paid	High	Low	Dividends Paid
1st Quarter	$47-7/8	$39-1/16	$ .53	$32-1/8	$28-1/2	$ .525
2nd Quarter	47-1/8	41-1/8	.53	30-3/4	27	.525
3rd Quarter	52-1/4	42	.53	34-9/16	29-5/16	.525
4th Quarter	56-1/8	48-1/2	.53	41-1/2	32-1/4	.525

On January 26, 1999, CEI's Board of Directors declared a quarterly dividend of 53.5 cents per Common Share which was paid on March 15, 1999. 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 CEI and Con Edison. CEI became the holding company for Con Edison on January 1, 1998.

			CEI and Con Edison			
Year Ended December 31	CEI 1998	Con Edison 1998	1997	1996	1995	1994
(Millions of Dollars)						
Operating revenues	$ 7,093.0	$ 6,998.7	$ 7,196.2	$ 7,133.1	$ 6,620.0	$ 6,444.5
Purchased power	1,253.8	1,252.0	1,349.6	1,272.9	1,107.2	787.5
Fuel	579.0	579.0	596.8	573.3	504.1	567.8
Gas purchased for resale	437.3	370.1	552.6	590.4	342.0	411.5
Operating income	1,053.3	1,067.1	1,035.3	1,012.5	1,040.6	1,036.0
Net income for common stock	712.7	728.1	694.5	688.2	688.3	698.7
Total assets	14,381.4	14,172.8	14,722.5	14,057.2	13,949.9	13,728.4
Long-term debt	4,050.1	4,050.1	4,188.9	4,238.6	3,917.2	4,030.5
Preferred stock subject to mandatory redemption	37.1	37.1	84.6	84.6	100.0	100.0
Common shareholders' equity	6,025.6	5,842.7	5,930.1	5,727.6	5,522.7	5,313.0
Basic and diluted earnings per common share	$ 3.04	*	$ 2.95	$ 2.93	$ 2.93	$ 2.98
Cash dividends per common share	$ 2.12	*	$ 2.10	$ 2.08	$ 2.04	$ 2.00
Average common shares outstanding (millions)	234.3	*	235.1	235.0	234.9	234.8

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* CEI owns all of Con Edison's shares of outstanding common stock.

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

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 consolidated financial statements of CEI include the accounts of CEI and all of CEI's consolidated subsidiaries, including Con Edison. The consolidated financial statements of Con Edison include the accounts of Con Edison and all of its consolidated subsidiaries.

Liquidity and Capital Resources

Sources of Liquidity

Cash and temporary cash investments were $102.3 million for CEI (including $30.0 million for Con Edison) at December 31, 1998 compared with $183.5 million for CEI (and Con Edison) at December 31, 1997. These balances reflect, among other things, the timing and amounts of external financing.

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, following completion of its acquisition by CEI, Orange and Rockland Utilities, Inc. See "Acquisition," below. CEI 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 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.

Customer accounts receivable, less allowance for uncollectible accounts, decreased at year-end 1998 compared with year-end 1997 primarily because of lower sales revenue as a result of warmer weather in the month of December 1998 as compared with December 1997. At December 31, 1998 and 1997, Con Edison's equivalent number of days of revenue outstanding as customer accounts receivable (ENDRO) was 29.0 and 28.2 days, respectively. The increase in ENDRO reflects primarily different numbers of billing and collection days in each cycle.

CEI's investments - other amounted to $113.4 million and $80.7 million at December 31, 1998 and 1997, respectively, reflecting investments by Con Edison Development. Con Edison's investments - other decreased in 1998, reflecting the corporate restructuring in which CEI became the holding company for Con Edison and its non-utility subsidiaries.

Recoverable fuel costs amounted to $22.0 million and $98.3 million at December 31, 1998 and 1997, respectively. The decrease reflects lower unit costs of purchased electric power and gas purchased for resale in 1998 as compared with 1997.

CEI's net cash flows from operating activities for years 1996 through 1998 were as follows:

(Millions of Dollars)	1998	1997	1996
Net cash flows from operating activities	$1,366	$1,220	$1,085
Less: Dividends on common stock	493	493	489
Net after dividends	$ 873	$ 727	$ 596

Net cash flows in 1998 were higher than in 1997 due principally to higher electric sales revenue from warmer than normal summer weather and an improving New York City economy. Net cash flows in 1997 were higher than in 1996 due principally to reduced operations and maintenance expenses and to the reduction in regulatory accounts receivable.

Financial Ratios CEI's common equity and interest coverage ratios continue to be high compared with the electric utility industry generally, an indication of continued financial strength.

CEI's common equity ratio was 58.4 percent and 56.8 percent at year-end 1998 and 1997, respectively. CEI's interest coverage was 4.29 and 4.09 times for 1998 and 1997, respectively. The increase in interest coverage reflects higher pre-tax income and lower interest charges as a result of debt refundings. See "Refundings" and "Stock Repurchase," below.

Debt Financings Con Edison initiated a $500 million commercial paper program in January 1998. The highest amount outstanding at any one time during 1998 was $269 million. There was no commercial paper outstanding at December 31, 1998. In February 1999 CEI entered into revolving credit agreements with banks, which it intends to use to support a $350 million commercial paper program. CEI's and Con Edison's commercial paper are rated P-1, A-1 and F1 by Moody's Investor Service (Moody's), Standard and Poor's Rating Group (S&P) and Fitch IBCA (Fitch), respectively. See Note C to the financial statements.

Con Edison issued $150 million of five-year floating rate debentures in June 1997, the interest rate on which is reset quarterly. 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 New York State Public Service Commission (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 1998 Con Edison issued $385 million of debentures with interest rates ranging from 6.15 to 7.10 percent to refund debentures and tax-exempt debt with interest rates ranging from 7-1/8 to 8.05 percent. In December 1997 Con Edison issued $330 million of 10-year 6.45 percent debentures to refund in January 1998 tax-exempt debt with interest rates ranging from 7-1/2 to 9-1/4 percent.

In addition, in 1998 Con Edison issued $75 million of 30-year 6.90 percent debentures to redeem three series of preferred stock. In 1997 Con Edison used cash balances to redeem its outstanding convertible preference stock.

Stock Repurchase To realign its capital structure with its evolving business risk (see "CEI's Business," below), in May 1998 CEI commenced a repurchase program for up to $1 billion of its common stock, subject to market conditions. In 1998, as part of this program, Con Edison used internally-generated funds to purchase 2.65 million CEI shares at an average price of $45.50 per share and a total cost of $120.8 million. CEI expects to continue the repurchase program using funds generated internally by Con Edison, net proceeds of generating plant sales and external borrowings. See "PSC Settlement Agreement - Generation Divestiture," below.

In May 1999 options issued under CEI's 1996 Stock Option Plan will first become exercisable. See Note H to the financial statements. Shares of CEI common stock to be issued upon the exercise of options will be purchased on the market or will be newly issued shares, as CEI may determine from time to time.

Acquisition

In May 1998 CEI agreed to acquire Orange and Rockland Utilities, Inc. (O&R) for cash at a price of $58.50 per share of O&R common stock (approximately $790 million in aggregate) pursuant to an Agreement and Plan of Merger among the parties. Following completion of the transaction, O&R will be a wholly-owned subsidiary of CEI. The transaction is subject to certain conditions, including the approvals of the New York, New Jersey and Pennsylvania utility regulators, and the Securities and Exchange Commission, petitions for which have been filed. The transaction has been approved by the Federal Energy Regulatory Commission (FERC) and by O&R's shareholders and is not subject to the approval of CEI's shareholders. CEI plans to fund the acquisition, which is expected to be completed by the second quarter of 1999, with net proceeds of generating plant sales, using short-term financing as necessary until the proceeds are available.

Capital Requirements

The following table presents Con Edison's capital requirements for the years 1996 through 1998 and estimated amounts for 1999 and 2000:

(Millions of Dollars)	2000	1999	1998	1997	1996
Construction expenditures	$599	$611	$619	$654	$675
Nuclear decommissioning trust funds	21	21	21	21	21
Nuclear fuel	33	22	7	15	49
Retirement of long-term debt and preferred stock (a)	275	226	200	106	184
Total	$928	$880	$847	$796	$929

(a) Does not include stock repurchases or debt refundings. See "Refundings" and "Stock Repurchase," above. For details of securities maturing after 2000, see Note B to the financial statements.

CEI expects to invest $210 million in 1999 and $112 million in 2000 in its non-utility subsidiaries, including Con Edison Solutions, Con Edison Development and Con Edison Energy. CEI's investment in these subsidiaries was $130.0 million at December 31, 1998.

CEI's Business

Federal and state initiatives have resulted in a fundamental restructuring of the utility business by promoting the development of competition in the sale of electricity and gas. These initiatives "unbundle," or separate, the integrated supply and delivery services that utilities have traditionally provided, and enable customers to purchase electric and gas supply from others for delivery by the utilities over their electric and gas systems.

In light of these initiatives, CEI intends to concentrate primarily on its core energy distribution business. Con Edison's programs to carry out this strategy include: divestiture of its fossil-fueled electric generation facilities; participation in the formation of an independent system operator (ISO); and establishment of electric and gas Retail Choice programs, which allow customers to select alternative energy suppliers. See "Open Access and the Independent System Operator," "PSC Settlement Agreement" and "Gas and Steam Rate

Agreements," below. The proposed acquisition of O&R, which is also divesting its generation assets, is an important step towards achieving CEI's long-term strategic

objectives. See "Acquisition," above. In addition, CEI's non-utility subsidiaries are participating in new unregulated energy supply and services businesses. These new businesses are subject to competition and different investment risks than those involved in Con Edison's utility business.

Open Access and the Independent System Operator

In 1996 FERC issued its Order 888 requiring electric utilities to make their transmission facilities available to wholesale sellers and buyers of electric energy and allow utilities to recover related legitimate and verifiable stranded costs subject to FERC's jurisdiction.

FERC has conditionally authorized the establishment of an ISO that would control and operate electric transmission facilities in New York as an integrated system and a New York State Reliability Council that would promulgate reliability rules. Con Edison would continue to own, but not control, its transmission facilities and would receive fees for use of the facilities. The New York ISO is expected to commence operations later this year.

PSC Settlement Agreement

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 upon 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). The Settlement Agreement provided for a transition to a competitive electric market, which Con Edison is fostering by establishing its Retail Choice program for electricity and divesting all of its fossil-fueled electric generation facilities. The Settlement Agreement also provides a rate plan for the period ending March 31, 2002 (the Transition) and a reasonable opportunity for recovery of "strandable costs."

Retail Choice In 1998 Con Edison initiated its electric Retail Choice program - an energy and capacity retail access program that permits customers to choose alternative energy suppliers. The delivery of electricity to customers continues to be through Con Edison's transmission and distribution systems. The program began in June 1998 with approximately 68,000 customers and 1,000 megawatts (MW) of customer load, and Con Edison expects to expand it by a like amount in April 1999. 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.

Generation Divestiture The Settlement Agreement provided for the divestiture to third parties of at least 50 percent of Con Edison's New York City fossil-fueled electric generating capacity. It also provided that Con Edison can retain for shareholders the first $50 million of any net after-tax gains from the divestiture. In July 1998 the PSC issued an order amending the Settlement Agreement (the Divestiture Order). The Divestiture Order requires Con Edison to auction all of its New York City fossil-fueled electric generating capacity to unaffiliated third parties. The order permits Con Edison to apply up to $50 million of any net after-tax gains from the divestiture, in excess of the first $50 million of net gains, to reduce the net book value of the Indian Point 2 nuclear generating unit (IP 2). Any net gains or any net losses from divestiture in excess of $100 million will be deferred for disposition by the PSC. Sales of electric generating capacity are subject to PSC approval and contingent on the New York ISO being operational, unless otherwise determined by the PSC.

In January and March 1999 Con Edison entered into agreements to sell 5,479 MW of its electric capacity to unaffiliated third parties for approximately $1.65 billion. In November 1998 Con Edison entered into an agreement to sell its two-thirds interest in the 1,200-MW Bowline Point generating station operated by O&R to an unaffiliated third party for approximately $133 million. The estimated net after-tax gain from these sales is approximately $384 million.

Rate Plan In 1998 Con Edison implemented an annualized rate reduction of $129 million pursuant to the rate plan provisions of the Settlement Agreement. An additional annualized rate reduction of $80 million will take effect in April 1999. Additional rate decreases will be implemented during the Transition. The rate plan reduces by approximately $1 billion the total generation-related revenues that Con Edison would have received over the five-year Transition period had March 31, 1997 rate levels remained in effect. Financing savings from any securitization of strandable costs, in excess of the amount of the savings that may be otherwise allocated by the PSC, 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. Con Edison has deferred approximately $15 million of property tax increases as of December 1998 for recovery pursuant to the Settlement Agreement. The Settlement Agreement includes a penalty mechanism (estimated maximum, $26 million per year) for failure to maintain certain service quality and reliability standards. No such penalty was incurred in 1998.

The Settlement Agreement also provides that for any rate year during the Transition, 50 percent of earnings, exclusive of incentives, 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 deferred and applied for customer benefit. The earnings sharing is to cease beginning in the year in which Con Edison divests at least half of its New York City electric generation facilities or in which 15 percent of the service area peak load [excluding the existing load served by the New York Power Authority (NYPA)] is supplied by entities other than Con Edison. No amounts were deferred for earnings sharing in 1998. The conditions for ending application of the sharing provision are expected to be met in 1999.

Recovery of Prior Investments and Commitments Potential strandable costs for Con Edison include costs associated with its fossil-fueled generating plants, IP 2, decommissioning of IP 2 and the retired IP 1 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. Pursuant to the Settlement Agreement, 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 $100 million or net losses from divestiture of Con Edison's electric generating capacity (see "Generation Divestiture," above), including a reasonable return on investments, through a non-bypassable charge to customers. For any remaining strandable costs related to fossil generation, the recovery period will be 10 years and for strandable costs related to nuclear generation, the recovery period will be the remaining operating license term of IP 2, which extends to 2013. In addition, the Settlement Agreement provides $75 million of additional depreciation for Con Edison's generating units that supply both electricity and steam.

For information about recovery of potential strandable costs relating to Con Edison's NUG contracts, 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 CEI's subsidiaries, or pledging its assets as security for the indebtedness of CEI or any of its affiliates. See 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.

1995 Electric Rate Agreement

In April 1995 the PSC approved a three-year electric rate agreement effective April 1, 1995. However, the Settlement Agreement superseded the provisions of the 1995 electric rate agreement that prescribed overall electric revenue levels for the 12 months ended 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 mechanism designed to encourage the company to maintain its high level of service reliability. Con Edison accrued net benefits for these incentives of $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. Under the PPFAC, Con Edison's earnings, before federal income tax, were increased by $24.9 million in 1996 and $7.1 million in 1998. For 1997, primarily as a result of unscheduled outages at IP 2, Con Edison incurred a net penalty of $1.8 million.

Modified ERAM The 1995 agreement continued, in modified form, the ERAM rate-making concept that was established in the 1992 electric rate agreement. See Note A to the financial statements. Con Edison accrued $10.1 million for 1996 and $18.0 million for 1997 for revenue undercollections under the ERAM provisions.

Electric Capacity Resources

Electric peak load in Con Edison's service area, adjusted for historical design weather conditions, grew by 250 MW (2.2 percent) in 1998, reflecting growth in the local economy. Current forecasts of load growth indicate that additional resources could be required within the service area over the next five years.

In the Divestiture Order, the PSC indicated that it "agree[s] generally that Con Edison need not plan on constructing new generation as the competitive market develops," but considers "overly broad" and did not adopt Con Edison's request for a declaration that, solely with respect to providing generating capacity, it will no longer be required to engage in long-range planning to meet potential demand and, in particular, that it will no longer have the obligation to construct new generating facilities, regardless of the market price of capacity. Con Edison does not anticipate adding long-term generation resources to its electric system but may need to make short-term purchases of capacity.

Nuclear Generation

Indian Point Station Con Edison has operated its approximately 1,000 MW IP 2 nuclear generating unit since it was first placed into service in 1973. At December 31, 1998 IP 2 had a net book value of approximately $459 million. See Note A to the financial statements for a discussion of costs of decommissioning IP 2 and the retired IP 1 unit. IP 2 was out of service for a scheduled refueling and maintenance outage in 1997 and for significant periods during 1997 and 1998 for unscheduled maintenance. Scheduled refueling and maintenance outages are generally required after a cycle of approximately 22 months.

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 IP 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 IP 2. The PSC has, however, instituted a proceeding to further consider the future of nuclear generating facilities in New York State.

Fuel Disposal The United States Department of Energy (DOE) has defaulted on its obligation under a contract with Con Edison pursuant to which DOE, not later than 1998, was to begin to take title to the company's spent nuclear fuel generated at IP 2. Con Edison and a number of other utilities are pursuing their legal remedies against the DOE. 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, the company 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 IP 2.

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. No amounts were deferred for earnings sharing in 1998 and 1997.

Con Edison's Retail Choice program for gas permits all of its customers to choose alternative gas suppliers. The delivery of gas to customers continues to be through Con Edison's distribution system. The program began in 1996. See discussion of transportation of customer-owned gas in Results of Operations, below.

In September 1997 the PSC approved a three-year steam rate agreement that provided 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 October 1998 the PSC approved a long-range plan for Con Edison's steam system.

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, from time to time, Con Edison enters into derivative financial instruments to hedge interest rate risk. There were no derivative financial instruments outstanding at December 31, 1998.

The commodity price risk relates primarily to Con Edison's use of derivative commodity instruments to hedge its gas in storage and anticipated gas purchases. 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 and fuel (to produce electricity and steam) because the related commodity price risks are mitigated by the fuel adjustment provisions of its current rate agreements. At December 31, 1998 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 cost hedging.

Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," is effective for fiscal years beginning after June 15, 1999. The application of this standard is not expected to have a material effect on the financial position or results of operations of CEI or Con Edison or materially change their current disclosure practices.

In December 1998 the Financial Accounting Standards Board (FASB) Emerging Issues Task Force (EITF) reached a consensus on Issue No. 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities." During 1998 neither CEI, Con Edison nor any of their consolidated subsidiaries entered into any transactions that would be subject to EITF Issue No. 98-10.

Year 2000 Readiness Disclosure

The "Year 2000 problem" arose because many existing computer programs use only the last two digits to refer to a year. These computer programs do not properly recognize a year that begins with "20" instead of the familiar "19." If not corrected, many computer applications could fail or create erroneous results. The extent of the potential impact of the Year 2000 problem is not yet known.

In 1995 Con Edison began a program to address its Year 2000 issues. An inventory and assessment of Con Edison's company-developed systems, vendor-developed systems, technology infrastructure and telecommunications infrastructure have been completed. The necessary changes to company-developed systems that are critical to providing energy service to customers and an inventory and assessment of the embedded technology in equipment, machinery and operating systems have been completed. Con Edison plans that any necessary changes to its other systems, infrastructure and embedded technologies will be completed by June 1999. The company intends to continue to test its Year 2000 readiness throughout 1999. Con Edison estimates that the cost of its program to address Year 2000 issues will be approximately $27 million, of which approximately $22.5 million has been incurred. The cost is being funded from internally-generated funds and expensed as incurred.

Con Edison is contacting entities, such as energy, services and material suppliers, that are critical to its ability to provide energy service to its customers, to determine the Year 2000 readiness of these entities. The company has sent inquiries regarding Year 2000 readiness to 4,500 suppliers. No third party has indicated that it has a Year 2000 problem that will have a material adverse effect on Con Edison's business.

Con Edison expects that its program will be adequate to address its Year 2000 issues, but nevertheless is in the process of developing a contingency plan. There can, of course, be no assurance as to whether the contingency plan will successfully address any contingencies that arise. In the event that Con Edison is unsuccessful in addressing its Year 2000 issues, worst case scenarios could have a material adverse effect on CEI's and Con Edison's financial condition, results of operations or liquidity.

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.

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, any failure by Con Edison or others to successfully complete necessary changes to address Year 2000 problems, and other presently unknown or unforeseen factors.

Results of Operations

CEI's basic and diluted earnings per share were $3.04 in 1998, $2.95 in 1997 and $2.93 in 1996. The average numbers of common shares outstanding for 1998, 1997 and 1996 were 234.3 million, 235.1 million and 235.0 million, respectively.

CEI's net income for common stock of $712.7 million in 1998, $694.5 million in 1997 and $688.2 million in 1996 was comprised primarily of Con Edison's net income. CEI's net income also reflects net losses of its non-utility subsidiaries of $18.4 million in 1998, $9.6 million in 1997 and $0.3 million in 1996.

The increase in earnings for the year 1998 was the result of higher electric revenues from warmer than normal summer weather and the improving New York City economy, continued cost reduction programs and voluntary attrition in Con Edison's labor force. These enhancements to earnings were offset, in part, by expenses resulting from the extended maintenance outage at IP 2 that was completed in September 1998 and by the implementation of rate reductions required under the Settlement Agreement. The increase in earnings for the year 1997 was primarily the result of lower operations and maintenance expenses in non-nuclear operations, 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 1998, 1997 and 1996 reflect the provisions of the electric, gas and steam rate agreements discussed in previous sections.

Operating Revenues and Fuel Costs

CEI's operating revenues in 1998 decreased from the prior year by $103.1 million and in 1997 increased from the prior year by $63.1 million. The principal increases and decreases in revenues were:

	Increase (Decrease)	
(Millions of Dollars)	1998 over 1997	1997 over 1996
Electric, gas and steam rate changes	$ (93.2)	$ (24.7)
Fuel rider billings*	(260.6)	145.0
Sales volume changes		
Electric**	258.8	45.0
Gas	(134.6)	(8.1)
Steam	(33.6)	(28.9)
Gas weather normalization	30.5	17.2
Electric:		
Revenue adjustments	43.9	10.5
Off-system sales	20.8	(11.6)
Non-utility	62.1	(98.4)
Other	2.8	17.1
Total	$ (103.1)	$ 63.1

* 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, municipal agencies and Retail Choice customers.

The decrease in fuel billings in 1998 reflects reduced fuel expenses resulting from lower volumes and lower unit costs for purchased electric power (offset in part by increased generation), gas purchased for resale and fuel used to produce steam. The increase in such billings in 1997 reflects increases in the unit costs of purchased power, fuel used to produce electricity and steam, and gas purchased for resale.

Electricity sales volume in Con Edison's service territory increased 3.1 percent in 1998 and 1.1 percent in 1997. Gas sales and transportation volume to firm customers decreased 9.7 percent in 1998 and 6.2 percent in 1997. Under the gas weather normalization provision of the current gas rate agreement, most weather-related variations in firm sales do not affect earnings. Firm transportation and transportation of customer-owned gas (other than for NYPA), which comprised approximately 19.0 percent of the gas sold or transported for customers in 1998, increased significantly in 1998, reflecting increased customer purchases of gas from third party suppliers under Con Edison's Retail Choice program for gas. Steam sales volume decreased 8.8 percent in 1998 and 8.6 percent in 1997. Gas and steam sales volume decreases reflect warmer than normal winter weather in 1997 and 1998.

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 2.5 percent in 1998 and 1.8 percent in 1997. Similarly adjusted, gas sales and transportation volume to firm customers decreased 0.1 percent in 1998 and 0.8 percent in 1997, and steam sales volume decreased 1.7 percent in 1998 and 1.0 percent in 1997. 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 increased 2.2 percent in 1998 and decreased 1.5 percent in 1997. For 1998 the increase reflects expenses for the IP 2 outage that was completed in September 1998, increased reserves for workers' compensation and increased start-up expenses for CEI's non-utility subsidiaries, partially offset by decreased costs for pensions and retiree benefits (see Notes D and E to the financial statements) and a 4.7 percent reduction in the workforce. 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 IP 2 outages.

Taxes, Other Than Federal Income Tax

At $1.2 billion, taxes other than federal income tax remain one of CEI's largest operating expenses.

The principal components of and variations in operating taxes were:

		Increase (Decrease)	
(Millions of Dollars)	1998 Amount	1998 over 1997	1997 over 1996
Property taxes	$ 618.4	$ 27.7	$ 19.1
State and local taxes on revenues	465.8	(9.0)	0.9
Payroll taxes	56.7	(2.6)	(1.5)
Other taxes	67.2	10.9	(3.6)
Total	$ 1,208.1*	$ 27.0	$ 14.9

* Including sales taxes on customers' bills, total taxes, other than federal income taxes, billed to customers in 1998 were $1,502.1 million.

The increases in property taxes in 1998 and in 1997 reflect increases in tax rates.

Other Income

CEI's other income decreased $8.3 million in 1998, due principally to the write-off of a $10 million investment made by one of CEI's non-utility subsidiaries. Other income increased $5.5 million in 1997, reflecting primarily higher investment income.

Net Interest Charges

Net interest charges decreased $7.2 million in 1998, reflecting interest savings from the refunding of long-term debt issues in 1998. Net interest charges increased $9.5 million in 1997, principally as a result of new debt issues.

Federal Income Tax

Federal income tax increased in 1998 and decreased in 1997, reflecting the changes each year in income before tax and in tax credits. See Note I to the financial statements.

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

The following Schedules are each filed as a "Financial Statement Schedule" pursuant to Item 14 of this report:

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, 1998 and 1997 (Unaudited)

The following table shows selected quarterly financial data for CEI and Con Edison. CEI became the holding company for Con Edison on January 1, 1998.

CEI 1998 (Millions of Dollars)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Operating revenues	$ 1,853.1	$ 1,561.0	$ 2,061.6	$ 1,617.3
Operating income	254.6	148.0	438.4	212.3
Net income for common stock	171.9	62.0	347.0	131.8
Earnings per common share	$.73	$.26	$1.49	$.56

Con Edison 1998 (Millions of Dollars)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Operating revenues	$ 1,825.9	$ 1,543.8	$ 2,042.2	$ 1,586.8
Operating income	257.9	152.0	442.1	215.1
Net income for common stock	174.0	63.2	356.3	134.6

CEI and Con Edison 1997 (Millions of Dollars)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Operating revenues	$ 1,915.6	$ 1,508.1	$ 2,027.3	$ 1,745.2
Operating income	246.9	126.3	434.8	227.3
Net income for common stock	162.0	43.0	350.4	139.1
Earnings per common share	$.69	$.18	$1.49	$.59

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 Board of Directors of Consolidated Edison, Inc. and the Stockholders and Board of Trustees of Consolidated Edison Company of New York, Inc.

In our opinion, the accompanying consolidated financial statements listed in the index appearing under Item 8.A on page 37, present fairly, in all material respects, the consolidated financial position of Consolidated Edison, Inc. and its subsidiaries ("CEI") at December 31, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 and the consolidated financial position of Consolidated Edison Company of New York, Inc. and its subsidiaries ("Con Edison") at December 31, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of management of CEI and Con Edison; 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 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.

PricewaterhouseCoopers LLP
New York, NY

February 23, 1999 except as to Note K, which is as of March 2, 1999

Consolidated Balance Sheet Consolidated Edison, Inc.

Assets

At December 31 (Thousands of Dollars)	1998	1997
Utility plant, at original cost (Note A)		
Electric	$12,039,082	$11,743,745
Gas	1,838,550	1,741,562
Steam	604,761	576,206
General	1,204,262	1,203,427
Total	15,686,655	15,264,940
Less: Accumulated depreciation	4,726,211	4,392,377
Net	10,960,444	10,872,563
Construction work in progress	347,262	292,218
Nuclear fuel assemblies and components, less accumulated amortization	98,837	102,321
Net utility plant	11,406,543	11,267,102
Current assets		
Cash and temporary cash investments (Note A)	102,295	183,458
Funds held for refunding of debt	--	328,874
Accounts receivable - customer, less allowance for uncollectible accounts of $24,957 and $21,600 at December 31, 1998 and 1997, respectively	521,648	581,163
Other receivables	49,381	60,759
Fuel, at average cost	33,289	53,697
Gas in storage, at average cost	49,656	37,209
Materials and supplies, at average cost	184,916	191,759
Prepayments	131,374	75,516
Other current assets	20,984	14,775
Total current assets	1,093,543	1,527,210
Investments		
Nuclear decommissioning trust funds	265,063	211,673
Other	113,382	80,724
Total investments (Note A)	378,445	292,397
Deferred charges (Note A)		
Enlightened Energy program costs	68,381	117,807
Unamortized debt expense	135,897	126,085
Recoverable fuel costs (Note A)	22,013	98,301
Power contract termination costs	70,621	80,978
Other deferred charges	254,944	239,559
Total deferred charges	551,856	662,730
Regulatory asset - future federal income taxes (Notes A and I)	951,016	973,079
Total	$14,381,403	$14,722,518

Capitalization and Liabilities At December 31 (Thousands of Dollars)	1998	1997
Capitalization (Note B)		
Common shareholders' equity		
Common stock, $ .10 par value, authorized 500,000,000 shares; 232,833,494 shares and 235,489,650 shares outstanding at December 31, 1998 and 1997, respectively	$ 1,482,341	$ 1,482,351
Retained earnings	4,700,500	4,484,703
Treasury stock, at cost; 1998 - 2,654,600 shares	(120,790)	--
Capital stock expense	(36,446)	(36,975)
Total common shareholders' equity	6,025,605	5,930,079
Preferred stock subject to mandatory redemption	37,050	84,550
Other preferred stock	212,563	233,468
Long-term debt	4,050,108	4,188,906
Total capitalization	10,325,326	10,437,003
Noncurrent liabilities		
Obligations under capital leases	37,295	39,879
Other noncurrent liabilities	203,543	106,137
Total noncurrent liabilities	240,838	146,016
Current liabilities		
Long-term debt due within one year	225,000	529,385
Accounts payable	371,274	440,114
Customer deposits	181,236	161,731
Accrued taxes	15,670	65,736
Accrued interest	76,466	85,613
Accrued wages	83,555	82,556
Other current liabilities	188,186	183,122
Total current liabilities	1,141,387	1,548,257
Deferred credits (Notes A and I)		
Accumulated deferred federal income tax	2,392,812	2,307,835
Accumulated deferred investment tax credits	154,970	163,680
Other deferred credits	126,070	119,727
Total deferred credits	2,673,852	2,591,242
Contingencies (Note F)		
Total	$ 14,381,403	$ 14,722,518

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

Consolidated Income Statement Consolidated Edison, Inc.

Year Ended December 31 (Thousands of Dollars)	1998	1997	1996
Operating revenues (Note A)			
Electric	$ 5,674,446	$ 5,635,575	$ 5,541,117
Gas	959,609	1,093,880	1,015,070
Steam	321,932	391,799	403,549
Non-utility	137,061	74,898	173,353
Total operating revenues	7,093,048	7,196,152	7,133,089
Operating expenses			
Purchased power	1,253,783	1,349,587	1,272,854
Fuel	579,006	596,824	573,275
Gas purchased for resale	437,308	552,597	590,373
Other operations	1,157,958	1,124,703	1,165,531
Maintenance	477,413	474,788	458,815
Depreciation and amortization (Note A)	518,514	503,455	496,505
Taxes, other than federal income tax	1,208,102	1,181,156	1,166,254
Federal income tax (Notes A and I)	407,639	377,722	396,968
Total operating expenses	6,039,723	6,160,832	6,120,575
Operating income	1,053,325	1,035,320	1,012,514
Other income (deductions)			
Investment income (Note A)	11,801	12,214	9,074
Allowance for equity funds used during construction (Note A)	2,431	4,448	3,468
Other income less miscellaneous deductions	(14,212)	(4,100)	(8,227)
Federal income tax (Notes A and I)	2,229	(1,998)	778
Total other income	2,249	10,564	5,093
Income before interest charges	1,055,574	1,045,884	1,017,607
Interest on long-term debt	308,671	318,158	307,820
Other interest	18,400	17,083	17,331
Allowance for borrowed funds used during construction (Note A)	(1,246)	(2,180)	(1,629)
Net interest charges	325,825	333,061	323,522
Preferred stock dividend requirements	(17,007)	(18,344)	(19,859)
Gain on refunding of preferred stock (Note B)	--	--	13,943
Net income for common stock	$ 712,742	$ 694,479	$ 688,169
Basic and diluted earnings per common share	$ 3.04	$ 2.95	$ 2.93
Average number of shares outstanding	234,307,767	235,082,063	234,976,697

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)	1998	1997	1996
Balance, January 1	$4,484,703	$4,283,935	$4,097,035
Add: Preferred stock adjustment	--	--	1,430
Net income for common stock for the year	712,742	694,479	688,169
Total	5,197,445	4,978,414	4,786,634
Less: Gain on refunding of preferred stock	--	--	13,943
Dividends declared on common, $2.12, $2.10 and $2.08 per share	496,945	493,711	488,756
Balance, December 31	$4,700,500	$4,484,703	$4,283,935

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)	1998	1997	1996
Operating activities			
Net income for common stock	$ 712,742	$ 694,479	$ 688,169
Principal non-cash charges (credits) to income			
Depreciation and amortization	518,514	503,455	496,505
Deferred recoverable fuel costs	76,288	3,161	(42,008)
Federal income tax deferred	86,430	22,620	40,600
Common equity component of allowance for funds used during construction	(2,364)	(4,321)	(3,274)
Other non-cash charges	11,297	17,268	9,602
Changes in assets and liabilities			
Accounts receivable - customer, less allowance for uncollectibles	59,515	(37,159)	(46,789)
Materials and supplies, including fuel and gas in storage	14,804	31,824	(26,505)
Prepayments, other receivables and other current assets	(50,689)	16,062	(46,761)
Enlightened Energy program costs	49,426	15,911	10,564
Power contract termination costs	904	11,551	30,827
Accounts payable	(68,840)	8,999	10,263
Other - net	(42,270)	(63,723)	(36,567)
Net cash flows from operating activities	1,365,757	1,220,127	1,084,626
Investing activities including construction			
Construction expenditures	(618,844)	(654,221)	(675,233)
Nuclear fuel expenditures	(7,056)	(14,579)	(48,705)
Contributions to nuclear decommissioning trust	(21,301)	(21,301)	(21,301)
Common equity component of allowance for funds used during construction	2,364	4,321	3,274
Net cash flows from investing activities including construction	(644,837)	(685,780)	(741,965)
Financing activities including dividends			
Repurchase of common stock	(115,247)	--	--
Issuance of long-term debt	460,000	480,000	525,000
Retirement of long-term debt	(200,000)	(106,256)	(183,524)
Advance refunding of preferred stock and long-term debt	(773,645)	--	(412,311)
Issuance and refunding costs	(8,864)	(8,930)	(18,480)
Funds held for refunding of debt	328,874	(328,874)	--
Common stock dividends	(493,201)	(493,711)	(488,756)
Net cash flows from financing activities including dividends	(802,083)	(457,771)	(578,071)
Net increase (decrease) in cash and temporary cash investments	(81,163)	76,576	(235,410)
Cash and temporary cash investments at January 1	183,458	106,882	342,292
Cash and temporary cash investments at December 31	$ 102,295	$ 183,458	$ 106,882
Supplemental disclosure of cash flow information			
Cash paid during the period for:			
Interest	$ 285,956	$ 310,310	$ 309,279
Income taxes	355,707	335,586	349,192

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

Consolidated Balance Sheet Consolidated Edison Company of New York, Inc.

Assets

At December 31 (Thousands of Dollars)	1998	1997
Utility plant, at original cost (Note A)		
Electric	$12,039,082	$11,743,745
Gas	1,838,550	1,741,562
Steam	604,761	576,206
General	1,204,262	1,203,427
Total	15,686,655	15,264,940
Less: Accumulated depreciation	4,726,211	4,392,377
Net	10,960,444	10,872,563
Construction work in progress	347,262	292,218
Nuclear fuel assemblies and components, less accumulated amortization	98,837	102,321
Net utility plant	11,406,543	11,267,102
Current assets		
Cash and temporary cash investments (Note A)	30,026	183,458
Funds held for refunding of debt	--	328,874
Accounts receivable - customer, less allowance for uncollectible accounts of $22,600 in 1998 and $21,600 in 1997	491,493	581,163
Other receivables	45,935	60,759
Fuel, at average cost	33,289	53,697
Gas in storage, at average cost	46,801	37,209
Materials and supplies, at average cost	184,916	191,759
Prepayments	130,198	75,516
Other current assets	20,911	14,775
Total current assets	983,569	1,527,210
Investments		
Nuclear decommissioning trust funds	265,063	211,673
Other	14,750	80,724
Total investments (Note A)	279,813	292,397
Deferred charges (Note A)		
Enlightened Energy program costs	68,381	117,807
Unamortized debt expense	135,897	126,085
Recoverable fuel costs (Note A)	22,013	98,301
Power contract termination costs	70,621	80,978
Other deferred charges	254,944	239,559
Total deferred charges	551,856	662,730
Regulatory asset - future federal income taxes (Notes A and I)	951,016	973,079
Total	$14,172,797	$14,722,518

Capitalization and Liabilities At December 31 (Thousands of Dollars)	1998	1997
Capitalization (see Statement of Capitalization)		
Common shareholders' equity	$ 5,842,724	$ 5,930,079
Preferred stock subject to mandatory redemption (Note B)	37,050	84,550
Other preferred stock (Note B)	212,563	233,468
Long-term debt	4,050,108	4,188,906
Total capitalization	10,142,445	10,437,003
Noncurrent liabilities		
Obligations under capital leases	37,295	39,879
Other noncurrent liabilities	203,543	106,137
Total noncurrent liabilities	240,838	146,016
Current liabilities		
Long-term debt due within one year (Note B)	225,000	529,385
Accounts payable	357,315	440,114
Customer deposits	181,236	161,731
Accrued taxes	17,621	65,736
Accrued interest	76,507	85,613
Accrued wages	83,555	82,556
Other current liabilities	184,989	183,122
Total current liabilities	1,126,223	1,548,257
Deferred credits (Notes A and I)		
Accumulated deferred federal income tax	2,382,273	2,307,835
Accumulated deferred investment tax credits	154,970	163,680
Other deferred credits	126,048	119,727
Total deferred credits	2,663,291	2,591,242
Contingencies (Note F)		
Total	$14,172,797	$14,722,518

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

Consolidated Income Statement Consolidated Edison Company of New York, Inc.

Year Ended December 31 (Thousands of Dollars)	1998	1997	1996
Operating revenues (Note A)			
Electric	$ 5,717,119	$ 5,635,575	$ 5,541,117
Gas	959,609	1,093,880	1,015,070
Steam	321,932	391,799	403,549
Non-utility	--	74,898	173,353
Total operating revenues	6,998,660	7,196,152	7,133,089
Operating expenses			
Purchased power	1,252,035	1,349,587	1,272,854
Fuel	579,006	596,824	573,275
Gas purchased for resale	370,103	552,597	590,373
Other operations	1,117,785	1,124,703	1,165,531
Maintenance	477,413	474,788	458,815
Depreciation and amortization (Note A)	517,826	503,455	496,505
Taxes, other than federal income tax	1,202,610	1,181,156	1,166,254
Federal income tax (Notes A and I)	414,810	377,722	396,968
Total operating expenses	5,931,588	6,160,832	6,120,575
Operating income	1,067,072	1,035,320	1,012,514
Other income (deductions)			
Investment income (Note A)	6,162	12,214	9,074
Allowance for equity funds used during construction (Note A)	2,431	4,448	3,468
Other income less miscellaneous deductions	(5,275)	(4,100)	(8,227)
Federal income tax (Notes A and I)	575	(1,998)	778
Total other income	3,893	10,564	5,093
Income before interest charges	1,070,965	1,045,884	1,017,607
Interest on long-term debt	308,671	318,158	307,820
Other interest	18,400	17,083	17,331
Allowance for borrowed funds used during construction (Note A)	(1,246)	(2,180)	(1,629)
Net interest charges	325,825	333,061	323,522
Net income	745,140	712,823	694,085
Preferred stock dividend requirements	(17,007)	(18,344)	(19,859)
Gain on refunding of preferred stock (Note B)	--	--	13,943
Net income for common stock	$ 728,133	$ 694,479	$ 688,169

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

Consolidated Statement of Retained Earnings Consolidated Edison Company of New York, Inc.

Year Ended December 31 (Thousands of Dollars)	1998	1997	1996
Balance, January 1	$ 4,484,703	$ 4,283,935	$ 4,097,035
Corporate restructuring to establish holding company	(198,362)	--	--
Net income for the year	745,140	712,823	694,085
Total	5,031,481	4,996,758	4,791,120
Dividends declared on capital stock			
Cumulative Preferred, at required annual rates	17,007	18,146	18,145
Cumulative Preference, 6% Convertible Series B	--	198	284
Common	496,945	493,711	488,756
Total dividends declared	513,952	512,055	507,185
Balance, December 31	$ 4,517,529	$ 4,484,703	$ 4,283,935

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

Consolidated Statement of Cash Flows Consolidated Edison Company of New York, Inc.

Year Ended December 31 (Thousands of Dollars)	1998	1997	1996
Operating activities			
Net income	$ 745,140	$ 712,823	$ 694,085
Principal non-cash charges (credits) to income			
Depreciation and amortization	517,826	503,455	496,505
Deferred recoverable fuel costs	76,288	3,161	(42,008)
Federal income tax deferred	86,430	22,620	40,600
Common equity component of allowance for funds used during construction	(2,364)	(4,321)	(3,274)
Other non-cash charges	11,297	17,268	9,602
Changes in assets and liabilities			
Accounts receivable - customer, less allowance for uncollectibles	66,746	(37,159)	(46,789)
Materials and supplies, including fuel and gas in storage	17,659	31,824	(26,505)
Prepayments, other receivables and other current assets	(52,303)	16,062	(46,761)
Enlightened Energy program costs	49,426	15,911	10,564
Power contract termination costs	904	11,551	30,827
Accounts payable	(58,149)	8,999	10,263
Other - net	(22,126)	(63,654)	(19,772)
Net cash flows from operating activities	1,436,774	1,238,540	1,107,337
Investing activities including construction			
Construction expenditures	(618,844)	(654,221)	(675,233)
Nuclear fuel expenditures	(7,056)	(14,579)	(48,705)
Contributions to nuclear decommissioning trust	(21,301)	(21,301)	(21,301)
Common equity component of allowance for funds used during construction	2,364	4,321	3,274
Net cash flows from investing activities including construction	(644,837)	(685,780)	(741,965)
Financing activities including dividends			
Repurchase of common stock	(115,247)	--	--
Issuance of long-term debt	460,000	480,000	525,000
Retirement of long-term debt	(200,000)	(106,256)	(183,524)
Advance refunding of preferred stock and long-term debt	(773,645)	--	(412,311)
Issuance and refunding costs	(8,864)	(8,930)	(18,480)
Funds held for refunding of debt	328,874	(328,874)	--
Common stock dividends	(496,945)	(493,711)	(488,756)
Preferred stock dividends	(18,138)	(18,413)	(22,711)
Corporate restructuring to establish holding company	(121,404)	--	--
Net cash flows from financing activities including dividends	(945,369)	(476,184)	(600,782)
Net increase (decrease) in cash and temporary cash investments	(153,432)	76,576	(235,410)
Cash and temporary cash investments at January 1	183,458	106,882	342,292
Cash and temporary cash investments at December 31	$ 30,026	$ 183,458	$ 106,882
Supplemental disclosure of cash flow information			
Cash paid during the period for:			
Interest	$ 285,956	$ 310,310	$ 309,279
Income taxes	375,125	335,586	349,192

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

Consolidated Statement of Capitalization Consolidated Edison Company of New York, Inc.

At December 31 (Thousands of Dollars)	Shares outstanding December 31, 1998	Shares outstanding December 31, 1997	1998	1997
Common shareholders' equity (Note B)				
Common stock	235,488,094	235,489,650	$ 1,482,341	$ 1,482,351
Retained earnings			4,517,529	4,484,703
Repurchased Consolidated Edison, Inc. common stock			(120,790)	--
Capital stock expense			(36,356)	(36,975)
Total common shareholders' equity			5,842,724	5,930,079
Preferred stock (Note B)				
Subject to mandatory redemption				
Cumulative Preferred, $100 par value,				
7.20% Series I	--	475,000	--	47,500
6-1/8% Series J	370,500	370,500	37,050	37,050
Total subject to mandatory redemption			37,050	84,550
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	--	7,061
5-1/4% Series B	--	138,438	--	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
Total other preferred stock			212,563	233,468
Total preferred stock			$ 249,613	$ 318,018

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

At December 31 (Thousands of Dollars)			1998	1997
Long-term debt (Note B)				
Maturity	Interest Rate	Series		
Debentures:				
1998	6-1/4 %	1993 A	$ --	$ 100,000
1998	5.70	1993 F	--	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	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
2005	6-5/8	1995 A	100,000	100,000
2007	6.45	1997 B	330,000	330,000
2008	6-1/4	1998 A	180,000	--
2008	6.15	1998 C	100,000	--
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
2028	7.10	1998 B	105,000	--
2028	6.90	1998 D	75,000	--
2029	7-1/8	1994 A	150,000	150,000
Total debentures			2,920,000	2,835,000
Tax-exempt debt - notes issued to New York State Energy Research and Development Authority for Facilities Revenue Bonds:				
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
2022	7-1/8	1987 A	--	100,855
2022	9-1/4	1987 B	--	29,385
2022	5-3/8	1993 C	19,760	19,760
2024	7-3/4	1989 A	--	150,000
2024	7-3/8	1989 B	--	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
Total tax-exempt debt			1,104,910	1,635,150
Subordinated deferrable interest debentures:				
2031	7-3/4 %	1996 A	275,000	275,000
Other long-term debt			868	1,722
Unamortized debt discount			(25,670)	(28,581)
Total			4,275,108	4,718,291
Less: Long-term debt due within one year			225,000	529,385
Total long-term debt			4,050,108	4,188,906
Total capitalization			$10,142,445	$10,437,003

* Rate reset quarterly. At December 31, 1998 the rates for Series 1994 B, Series 1996 B and Series 1997 A were 5.5%, 5.32063% and 5.28063%, respectively.

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

Notes To Consolidated Financial Statements

These footnotes accompany and form an integral part of the consolidated financial statements of Consolidated Edison, Inc. (CEI) and its consolidated subsidiaries, including Consolidated Edison Company of New York, Inc. (Con Edison), and the consolidated financial statements of Con Edison and its consolidated subsidiaries.

Operations

On January 1, 1998 Con Edison became a subsidiary of its new parent holding company, 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.

CEI, through its subsidiaries, provides a wide range of energy-related products and services to its customers. 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 people. It also supplies gas in Manhattan, The Bronx and parts of Queens and Westchester, and steam in part of Manhattan.

CEI subsidiaries other than Con Edison include Consolidated Edison Solutions, Inc. (Con Edison Solutions), Consolidated Edison Development, Inc. (Con Edison Development) and Consolidated Edison Energy, Inc. (Con Edison Energy). Con Edison Solutions is an energy service company providing competitive gas and electric supply and energy-related products and services, primarily in the Northeast. Con Edison Development invests in energy infrastructure projects and markets technical services. Con Edison Energy markets specialized energy supply services to wholesale customers in the Northeast and the Mid-Atlantic states.

Acquisition

In May 1998 CEI agreed to acquire Orange and Rockland Utilities, Inc. (O&R) for cash at a price of $58.50 per share of O&R common stock (approximately $790 million in aggregate) pursuant to an Agreement and Plan of Merger among the parties. The transaction is subject to certain conditions, including the approvals of state and Federal regulatory agencies. O&R supplies electric and gas service in Orange and Rockland counties in New York State and in New Jersey and Pennsylvania.

Note A Summary of Significant Accounting Policies

Principles of Consolidation The accompanying consolidated financial statements of CEI include the accounts of CEI and its consolidated subsidiaries, including Con Edison. The accompanying consolidated financial statements of Con Edison include the accounts of Con Edison and its consolidated subsidiaries. Intercompany transactions have been eliminated.

PSC Settlement Agreement In May 1996 the New York State Public Service Commission (PSC), 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. In September 1997 the PSC 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, a reasonable opportunity for recovery of "strandable costs" and the divestiture by Con Edison to unaffiliated third parties of fossil-fueled electric generating capacity located in New York City.

The retail access plan will eventually permit all of Con Edison's electric customers to buy electricity from other suppliers. In June 1998 approximately 68,000 Con Edison customers representing approximately 1,000 megawatts (MW) of aggregate customer load began purchasing electricity from other power providers under the first phase of Con Edison's electric Retail Choice program. The delivery of electricity to customers will continue to be through Con Edison's transmission and distribution systems.

The Settlement Agreement provided for the divestiture to third parties of at least 50 percent of Con Edison's New York City fossil-fueled electric generating capacity. It also provided that Con Edison can retain for shareholders the first $50 million of any net after-tax gains from the divestiture. In July 1998 the PSC issued an order amending the Settlement Agreement (the Divestiture Order). The Divestiture Order requires Con Edison to auction all of its New York City fossil-fueled electric generating capacity to unaffiliated third parties. The order permits Con Edison to apply up to $50 million of any net after-tax gains from the divestiture, in excess of the first $50 million of net gains, to reduce the net book value of the Indian Point 2 nuclear generating unit (IP 2). Any net gains or any net losses from divestiture in excess of $100 million will be deferred for disposition by the PSC. Sales of electric generating capacity are subject to PSC approval and contingent on the New York independent system operator (ISO) being operational, unless otherwise determined by the PSC.

In January 1999 Con Edison entered into agreements to sell 3,624 MW of its electric capacity to unaffiliated third parties for approximately $1.1 billion. In November 1998 Con Edison entered into an agreement to sell its two-thirds interest in the 1,200-MW Bowline Point generating station operated by O&R to an unaffiliated third party for approximately $133 million. The estimated net after-tax gain from these sales is approximately $284 million. See Note K.

Con Edison's potential electric strandable costs are those prior utility investments and commitments that may not be recoverable in a competitive electric supply market, including the unrecovered book cost of Con Edison's electric generating plants, the future cost of decommissioning the IP 2 and the retired IP 1 nuclear generating stations and charges under contracts with non-utility generators (NUGs). Con Edison is recovering potential electric strandable costs in the rates it charges all customers, including those customers purchasing electricity from others. Pursuant to the Settlement Agreement, following March 31, 2002, Con Edison will be given a reasonable opportunity to recover, through a non-bypassable charge to customers, any remaining strandable costs, including a reasonable return on investments. For any remaining fossil-related strandable costs, the recovery period will be 10 years. For remaining nuclear-related strandable costs, the recovery period will extend no longer than the end of IP 2's operating license in 2013. Reconciliation of estimated and actual decommissioning costs may be reflected in rates after 2013. With respect to Con Edison's NUG contracts, see Notes G and K.

Accounting Policies The accounting policies of CEI and Con Edison 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.

The standards in SFAS No. 101, "Regulated Enterprises - Accounting for the Discontinuation of Application of the Financial Accounting Standards Board (FASB) Statement No. 71," apply to the non-nuclear electric supply portion of Con Edison's 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, 1998, including approximately $187 million relating to Con Edison's share of the Bowline Point and Roseton stations. The application of SFAS No. 101 to the Deregulated Business had no material adverse effect on the financial position or results of operations of CEI or Con Edison.

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. No impairment of Con Edison's fossil generating assets has been recognized 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 fossil 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, 1998 regulatory assets net of regulatory liabilities amounted to approximately $1.3 billion, of which approximately $300 million is attributable to the Deregulated Business. There has been no charge against earnings for net regulatory assets of Con Edison 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. No loss has been accrued for Con Edison's NUG contracts 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 1998 and 1997 and 9.0 percent in 1996. 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 using the straight-line method for financial statement purposes with rates based on average lives and net salvage factors, with the exception of IP 2, Con Edison's share of the Roseton generating station,

certain leaseholds and certain general equipment, which are depreciated using a remaining life amortization method. Depreciation rates averaged approximately 3.4 percent in 1998, 1997 and 1996. 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-MW electric generating stations: (1) Bowline Point, operated by O&R, 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, 1998 and 1997 was:

(Thousands of Dollars)	1998	1997
Bowline Point: Plant in service	$207,423	$206,128
Construction work in progress	1,112	1,796
Roseton: Plant in service	146,778	146,066
Construction work in progress	262	652

Con Edison's share of accumulated depreciation for the Roseton station at December 31, 1998 and 1997 was $80.9 million and $75.3 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.

In November 1998 Con Edison and O&R agreed to sell their interests in Bowline Point. See PSC Settlement Agreement in this Note A. Central Hudson has agreed to divest generation as part of its Competitive Opportunities settlement with the PSC.

Nuclear Decommissioning Depreciation charges include a provision for decommissioning both IP 2 and the retired IP 1 nuclear unit. Decommissioning costs are being accrued ratably over the IP 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.

Accumulated decommissioning provisions at December 31, 1998 and 1997, which include earnings on funds externally invested, were as follows:

	Amounts Included in Accumulated Depreciation	
(Millions of Dollars)	1998	1997
Nuclear	$ 265.1	$ 211.7
Non-nuclear	56.7	58.2
Total	$ 321.8	$ 269.9

Con Edison maintains external trust funds, which at December 31, 1998 amounted to approximately $265 million (see Investments in this Note A), for the costs of decommissioning IP 2 and the retired IP 1 nuclear unit. The Settlement Agreement continued in rates annual expense allowances of $21.3 million (which is deposited in the trust fund) and $1.8 million, respectively, to fund the estimated costs of decommissioning the nuclear and non-nuclear portions of the units. These allowances were established pursuant to a 1995 electric rate settlement agreement based upon a 1994 site-specific study. The study estimated the decommissioning costs to be approximately $657 million (assuming 2016 as the midpoint for decommissioning expenditures), including $252 million for extended storage of spent nuclear fuel. The minimum decommissioning fund estimate calculated in accordance with Nuclear Regulatory Commission (NRC) regulations was $862 million as of December 31, 1998. The Settlement Agreement provides for recovery of the decommissioning costs for IP 2 and IP 1. See PSC Settlement Agreement in this Note A. The PSC has initiated a proceeding to consider the future of nuclear generating units in New York State.

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 expected present value, with a corresponding asset in utility plant, rather than as a component of depreciation. The FASB expects to issue a new exposure draft in the second quarter of 1999.

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 $3.4 million in 1998. 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 Con Edison's revenues for electric, gas and steam service are recognized on a monthly billing cycle basis. Pursuant to a 1995 electric rate agreement, Con Edison's 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 service quality and reliability standards. No such penalty was incurred in 1998.

A 1994 gas rate agreement provided for Con Edison's 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.

Recoverable Fuel Costs Con Edison's 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.

Under a partial pass-through electric fuel adjustment clause (PPFAC), Con Edison retains for stockholders 30 percent of any savings in actual costs for electric fuel and purchased power costs below monthly target amounts, 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 IP 2.

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 $68.4 million at December 31, 1998 and $117.8 million at December 31, 1997. The recovery of the deferred Enlightened Energy program costs is reflected in rates.

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 1998 and 1997, investments consisted primarily of the nuclear decommissioning trust fund and investments of Con Edison Solutions and Con Edison Development. The nuclear decommissioning trust fund is stated at market; investments of Con Edison Solutions and Con Edison Development are recorded using the equity method. 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 utilizes derivative commodity instruments under its gas hedging program in order to protect its gas inventory and anticipated gas purchases against adverse market price fluctuations. Con Edison defers the related hedging gains and losses until the underlying gas commodity is withdrawn from storage or purchased from a supplier and then adjusts the cost of its gas 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, 1998 deferred gains or losses were not material.

Neither CEI, Con Edison nor any of their respective consolidated subsidiaries 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.

New Financial Accounting Standards SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," is effective for fiscal years beginning after June 15, 1999. The application of this standard will not have a material effect on the financial position or results of operations of CEI or Con Edison or materially change their current disclosure practices.

In December 1998 the FASB Emerging Issues Task Force (EITF) reached a consensus on Issue No. 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities." During 1998 neither CEI, Con Edison nor any of their consolidated subsidiaries entered into any transactions that would be subject to EITF Issue No. 98-10.

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.

CEI and its subsidiaries 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 1998, 1997 and 1996, amounting to $20.3 million, $25.9 million and $32.3 million, respectively, were charged to operating expenses. No research and development costs were capitalized in these years.

Reclassification Certain prior year amounts have been reclassified to conform with current year presentation. In particular, prior year amounts for CEI have been reclassified to reflect results of operations of its non-utility subsidiaries.

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

Note B Capitalization

Capitalization of CEI CEI's outstanding capitalization, on a consolidated basis, consists of its common shareholders' equity and the outstanding preferred stock and long-term debt of Con Edison. See the accompanying Statement of Capitalization of Con Edison. CEI's authorized capitalization also includes six million authorized, but unissued Preferred Shares, $1.00 par value.

Preferred Stock Not Subject To Mandatory Redemption Con Edison has the option to redeem its $5 cumulative preferred stock at $105.00 and its cumulative preferred stock, Series C and Series D, at a price of $101.00 per share (in each case, plus accrued and unpaid dividends).

Preferred Stock Subject To Mandatory Redemption Con Edison is required to redeem its cumulative preferred stock, Series J shares on August 1, 2002. The redemption price is $100 per share (plus accrued and unpaid dividends). Series J shares may not be called for redemption while dividends are in arrears on outstanding shares of $5 cumulative preferred stock or other cumulative preferred stock.

Preferred Stock Refunding In March 1996 Con Edison canceled approximately $227 million of its preferred stock purchased at a price below the stock's $100 par value 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. In December 1997 Con Edison redeemed its Series B convertible preference stock. During 1997 and 1996, 38,158 shares and 2,869 shares of Series B preference stock were converted into 496,054 shares and 37,297 shares of common stock. In November 1998 Con Edison redeemed three series of its outstanding cumulative preferred stock: 5-3/4% Series A, 5-1/4% Series B and 7.20% Series I.

Common Stock In May 1998 CEI commenced a repurchase program for up to $1 billion of its common stock. Through December 31, 1998, a total of 2.65 million CEI shares were repurchased by Con Edison at a total cost of $120.8 million.

Dividends Beginning in 1998, dividends on CEI's common shares depend primarily on the dividends and other distributions that Con Edison and CEI's other subsidiaries pay to CEI and the capital requirements of CEI and its subsidiaries. The 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's 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 other 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 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 Long-term debt maturing in the period 1999-2003 is as follows:

(Millions of Dollars)	
1999	$ 225
2000	275
2001	300
2002	300
2003	150

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Con Edison's long-term debt is stated at cost which, as of December 31, 1998, approximates fair value. The fair value of Con Edison'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 a $500 million commercial paper program, supported by revolving credit agreements with banks. At December 31, 1998 Con Edison had no short-term debt outstanding. In February 1999 CEI entered into revolving credit agreements with banks, which it intends to use to support a $350 million commercial paper program. 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 the ratio (calculated in accordance with the agreements) of debt to total capital not at any time exceed 0.65 to 1. At December 31, 1998 this ratio was 0.41 to 1 for both CEI and Con Edison. Borrowings under the CEI and Con Edison commercial paper programs or the revolving credit agreements are expected to be at prevailing market rates.

Note D Pension Benefits

Con Edison has non-contributory 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).

Con Edison recognizes investment gains and losses over five years and amortizes unrecognized actuarial gains and losses over 10 years.

The components of CEI's net periodic pension cost for 1998, 1997 and 1996 were as follows:

(Millions of Dollars)	1998	1997	1996
Service cost - including administrative expenses*	$ 104.7	$ 111.4	$ 120.2
Interest cost on projected benefit obligation	346.8	334.3	320.1
Expected return on plan assets	(445.1)	(407.3)	(376.0)
Amortization of net actuarial loss (gain)	(71.7)	(42.0)	(4.8)
Amortization of prior service cost	10.3	10.2	8.5
Amortization of transition obligation	3.0	3.0	3.0
Net periodic pension cost	(52.0)	9.6	71.0
Amortization of regulatory asset**	2.2	2.2	2.2
Total pension cost	$ (49.8)	$ 11.8	$ 73.2
Cost capitalized	(9.2)	2.5	15.4
Cost charged to operating expenses	(40.6)	9.3	57.8

* Effective January 1, 1998, an assumption for administrative expenses is included as a component of service cost.

** Relates to $33.3 million increase in pension obligations from a 1993 special retirement program.

Con Edison's net periodic pension costs for 1998 were not materially different from, and for 1997 and 1996 were the same as, CEI's costs.

The funded status of the plans at December 31, 1998, 1997 and 1996 was as follows:

(Millions of Dollars)	1998	1997	1996
Change in benefit obligation			
Benefit obligation at beginning of year	$ 4,940.6	$ 4,703.0	$ 4,657.4
Service cost - excluding administrative expenses	103.4	111.4	120.2
Interest cost on projected benefit obligation	346.8	334.3	320.1
Plan amendments	2.1	0.5	23.2
Actuarial loss (gain)	192.6	(24.2)	(250.7)
Benefits paid	(201.4)	(184.4)	(167.2)
Benefit obligation at end of year	$ 5,384.1	$ 4,940.6	$ 4,703.0
Change in plan assets			
Fair value of plan assets at beginning of year	$ 5,988.7	$ 5,269.3	$ 4,775.8
Actual return on plan assets	903.3	886.9	603.6
Employer contributions	1.4	25.2	67.1
Benefits paid	(201.4)	(184.4)	(167.2)
Administrative expenses	(12.8)	(8.3)	(10.0)
Fair value of plan assets at end of year	$ 6,679.2	$ 5,988.7	$ 5,269.3
Funded status	$ 1,295.1	$ 1,048.1	$ 566.3
Unrecognized net loss (gain)	(1,339.8)	(1,157.4)	(703.8)
Unrecognized prior			

service costs	82.2	90.4	100.1
Unrecognized net transition liability at January 1, 1987*	8.3	11.3	14.3
Prepaid (accrued) benefit cost	$ 45.8	$ (7.6)	$ (23.1)

* Being amortized over approximately 15 years.

The funded status and prepaid (accrued) benefit costs shown above are with regard to CEI. The amounts with regard to Con Edison at the end of year 1998 were not materially different from, and at the end of years 1997 and 1996 were the same as, those shown for CEI.

The actuarial assumptions at December 31, 1998, 1997 and 1996 were as follows:

	1998	1997	1996
Discount rate	6.75%	7.25%	7.25%
Expected return on plan assets	8.50%	8.50%	8.50%
Rate of compensation increase	4.80%	5.80%	5.80%

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 has a contributory life insurance program for bargaining unit employees. Con Edison provides basic life insurance benefits up to a specified maximum at no cost to retired management employees. Retired management employees must contribute to the cost of supplemental life insurance benefits in excess of the specified maximum. Certain employees of other CEI subsidiaries are eligible to receive benefits under these programs. Con Edison has reserved the right to amend or terminate these programs.

Con Edison recognizes investment gains and losses over five years and amortizes unrecognized actuarial gains and losses over 10 years.

The components of CEI's postretirement benefit (health and life insurance) costs for 1998, 1997 and 1996 were as follows:

(Millions of Dollars)	1998	1997	1996
Service cost	$ 14.9	$ 15.7	$ 17.4
Interest cost on accumulated postretirement benefit obligation	70.8	71.0	68.9
Expected return on plan assets	(38.2)	(36.5)	(27.8)
Amortization of net actuarial loss	20.9	21.4	27.6
Amortization of transition obligation	21.5	25.9	25.9
Net periodic postretirement benefit cost	$ 89.9	$ 97.5	$ 112.0
Cost capitalized	16.7	20.0	23.5
Cost charged to operating expenses	73.2	77.5	88.5

Con Edison's postretirement benefit costs for 1998 were not materially different from, and for 1997 and 1996 were the same as, CEI's costs.

The program's funded status at December 31, 1998, 1997 and 1996 was as follows:

(Millions of Dollars)	1998	1997	1996
Change in benefit obligation			
Benefit obligation at beginning of year	$ 964.1	$ 999.1	$ 1,004.0
Service cost	14.9	15.7	17.4
Interest cost on accumulated postretirement benefit obligation	70.8	71.0	68.9
Plan amendments	(44.8)	(66.5)	--
Actuarial loss (gain)	133.7	(13.4)	(49.8)
Benefits paid and administrative expenses	(51.7)	(50.2)	(49.5)
Participant contributions	10.0	8.4	8.1
Benefit obligation at end of year	$ 1,097.0	$ 964.1	$ 999.1
Change in plan assets			
Fair value of plan assets at beginning of year	$ 574.1	$ 444.2	$ 322.2
Actual return on plan assets	119.3	100.4	51.4
Employer contributions	14.1	71.3	112.0
Participant contributions	10.0	8.4	8.1
Benefits paid	(47.7)	(46.7)	(46.1)
Administrative expenses	(4.0)	(3.5)	(3.4)
Fair value of plan assets at end of year	$ 665.8	$ 574.1	$ 444.2
Funded status	$ (431.2)	$ (390.0)	$ (554.9)
Unrecognized net loss	73.0	41.3	139.9
Unrecognized prior service costs	12.6	--	--
Unrecognized net transition liability at January 1, 1993*	243.6	322.6	415.0
Accrued postretirement benefit cost	$ (102.0)	$ (26.1)	$ --

* Being amortized over a period of 20 years.

The funded status and accrued postretirement benefit costs shown above are with

regard to CEI. The amounts with regard to Con Edison at the end of year 1998 were not materially different from, and at the end of years 1997 and 1996 were the same as, those shown for CEI.

The actuarial assumptions at December 31, 1998, 1997 and 1996 were as follows:

	1998	1997	1996
Discount rate	6.75%	7.25%	7.25%
Expected return on plan assets			
Tax-exempt assets	8.50%	8.50%	8.50%
Taxable assets	7.50%	8.50%	8.50%

The health care cost trend rate assumed for 1998 was 8.0 percent; for 1999, 7.5 percent; and then declining one-half percent per year to 5 percent for 2004 and thereafter. A one-percentage point change in the assumed health care cost trend rates would have the following effects:

(Millions of Dollars)	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on accumulated postretirement benefit obligation	$136.5	$119.4
Effect on service cost and interest cost components	$ 11.8	$ 10.1

Note F Contingencies

Indian Point Nuclear generating units similar in design to Con Edison's IP 2 unit have experienced problems that have required steam generator replacement. Inspections of the IP 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 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 2002. Con Edison has replacement steam generators, which are stored at the site. Replacement of the steam generators would require estimated additional expenditures of up to $100 million (exclusive of replacement power costs) and an outage of approximately three 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.

The Settlement Agreement (described in Note A) does not contemplate the divestiture or transfer of IP 2. The PSC has, however, initiated a proceeding to consider the future of nuclear generating facilities in New York State.

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, 1998, the highest amount that could be assessed for losses during the current policy year under all of the policies was $18.9 million. While assessments may also be made for losses in certain prior years, neither CEI nor Con Edison is aware of any losses in such years that are believed 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 $88.1 million per incident, of which not more than $10 million may be assessed in any one year.

Environmental Matters The normal course of operations of certain of CEI's subsidiaries, including Con Edison, necessarily involves activities and substances that expose the subsidiaries to potential liabilities under laws and regulations protecting the environment. Liabilities under these laws and regulations 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 potential environmental liabilities include (but are not limited to) the Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 (Superfund) and similar state statutes, 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 Con Edison's liability for these sites range from extremely preliminary to highly refined. At December 31, 1998, a liability of approximately $23.2 million had been accrued. There will be additional costs, the materiality of which is not presently determinable.

Asbestos Claims Suits have been brought in New York State and federal courts against Con Edison and many other defendants, wherein a large number of plaintiffs sought large amounts of compensatory and punitive damages for deaths and injuries allegedly caused by exposure to asbestos at various premises of 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 CEI and Con Edison believe that these amounts are greatly exaggerated, as were the claims already disposed of. Based on the information and relevant circumstances known to CEI and Con Edison at this time, nether CEI nor Con Edison believes that these suits will have a material adverse effect on their respective financial position, results of operations or liquidity.

EMF Electric and magnetic fields are found wherever electricity is used. In the event 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 CEI and Con Edison.

Note G Non-Utility Generators (NUGs)

Con Edison has contracts with NUGs for 2,071 MW of electric generating capacity. 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 1999-2003, capacity and other fixed payments are estimated to be $508 million, $477 million, $485 million, $494 million and $503 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.

Con Edison is recovering its charges under contracts with NUGs in rates under the Settlement Agreement (see "PSC Settlement Agreement" in Note A). The Settlement Agreement provides that, following March 31, 2002, Con Edison will be given a reasonable opportunity to recover, through a non-bypassable charge to customers, at least 90 percent of the amount, if any, by which the actual costs of its purchases under the contracts exceed market value.

Any potential NUG contract disallowance 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 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 has achieved NUG contract mitigation of $115 million (as discussed in the next paragraph) and has entered into agreements to sell generating units for approximately $1.235 billion which, subject to completion of the sales, would offset the disallowance by approximately $123.5 million (see "PSC Settlement Agreement" in Note A). Ten percent of the gross proceeds of sales of Con Edison's remaining fossil-fueled electric generating capacity will also offset the disallowance. See Note K. 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).

In October 1998 the PSC allowed Con Edison to offset the potential disallowance by approximately $115 million (in 2002 dollars), as a result of termination of NUG contracts for 42.5 MW of capacity. This offset will be reduced to the extent Con Edison retains revenues relating to capacity costs avoided as a result of the terminations and for any replacement capacity costs that Con Edison recovers in rates.

Note H Stock-Based Compensation

Stock Option Plan Under CEI's Stock Option Plan, options may be granted to officers and key employees of CEI and its subsidiaries for up to 10 million shares of CEI's common stock. Generally, options become exercisable three years after the grant date and remain exercisable until 10 years from the grant date. No options were exercisable at December 31, 1998.

As permitted by SFAS No. 123, "Accounting for Stock-Based Compensation," CEI and Con Edison follow Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees," and related interpretations in accounting for employee stock options. Under APB 25, because the exercise price of stock options awarded under CEI's Stock Option Plan 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. The information presented below is in regard to the income and earnings per share of CEI. The information for Con Edison would not be materially different. The information has been determined as if the stock options had been accounted for under the fair value method of that statement. The fair values of 1998, 1997 and 1996 options are $4.76, $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:

	1998	1997	1996
Risk-free interest rate	5.61%	6.46%	6.74%
Expected lives - in years	8	8	8
Expected stock volatility	12.68%	14.08%	16.28%
Dividend yield	4.98%	6.67%	7.46%

Had the stock options been accounted for under SFAS No. 123, basic and diluted earnings per share for 1998 for CEI would be $3.03 per share, or $.01 per share less than the amount reported, and pro-forma net income for common stock for CEI would be $711,097,000, or $1,645,000 less than the amount reported for 1998. For years 1997 and 1996, basic and diluted earnings per share would be unaffected, and pro-forma net income for common stock would be $693,680,000 ($799,000 less than the amount reported) for 1997 and $687,938,000 ($231,000 less than the amount reported) for 1996.

A summary of the status of CEI's Stock Option Plan as of December 31, 1998, 1997 and 1996 and changes during those years is as follows:

	Shares	Weighted Average Price
Outstanding at 1/1/96	0	$ 0
Granted	704,200	27.875
Exercised	0	0
Forfeited	(7,000)	27.875
Outstanding at 12/31/96	697,200	27.875
Granted	834,600	31.500
Exercised	0	0
Forfeited	(14,100)	29.620
Outstanding at 12/31/97	1,517,700	29.850
Granted	901,650	42.605
Exercised	0	0
Forfeited	(20,600)	37.055
Outstanding at 12/31/98	2,398,750	$ 34.584

The following summarizes the stock options outstanding at December 31, 1998, 1997 and 1996:

Plan Year	Weighted Average Exercise Price	Shares Outstanding at 12/31/98	Remaining Contractual Life
1998	$42.605	890,650	9 years
1997	$31.500	820,200	8 years
1996	$27.875	687,900	7 years

Note I Federal Income Tax

The federal income tax amounts shown in this Note I are with regard to CEI. The amounts for Con Edison are not materially different.

The net revenue requirements for the future federal income tax component of accumulated deferred federal income taxes (see Note A) at December 31, 1998 and 1997 are shown on the following table:

(Millions of Dollars)	1998	1997
Future federal income tax liability		
Temporary differences between the book and tax bases of assets and liabilities:		
Property related	$ 6,132.7	$ 5,791.0
Reserve for injuries and damages	(81.4)	(57.4)
Other	(165.7)	(112.9)
Total	5,885.6	5,620.7
Future federal income tax computed at statutory rate - 35%	2,060.0	1,967.2
Less: Accumulated deferred federal income taxes previously recovered	1,441.8	1,334.7
Net future federal income tax expense to be recovered	618.2	632.5
Net revenue requirements for above (Regulatory asset - future federal income taxes)*	951.0	973.1
Add: Accumulated deferred federal income taxes previously recovered		
Depreciation	1,307.6	1,188.7
Unbilled revenues	(87.2)	(98.3)
Advance refunding of long-term debt	35.5	30.1
Other	185.9	214.2
Subtotal	1,441.8	1,334.7
Total accumulated deferred federal income tax	$ 2,392.8	$ 2,307.8

* 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, 1998 and 1997 are $796.0 million and $809.4 million, respectively.

Note I Federal Income Tax, continued

Year Ended December 31 (Thousands of Dollars)	1998	1997	1996
Charged to: Operations	$ 407,639	$ 377,722	$ 396,968
Other income	(2,229)	1,998	(778)
Total federal income tax	405,410	379,720	396,190
Reconciliation of reported net income with taxable income			
Federal income tax - current	318,980	357,100	355,590
Federal income tax - deferred	95,140	31,450	49,510
Investment tax credits deferred	(8,710)	(8,830)	(8,910)
Total federal income tax	405,410	379,720	396,190
Net income	729,749	712,823	694,085
Income before federal income tax	1,135,159	1,092,543	1,090,275
Effective federal income tax rate	35.7%	34.8%	36.3%
Adjustments decreasing (increasing) taxable income			
Tax depreciation in excess of book depreciation:			
Amounts subject to normalization	345,337	215,370	201,760
Other	(50,128)	(64,502)	(99,576)
Deferred recoverable fuel costs	(76,288)	(3,161)	42,008
Enlightened Energy program costs	(44,126)	(21,211)	(10,564)
Pensions and other postretirement benefits	40,648	(6,820)	(34,136)
Power contract termination costs	(4,633)	(40,657)	(38,759)
Other - net	16,656	(20,088)	3,688
Total	227,466	58,931	64,421
Taxable income	907,693	1,033,612	1,025,854
Federal income tax - current			
Amount computed at statutory rate - 35%	317,693	361,764	359,049
Tax credits and other adjustments	1,287	(4,664)	(3,459)
Total	318,980	357,100	355,590
Charged to: Operations	322,259	354,112	356,808
Other income	(3,279)	2,988	(1,218)
Total	318,980	357,100	355,590
Federal income tax - deferred			
Charged to: Operations	94,090	32,440	49,070
Other income	1,050	(990)	440
Total	$ 95,140	$ 31,450	$ 49,510

Note J Financial Information By Business Segments (a)

(Thousands of Dollars)	Electric 1998	Electric 1997	Electric 1996	Steam 1998	Steam 1997	Steam 1996
Sales revenues	$ 5,674,446	$ 5,635,575	$ 5,541,117	$ 321,932	$ 391,799	$ 403,549
Intersegment revenues	53,464	11,341	11,130	1,655	1,619	1,491
Depreciation and amortization	439,869	429,407	425,397	17,361	16,239	15,900
Income tax expense	351,088	311,878	330,103	5,057	8,442	14,131
Operating income	905,976	855,061	838,194	19,416	36,080	40,125
Total assets	10,919,857	10,972,735	10,918,398	575,018	557,607	501,314
Construction expenditures	465,258	504,644	515,006	30,512	29,905	38,290

(Thousands of Dollars)	Gas 1998	Gas 1997	Gas 1996	Other 1998	Other 1997	Other 1996
Sales revenues	$ 959,609	$ 1,093,880	$ 1,015,070	$ 137,061	$ 74,898	$ 173,353
Intersegment revenues	2,460	2,177	2,054	290	--	--
Depreciation and amortization	60,596	57,133	55,115	688	676	93
Income tax expense	58,665	62,590	52,926	(7,171)	(5,188)	(192)
Operating income	141,680	154,247	135,272	(13,747)	(10,068)	(1,077)
Total assets	1,795,567	1,730,048	1,701,042	1,090,961	1,462,128	936,431
Construction expenditures	123,074	119,672	121,937	--	--	--

	Total 1998	Total 1997	Total 1996
Sales revenues	$ 7,093,048	$ 7,196,152	$ 7,133,089
Intersegment revenues	57,869	15,137	14,675
Depreciation and amortization	518,514	503,455	496,505
Income tax expense	407,639	377,722	396,968
Operating income	1,053,325	1,035,320	1,012,514
Total assets	14,381,403	14,722,518	14,057,185
Construction expenditures	618,844	654,221	675,233

(a) See Note A for a description of CEI's operations, including Con Edison's electric, gas and steam utility businesses.

Note K March 1999 Generation Divestiture

On March 2, 1999, Con Edison entered into an agreement to sell 1,855 MW of fossil-fueled electric generating capacity for $550 million. With this sale, Con Edison has sold an aggregate of approximately 6,300 MW of its approximately 8,300 MW of electric generating capacity (including all of its New York City fossil-fueled electric generating capacity) for an aggregate of approximately $1.8 billion. See discussion of previous sales under "PSC Settlement Agreement" in Note A. Upon completion of the sales, which will result in an estimated net after-tax gain of approximately $384 million, Con Edison will have offset approximately $295 million of the potential $300 million disallowance of NUG costs (including an approximately $115 million offset for NUG contract mitigation). See Note G.

SCHEDULE 1

CONDENSED FINANCIAL INFORMATION OF CONSOLIDATED EDISON, INC.
(Thousands of Dollars, except per share amounts)

CONDENSED BALANCE SHEET
At December 31, 1998

Assets	
Current assets	
Cash and temporary cash investments	$ 47,126
Other current assets	10,911
Total current assets	58,037
Investments in subsidiaries	6,084,214
Total Assets	$6,142,251
Capitalization and Liabilities	
Stockholders' Equity	
Common stock	$1,436,696
Retained earnings	4,700,357
Total stockholders' equity	6,137,053
Current Liabilities	
Dividends payable	3,744
Other current liabilities	1,432
Total current liabilities	5,176
Noncurrent Liabilities	22
Total Liabilities	5,198
Total Capitalization and Liabilities	$6,142,251

SCHEDULE I
(Continued)

CONDENSED FINANCIAL INFORMATION OF CONSOLIDATED EDISON, INC.
(Thousands of Dollars, except per share amounts)

CONDENSED INCOME STATEMENT
For the year ended December 31, 1998

Equity in earnings of subsidiaries	$ 709,700
Operating expenses	(140)
Other income, net of taxes	3,182
Net Income	$ 712,742
Average number of shares outstanding (in thousands)	234,308
Basic and diluted earnings per common share	$ 3.04

CONDENSED STATEMENT OF CASH FLOWS
For the year ended December 31, 1998

Net income	$ 712,742
Dividends received from Consolidated Edison Co. of New York, Inc.	496,945
Other - net	(917,506)
Net cash flows from operating activities	292,181
Financing activities	
Common stock dividends	(493,201)
Corporate restructuring to establish holding company	198,362
Contributions to subsidiaries	(59,095)
Net cash flows from financing activities	(353,934)
Net decrease in cash and temporary cash investments	$ (61,753)
Cash and temporary cash investments at January 1, 1998	$ 108,879
Cash and temporary cash investments at December 31, 1998	$ 47,126

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 and 1996

(Thousands of Dollars)

COLUMN A		COLUMN B	COLUMN C Additions (1)	COLUMN C Additions (2)	COLUMN D	COLUMN E
Company	Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions**	Balance At End of Period
CEI	Allowance for uncollectible accounts*:					
	1998	$ 21,600	$ 30,983	--	$ 27,626	$ 24,957
	1997	$ 21,600	$ 30,936	--	$ 30,936	$ 21,600
	1996	$ 21,600	$ 30,771	--	$ 30,771	$ 21,600
Con Edison	Allowance for uncollectible accounts*:					
	1998	$ 21,600	$ 28,626	--	$ 27,626	$ 22,600
	1997	$ 21,600	$ 30,936	--	$ 30,936	$ 21,600
	1996	$ 21,600	$ 30,771	--	$ 30,771	$ 21,600

- ----------

* This is a valuation account deducted in the balance sheet from the assets (Accounts receivable -customer) to which they apply.

** 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 CEI's and Con Edison's definitive joint proxy statement for their Annual Meetings of Stockholders to be held on May 17, 1999. The joint proxy statement is to be filed pursuant to Regulation 14A not later than 120 days after December 31, 1998, 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

CEI Consolidated Balance Sheet at December 31, 1998 and 1997
CEI Consolidated Income Statement for the years ended December 31, 1998, 1997 and 1996
CEI Consolidated Statement of Retained Earnings for the years ended December 31, 1998, 1997 and 1996
CEI Consolidated Statement of Cash Flows for the years ended December 31, 1998, 1997 and 1996

Con Edison Consolidated Balance Sheet at December 31, 1998 and 1997
Con Edison Consolidated Income Statement for the years ended December 31, 1998, 1997 and 1996 Con Edison Consolidated Statement of Retained Earnings for the years ended December 31, 1998, 1997 Con Edison Consolidated Statement of Cash Flows for the years ended December 31, 1998, 1997 and 1996
Con Edison Consolidated Statement of Capitalization at December 31, 1998 and 1997 and 1996

CEI and Con Edison Notes to Consolidated Financial Statements

2. List of Financial Statement Schedules

Schedule I - Condensed financial information of CEI
Schedule II - Valuation and qualifying accounts of CEI and Con Edison

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:

	Securities Exchange Act File No. 1-1217		
Date Filed With Department of State	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. (Designated in Con Edison's Annual Report on Form 10-K for the year ended December 31, 1997 (File No. 1-1217) as Exhibit 3.1.2.3.)

3.2.1 By-laws of CEI, effective as of June 23, 1998. (Designated in CEI's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998 (File No. 1-14514) as Exhibit 3.2.1)

3.2.2 By-laws of Con Edison, effective as of June 23, 1998. (Designated in Con Edison's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998 (File No. 1-14514) as Exhibit 3.2.2)

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 Number	Date	Securities Exchange Act File No. 1-1217 Form	Date	Exhibit
1.	Sixth	11/1/89	10-Q	6/30/90	4(a)(7)
2.	Seventh	7/1/90	10-Q	6/30/90	4(a)(8)
3.	Eighth	1/1/91	10-K	12/31/90	4(e)(8)
4.	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 Number	Date	Securities Exchange Act 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 Number	Date	Securities Exchange Act File No. 1-1217 Form	Date	Exhibit
1.	Sixth	11/1/89	10-Q	6/30/90	4(b)(7)
2.	Seventh	7/1/90	10-Q	6/30/90	4(b)(8)
3.	Eighth	1/1/91	10-K	12/31/90	4(g)(8)
4.	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	Form	Securities Exchange Act File No. 1-1217 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 1/2%, 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
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
61/4%, Series 1998 A	8-K	1/29/98	4.1
7.10%, Series 1998 B	8-K	1/29/98	4.2
6.15%, Series 1998 C	8-K	6/22/98	4
6.90%, Series 1998 D	8-K	9/24/98	4

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 O&R 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 O&R 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 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.)

10.5.2 The following amendments to Employment Contract, dated May 22, 1990, between Con Edison and Eugene R. McGrath:

Amendment	Securities Exchange Act File No. 1-1217		
Date	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
7/28/98	8-K	9/24/98	10

10.6.1 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.)

10.6.2 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.)

10.6.3 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.)

10.7 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.)

*10.8 The Consolidated Edison Company of New York, Inc. Executive Incentive Plan, amended and restated as of April 1, 1999.

10.9.1 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.)

10.9.2 The following amendments to the Consolidated Edison Retirement Plan for Management Employees.

	Securities Exchange Act File No. 1-1217		
Amendment Date	Form	Date	Exhibit
12/29/95	10-K	12/31/95	10.29
7/1/96	10-K	12/31/96	10.22
6/1/97	10-K	12/31/97	10.11.3
11/14/97	10-K	12/31/97	10.11.4

*10.9.3 Amendment No. 5, dated December 30, 1998, to the Consolidated Edison Retirement Plan for Management Employees.

*10.10 Consolidated Edison Company of New York, Inc Supplemental Retirement Income Plan, as amended and restated as of April 1, 1999.

10.11.1 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).)

10.11.2 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).)

10.12 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.)

10.13 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).)

10.14 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).)

10.15.1 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).)

10.15.2 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.)

10.16.1 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).)

10.16.2 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
11/14/97	10-K	12/31/97	10.18.3

*10.16.3 Amendment No. 6, dated December 30, 1998, to the Consolidated Edison Retiree Health Program for Management Employees.

10.17 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.)

10.18 CEI 1996 Stock Option Plan, as amended and restated effective February 24, 1998. (Designated in Con Edison's Annual Report on Form 10-K for the year ended December 31, 1997 (File No. 1-1217) as Exhibit 10.20.)

*10.19 The Consolidated Edison Company of New York, Inc. Deferred Income Plan, as amended and restated as of April 1, 1999.

*10.20 The Consolidated Edison, Inc. Restricted Stock Plan for Non-Employee Directors, effective October 1, 1998.

*10.21 Generating Plant (Ravenswood) and Gas Turbine Asset Purchase and Sale Agreement, dated January 28, 1999, by and between Con Edison and Marketspan Corporation (doing business as KeySpan Energy).

*10.22 Generating Plant (Arthur Kill) and Gas Turbine Asset Purchase and Sale Agreement, dated January 27, 1999, by and between Con Edison and NRG Energy, Inc.

*10.23 Generating Plant (Astoria) and Gas Turbine Asset Purchase and Sale Agreement, dated March 2, 1999, by and between Con Edison and Astoria Generating Company, L.P.

*12.1 CEI Statement of computation of ratio of earnings to fixed charges for the years ended December 31, 1998, 1997, 1996, 1995 and 1994.

*12.2 Con Edison Statement of computation of ratio of earnings to fixed charges for the years ended December 31, 1998, 1997, 1996, 1995 and 1994.

21 Subsidiaries of CEI and Con Edison. (Incorporated by reference from Form U-3A- 2 of CEI, dated February 26, 1999 - File No: 069-00425.)

*23 Consent of PricewaterhouseCoopers LLP.

*24 Powers of Attorney of each of the persons signing this report by attorney-in-fact.

*27.1 CEI 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.)

*27.2 Con Edison 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:

Neither CEI nor Con Edison filed any Current Reports on Form 8-K during the quarter ended December 31, 1998 or, through the date of this filing, in 1999.

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

Date: March 29, 1999

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 29, 1999	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 29, 1999	Joan S. Freilich*	Executive Vice President, Chief Financial Officer and Director (Trustee) (Principal Financial Officer)
March 29, 1999	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)
	Sally Hernandez-Pinero*	Director (Trustee)
	Peter W. Likins*	Director (Trustee)
	Robert G. Schwartz*	Director (Trustee)
	Richard A. Voell*	Director (Trustee)
	Stephen R. Volk*	Director (Trustee)
March 29, 1999	*By JOAN S. FREILICH Joan S. Freilich	Attorney-in-Fact

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.
EXECUTIVE INCENTIVE PLAN

As Amended and Restated
Effective as of April 1, 1999

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC
EXECUTIVE INCENTIVE PLAN

PURPOSE

In its original form, the Consolidated Edison Company of New York, Inc. Executive Incentive Plan (the "Plan") was effective as of March 23, 1982. This document reflects the revisions to the Plan which are effective as of April 1, 1999. As to a Participant who is in the employ of the Company or its Affiliated Companies on April 1, 1999, the Mandatory Deferral Portions and Optional Deferral Portions of Incentive Awards credited on the Participant's behalf prior to April 1, 1999 and deferred to a date beyond April 1, 1999 shall be transferred to and administered under the Deferred Income Plan as soon as practicable after April 1, 1999.

The purpose of the Plan is to provide executives designated by the Company's Board of Trustees as eligible to participate in the Plan with incentives to achieve goals which are important to shareholders and customers of the Company, to supplement the Company's salary and benefit programs so as to provide overall compensation for such executives which is more competitive with corporations with which the Company must compete for the best executive talent, and to assist the Company in attracting and retaining executives who are important to the continued success of the Company.

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.
EXECUTIVE INCENTIVE PLAN

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CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.
EXECUTIVE INCENTIVE PLAN

ARTICLE I. DEFINITIONS

The following terms when capitalized herein shall have the meanings set forth below.

1.01 Adjusted Maximum Incentive Fund shall have the meaning set forth in Section 4.03(c).

1.02 Affiliated Company shall mean any company other than the Company which is a member of a controlled group of corporations (as defined in Section 414(b) of the Code) which also includes as a member the Company; any trade or business under common control (as defined in Section 414(c) of the Code) with the Company; any organization (whether or not incorporated) which is a member of an affiliated service group (as defined in Section 414(m) of the Code) which includes the Company; and any other entity required to be aggregated with the Company pursuant to regulations under Section 414(o) of the Code.

1.03 Award Date shall mean, with respect to any Incentive Award, January 1 of the year following the year to which such Incentive Award relates.

1.04 Board or Board of Trustees shall mean the Board of Trustees of the Company.

1.05 Change in Control shall mean an event which shall occur if:

(a) any person, as defined in Section 3(a)(9) of the Securities Exchange Act of 1934 ("Exchange Act"), as such term is modified in Sections 13(d) and 14(d) of the Exchange Act (other than (i) any employee plan established by any "Corporation" (which for these purposes shall be deemed to be the Company and any corporation, association, joint

venture, proprietorship or partnership which is connected with the Company either through stock ownership or through common control, within the meaning of Sections 414(b) and (c) and 1563 of the Code), (ii) the Company or any of its affiliates (as defined in Rule 12b-2 promulgated under the Exchange Act), (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, or (iv) a corporation owned, directly or indirectly, by stockholders of the Company in substantially the same proportions as their ownership of the Company) (a "Person"), is or becomes the beneficial owner (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company (excluding from the securities beneficially owned by such Person any securities directly acquired from the Company or its affiliates other than in connection with the acquisition by the Company or its affiliates of a business) representing 20 percent or more of either the then outstanding shares of Common Stock of the Company or the combined voting power of the Company's then outstanding voting securities;

(b) during any period of up to two consecutive years (not including any period prior to April 1, 1999) individuals who, at the beginning of such period, constitute the Board cease for any reason to constitute a majority of the directors then serving on the Board, provided that any person who becomes a director subsequent to the beginning of such period and whose appointment or election by the Board or nomination for election by the Company's shareholders was approved by at least two-thirds of the directors then still in office who either were directors at the beginning of such period or whose appointment, election or nomination for election was previously so approved (other than a director (i) whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A under the Exchange Act, or (ii) who was designated by a

person who has entered into an agreement with the Company to effect a transaction described in paragraph (a), (c) or (d) of this Section 1.05) shall be deemed a director as of the beginning of such period;

(c) consummation of a merger or consolidation of the Company with any other corporation or approval of the issuance of voting securities of the Company in connection with a merger or consolidation of the Company occurs (other than (i) a merger or consolidation that would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of any Corporation, at least 51 percent of the combined voting power of the voting securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation, or (ii) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the beneficial owner (as defined in paragraph (a) above), directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its affiliates other than in connection with the acquisition by the Company or the affiliates of a business) representing 20 percent or more of either the then outstanding shares of Common Stock of the Company or the combined voting power of the Company's then outstanding voting securities); or

(d) the stockholders of the Company approve a plan of complete liquidation or dissolution of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least 65 percent of the

combined voting power of the
voting securities of which are owned by persons in substantially
the same proportions as their ownership of the Company
immediately prior to the sale.

Notwithstanding the foregoing, no "Change in Control" shall be deemed to have occurred if there is consummated any transaction, or series of integrated transactions, immediately following which the record holders of the Common Stock immediately prior to such transaction, or series of integrated transactions, continue to have substantially the same proportionate ownership in an entity which owns all or substantially all of the assets of the Company immediately following such transaction or series of integrated transactions.

1.06 Company shall mean Consolidated Edison Company of New York, Inc. or any successor by merger, purchase or otherwise; provided, however, that for purposes of Section 1.05, Section 1.22, the second paragraph of Section 5.01(b), Section 6.02 (with the exception of the next to last sentence thereof), Section 6.03, and Section 7.06, "Company" shall mean the highest level holding company of Consolidated Edison Company of New York, Inc. (or any successor thereto which continues this Plan) which has publicly traded common stock.

1.07 Deferred Income Plan shall mean the Consolidated Edison Company of New York, Inc. Deferred Income Plan, as amended from time to time.

1.08 Disability shall mean circumstances under which a Participant would be entitled to receive a pension by reason of disability (or would be so entitled but for failure to satisfy vesting, age, or length-of-service requirements) under the Management Retirement Plan.

1.09 Equivalent Stock Account shall mean an account established for a Participant pursuant to Section 6.02.

1.10 Equivalent Stock Unit shall have the meaning set forth in Section 6.02.

1.11 Incentive Award shall have the meaning set forth in Section 4.04.

1.12 Incentive Percentage shall have the meaning set forth in Section 4.01.

1.13 Management Retirement Plan shall mean The Consolidated Edison Retirement Plan for Management Employees, as amended from time to time.

1.14 Mandatory Deferral Portion shall mean the one-third of each Incentive Award that is required to be deferred pursuant to Section 5.01.

1.15 Maximum Incentive Fund shall have the meaning set forth in Section 4.02(a).

1.16 Normal Retirement Age shall mean the later of the Participant's 65th birthday or the fifth anniversary of the Participant's participation in the Management Retirement Plan.

1.17 Optional Deferral Portion shall mean the two-thirds of each Incentive Award that is permitted to be deferred pursuant to Section 5.02.

1.18 Participant shall mean any executive who at any time shall be eligible to participate in the Plan.

1.19 Plan shall mean the Consolidated Edison Company of New York, Inc. Executive Incentive Plan, as in effect from time to time.

1.20 Plan Administrator shall mean the individual appointed by the Company's Chief Executive Officer to administer the Plan as provided in Article III.

1.21 Potential Award shall have the meaning set forth in Section 4.02(c).

1.22 Potential Change in Control shall mean an event which shall occur if: (a) the Company enters into a definitive written agreement, the consummation of which would result in the occurrence of a Change in Control;

(b) the Company or any Person (as defined in Section 1.05(a)) publicly announces an intention to take or to consider taking actions which, if consummated, would constitute a Change in Control; or

(c) any Person becomes the beneficial owner (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company representing 15 percent or more of the then outstanding shares of Common Stock of the Company or the combined voting power of the Company's then outstanding securities.

1.23 Valuation Date shall have the meaning set forth in Section 6.01 or 6.02, whichever is applicable.

ARTICLE II. ELIGIBILITY

The Board, in its discretion, from time to time, may designate and change the designation of the executives or executive position levels eligible to participate in the Plan. To be eligible to receive an

award under the Plan for a particular year, an executive must (a) have been employed by the Company during any portion of such year and (b) achieve an eligible position level or be designated by the Board as eligible not later than September 30 of such year.

ARTICLE III. ADMINISTRATION

Except as otherwise provided in the Plan, all determinations in connection with the Plan shall be made by the Plan Administrator, whose decisions shall be final and conclusive upon all Participants and any persons asserting any claim derived from a Participant. The Plan Administrator shall make such determinations after receiving the recommendations of the Company's Chief Executive Officer (except as to matters relating to the participation of the Company's Chief Executive Officer in the Plan). The Plan Administrator shall abstain from any determination under the Plan in which he or she has a personal interest, in which case such determination shall be made by the Company's Chief Executive Officer. The Plan Administrator shall be responsible for the administration of the Plan under the direction of the Company's Chief Executive Officer.

ARTICLE IV. DETERMINATION OF AWARDS

4.01 Incentive Percentages

The Board shall determine a percentage of annual salary deemed to constitute an appropriate incentive for each executive or executive position level eligible to participate in the Plan. Each such percentage is herein called an "Incentive Percentage". The Board may, from time to time, increase or decrease any Incentive Percentage, as the Board may deem appropriate.

4.02 Maximum Incentive Fund

(a) At the end of each year, the annual rate of salary of each executive eligible to participate in the Plan for such year, as such salary is in effect at the end of such year, shall be multiplied by the Incentive Percentage applicable to such person at such time. The sum of such products for all executives eligible to participate As Amended and Restated Effective as of April 1, 1999in the Plan for such year is herein called the "Maximum Incentive Fund" for such year.

(b) For purposes of calculating the Maximum Incentive Fund for any year: (i) In the case of an executive whose employment with the Company has terminated during the year, the annual salary rate of such executive in effect at the time of such termination shall be deemed to be the annual salary rate of such executive at the end of such year, subject to paragraph (ii) next following.

(ii) The annual salary rate, at the end of the year, for any executive who became eligible to participate during the year or whose employment with the Company terminated during the year shall be deemed reduced by one-twelfth for each whole calendar month of such year before such executive became eligible or after such executive's employment terminated.

(iii) Deferred compensation, at the annual rate in effect at the end of the year pursuant to an agreement between the Company and an executive, shall be considered part of such executive's annual rate of salary at the end of such year.

(iv) An executive's annual rate of salary shall be determined without any deduction for pre-tax contributions or after-tax contributions made pursuant to the Con Edison Thrift Savings Plan for Management Employees, the Con Edison Flexible Reimbursement

Account Plan for Management Employees, the Con Edison OPTIONS Program for Management Employees, or the Deferred Income Plan.

(c) The amount included in the Maximum Incentive Fund for any year with respect to each executive (determined without regard to Section 4.02(d)) is called such executive's "Potential Award".

(d) Notwithstanding any other provision of the Plan, the Maximum Incentive Fund for any year may not exceed one-half of 1 percent of the Company's net income for common stock for such year.

4.03 Adjusted Maximum Incentive Fund

(a) In January of each year the Board shall determine whether award of the Maximum Incentive Fund for the preceding year is appropriate or whether and to what extent such Maximum Incentive Fund shall be reduced or eliminated entirely. In making such determination, the Board shall consider the Company's performance during the preceding year, taking into account such factors as the Board deems relevant.

(b) The Maximum Incentive Fund for any year in which the Company omits a dividend on its common stock shall be reduced to zero.

(c) The Maximum Incentive Fund for a year, reduced by any adjustments pursuant to this Section 4.03, is herein called the "Adjusted Maximum Incentive Fund".

4.04 Incentive Awards

After the Adjusted Maximum Incentive Fund for a year has been determined as provided in Section 4.03, the Executive Personnel and Pension Committee of the Board, upon the

recommendations of the Company's Chief Executive Officer (except with respect to his own award), shall make, subject to confirmation by the Board, awards to individual Participants who are eligible to participate in the Plan for such year. Such awards are herein called "Incentive Awards". Incentive Awards shall be determined in the following manner:

(a) Each Incentive Award shall be determined in the light of the contribution of the Participant's group to the overall performance of the Company, the Participant's contribution to the performance of the Participant's group, and the Participant's individual performance.
(b) An Incentive Award may range from zero to 150 percent of the Participant's Potential Award for the year in question.
(c) The aggregate of all Incentive Awards for a year may not exceed the Adjusted Maximum Incentive Fund for such year.

ARTICLE V. DEFERRAL OF AWARDS

5.01 Mandatory Deferral Portion

(a) One-third of each Incentive Award shall be allocated to the Participant's Equivalent Stock Account and shall be deferred until the earlier of (i) the fifth anniversary of the Award Date or (ii) the date of the Participant's termination of employment with the Company and Affiliated Companies, except as otherwise provided in Section 7.06.

(b) Notwithstanding the provisions of paragraph (a) above, the Participant may elect to defer all or any part of such one-third for a further period ending on the earlier of (i) the sixth or any later anniversary of the Award Date or (ii) the date of the Participant's termination of employment with the Company and Affiliated Companies; provided however, that if the Participant makes a deferral election with respect to any portion of the Mandatory Deferral Portion of an Incentive

Awardpursuant to this paragraph (b), on the fifth anniversary of the Award Date of such Incentive Award, the value of the portion of the Mandatory Deferral Portion of an Incentive Award so deferred shall be administered and accounted for under the Deferred Income Plan.

The value of such Mandatory Deferral Portion or part thereof to be administered and accounted for under the Deferred Income Plan shall be the value on the fifth anniversary of the Award Date of such Mandatory Deferral Portion of a number of shares of common stock of the Company equal to the number of Equivalent Stock Units in the respective subaccount for the Mandatory Deferral Portion or part thereof to be administered and accounted for under the Deferral Income Plan.

5.02 Optional Deferral Portion

Up to two-thirds of each Incentive Award may, at the Participant's election, be deferred to the earlier of (a) the third or later anniversary of the Award Date of such Incentive Award, or (b) the date of the Participant's termination of employment with the Company and Affiliated Companies; provided however, that if the Participant makes a deferral election with respect to any portion of the Optional Deferral Portion of an Incentive Award pursuant to this Section 5.02, on the Award Date of such Incentive Award the value of the portion of the Optional Deferral Portion so deferred shall be administered and accounted for under the Deferred Income Plan.

5.03 Transfer to Deferred Income Plan

The portion of a Participant's accounts deferred hereunder prior to April 1, 1999, which are no longer subject to potential forfeiture pursuant to Section 7.04 as of such date, shall be transferred to the Deferred Income Plan and thereafter be administered and accounted for thereunder. As of the date that other amounts deferred hereunder prior to April 1, 1999 are no longer subject to

potential forfeiture pursuant to Section 7.04, such amounts shall be transferred to the Deferred Income Plan and thereafter be administered and accounted for thereunder.

ARTICLE VI. VALUATION OF AWARD

6.01 Non-Deferred Awards

The Valuation Date of any portion of the Optional Deferral Portion of an Incentive Award that is not deferred pursuant to Section 5.02 shall be the Award Date, and the value on the Valuation Date shall be equal to the amount of such portion.

6.02 Equivalent Stock Account

An Equivalent Stock Account shall be established for each Participant. A separate subaccount within such Equivalent Stock Account shall be established for each Mandatory Deferral Portion allocated to such Equivalent Stock Account. Each Mandatory Deferral Portion so allocated shall be converted to a number of Equivalent Stock Units calculated (to the nearest thousandth) by dividing (x) such portion by (y) the value of one share of the Company's common stock on the Award Date, and the number of Equivalent Stock Units so calculated shall be credited to the respective subaccount within the Participant's Equivalent Stock Account. On each dividend payment date for the Company's common stock occurring between the Award Date and the Valuation Date of such Mandatory Deferral Portion, there shall be credited to such subaccount the number of additional Equivalent Stock Units calculated (to the nearest thousandth) by dividing (x) the amount of the total dividend which would have been paid on a number of shares (including fractional shares) of the Company's common stock equal to the closing balance (in Equivalent Stock Units) in such subaccount on the record date for such dividend payment date, by (y) the value of one share of the Company's common stock on the dividend payment date. In the

event of a dividend payable in shares of the Company's common stock, a like number of Equivalent Stock Units shall be added to the subaccount. The Valuation Date of such Mandatory Deferral Portion of an Incentive Award shall be the date on which occurs the earliest of: (a) the Participant's termination of employment with the Company and Affiliated Companies on or after the Participant's Normal Retirement Age;

(b) the Participant's death;

(c) the Participant's Disability; or

(d) the fifth anniversary of the Award Date of such Incentive Award if the Participant has not terminated employment with the Company and Affiliated Companies on or prior to such date;

provided, however, that if the Participant's date of termination of employment with the Company and Affiliated Companies occurs prior to the earliest of the dates specified in (a) through (d) above but the Chief Executive Officer of the Company makes a determination pursuant to Section 7.04 that no forfeiture shall occur, the Valuation Date shall be such date of termination. The value of such Mandatory Deferral Portion on the Valuation Date shall be the value, on the Valuation Date, of a number of shares of the Company's common stock equal to the number of Equivalent Stock Units in the respective subaccount on the Valuation Date.

6.03 Common Stock Value

For all purposes of the Plan, the value of a share of the Company's common stock, as of any date, shall be deemed to be the mean of the high and low sale price for such a share reported on the New York Stock Exchange for trading on such date (or, if there was no reported trade for such date, on the first day of trading thereafter). Appropriate adjustments shall be made in the event of a stock split, reclassification or reorganization.

ARTICLE VII. PAYMENT OF AWARDS

7.01 Time of Payment

(a) Each portion of a Mandatory Deferral Portion of an Incentive Award (i) for which the deferral election in Section 5.01(b) has not been made or (ii) for which such deferral election has been made and the Participant (A) does not terminate employment with the Company and Affiliated Companies until on or after the earliest of the dates specified in (a) through (d) of Section 6.02 or (B) terminates employment with the Company and Affiliated Companies prior to the earliest of the dates specified in (a) through (d) of Section 6.02 but the Chief Executive Officer of the Company makes a determination pursuant to Section 7.04 that no forfeiture shall be made, shall become payable as soon as administratively practicable after its respective Valuation Date, as provided in this Article VII.

(b) Each portion of an Optional Deferral Portion for which a deferral election under Section 5.02 has not been made shall become payable as soon as administratively practicable after its respective Valuation Date, as provided in this Article VII.

7.02 Amount of Payment

Each portion of (a) the Mandatory Deferral Portion of an Incentive Award (i) for which the deferral election in Section 5.01(b) has not been made or (ii) for which such deferral election has been made and the Participant (A) does not terminate employment with the Company and Affiliated Companies until on or after the earliest of the dates specified in (a) through (d) of Section 6.02 or (B) terminates employment with the Company and Affiliated Companies prior to the earliest of the dates specified in (a) through (d) of Section 6.02 but the Chief Executive Officer of the Company makes a determination pursuant to Section 7.04 that no forfeiture shall be

made, and (b) an Optional Deferral Portion for which a deferral election under Section 5.02 has not been made, shall be paid at its value on the Valuation Date, as determined pursuant to Article VI.

7.03 Manner of Payment

(a) Any portion of the Mandatory Deferral Portion of an Incentive Award which becomes payable on or prior to the fifth anniversary of the Award Date of such Incentive Award shall be paid to the Participant in a single lump sum.

(b) Any portion of the Optional Deferral Portion of an Incentive Award for which a deferral election under Section 5.02 has not been made shall be paid to the Participant in a single lump sum.

7.04 Forfeiture

Unless the Chief Executive Officer of the Company shall otherwise determine, the Mandatory Deferral Portion of an Incentive Award shall be forfeited, and no amount shall be payable to the Participant in respect of such portion, if the employment of the Participant with the Company and Affiliated Companies shall be terminated, other than on or after the Participant's Normal Retirement Age or by reason of death or Disability, prior to the fifth anniversary of the Award Date of such Incentive Award. Notwithstanding the prior sentence, no forfeiture shall occur after the date a Change in Control occurs.

7.05 Posthumous Payments

Subject to Section 7.04 and Section 9.05, if a Participant shall die before all payments to be made to the Participant under this Plan have been made, the remaining payment or payments shall be made to the Participant's estate or personal representative in a single lump sum, with such

posthumous payment to be made as soon as administratively practicable after the Participant's death.

7.06 Payment Upon the Occurrence of a Change in Control (a) Unless a Participant elects otherwise prior to the date a Change in Control occurs, upon the occurrence of a Change in Control the Participant shall automatically receive the value, as of the date the Change in Control occurs, of a number of shares of common stock of the Company equal to the number of Equivalent Stock Units in the respective subaccount as of the date the Change in Control occurs. Such payment will be made in a single lump sum as soon as administratively practicable after the date the Change in Control occurs.

(b) If, due to an election pursuant to paragraph (a) above, a Participant is not to receive a single lump sum upon a Change in Control, the Participant may elect, within 30 days after the date the Change in Control occurs, to receive, in a single lump sum, the value, on the date the Change in Control occurs, of a number of shares of common stock of the Company equal to the number of Equivalent Stock Units in the respective subaccount on the date the Change in Control occurs, reduced by the prime rate as published in the Wall Street Journal on the date the Change in Control occurs plus 100 basis points. Such payment will be made as soon as administratively practicable after the Participant's election is received by the Plan Administrator.

(c) The elections permitted to Participants by paragraphs (a) and (b) above shall be made by a writing signed by the Participant and delivered to the Plan Administrator.

ARTICLE VIII. ELECTIONS

8.01 Manner

The elections permitted to Participants by Section 5.01 and Section 5.02 shall be made by a writing signed by the Participant and delivered to the Plan Administrator. A separate election may be made with respect to each Incentive Award. An election made for any Incentive Award shall govern all subsequent Incentive Awards, unless a new election is timely made as to subsequent Incentive Awards.

8.02 Timing

The elections pursuant to Section 5.01 and Section 5.02 with respect to any Incentive Award must be made prior to the Award Date. An election may be changed at any time up to the deadline for making such election, but not thereafter.

8.03 Presumptions

In the absence of a valid election to the contrary by the Participant, the following presumptions shall apply:

(a) The Participant elects not to defer any portion of the Mandatory Deferral Portion of an Incentive Award pursuant to Section 5.01 beyond the minimum mandatory deferral.

(b) The Participant elects not to defer any portion of the Optional Deferral Portion of an Incentive Award pursuant to Section 5.02.

ARTICLE IX. MISCELLANEOUS

9.01 Amendment and Termination

The Company reserves the right, by action of the Board of Trustees, to terminate the Plan entirely, or to temporarily or permanently discontinue the making of awards under the Plan; and further reserves the right, by action of the Board of Trustees or the Plan Administrator, to otherwise modify the Plan from time to time; provided that no such modification, termination, or discontinuance shall adversely affect the rights of Participants with respect to Incentive Awards previously determined; and provided further, that no modification by action of the Plan Administrator shall have a material effect on the benefits payable under the Plan. Upon termination of the Plan, the Board of Trustees may elect to continue the Plan with respect to deferred portions of Incentive Awards, or may elect to distribute immediately such deferred portions in single lump sum payments, with appropriate adjustments in valuation, as determined by the Board.

9.02 Effect of Plan

The establishment and continuance of the Plan shall not constitute a contract of employment between the Company and any employee. No person shall have any claim to be granted an award under the Plan and there is no obligation for uniformity of treatment of employees or Participants under the Plan. Neither the Plan nor any action taken under the Plan shall be construed as giving to any employees the right to be retained in the employ of the Company, nor any right to examine the books of the Company, or to require an accounting.

9.03 Withholding

The Company shall deduct from any payment under the Plan any federal, state, or local taxes required by law to be withheld with respect to such payment.

9.04 Funding

(a) All amounts payable in accordance with this Plan shall constitute a general unsecured obligation of the Company. Such amounts, as well as any administrative costs relating to the Plan, shall be paid out of the general assets of the Company, to the extent not paid from the assets of any trust established pursuant to paragraph (b) below.

(b) The Company may, for administrative reasons, establish a grantor trust for the benefit of Participants in the Plan. Notwithstanding the foregoing sentence, the Company shall, upon a Potential Change in Control, establish a grantor trust for the benefit of the Participants in the Plan and shall fund such trust at a level at least equal to the liabilities of the Plan as of the day before the Potential Change in Control occurred. The assets placed in such trust shall be held separate and apart from other Company funds and shall be used exclusively for the purposes set forth in the Plan and the applicable trust agreement, subject to the following conditions:

(i) the creation of such trust shall not cause the Plan to be other than "unfunded" for purposes of Title I of ERISA;

(ii) the Company shall be treated as "grantor" of such trust for purposes of Section 677 of the Code; and

(iii) the agreement of such trust shall provide that its assets may be used upon the insolvency or bankruptcy of the Company to satisfy claims of the Company's general creditors and that the rights of such general creditors are enforceable by them under federal and state law.

9.05 Facility of Payment

In the event that the Plan Administrator shall find that a Participant is unable to care for such Participant's affairs because of illness or accident or because he or she is a minor or has died, the Plan Administrator may, unless claim shall have been made therefor by a duly appointed legal representative, direct that any benefit payment due the Participant, to the extent not payable from a grantor trust, be paid on the Participant's behalf to the Participant's spouse, a child, a parent or other blood relative, or to a person with whom the Participant resides or a legal guardian, and any such payment so made shall be a complete discharge of the liabilities of the Company and the Plan therefor.

9.06 Nonalienation

Subject to any applicable law, no benefit under the Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, and any attempt to do so shall be void, nor shall any such benefit be in any manner liable for or subject to garnishment, attachment, execution or levy, or liable for or subject to the debts, contracts, liabilities, engagements or torts of the person entitled to such benefits.

IN WITNESS WHEREOF, Consolidated Edison Company of New York, Inc. has caused this instrument to be executed by its officer thereunto duly authorized as of the 25th day of March, 1999.

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

Amendment No. 5
To
The Consolidated Edison
Retirement Plan for
Management Employees

Dated December 30, 1998

Pursuant to authority granted to the Plan Administrator under the terms of The Consolidated Edison Retiree Health Program (the "Program") to amend the Program, the undersigned hereby approves the following amendments to the Program as set forth in The Consolidated Edison Retirement Plan for Management Employees:

1. A new subdivision (f), which shall read as follows, shall be added to Paragraph 23 E effective January 1, 1999:

"(f) Effective January 1, 1999, Employees who retire and defer receipt of their retirement Pension under the Management Plan and the spouses and surviving spouses of such Employees shall be eligible to participate in the Program and to defer participation in the Program to the same extent as Employees who retire and commence receiving an immediate retirement Pension under the Management Plan and their spouses and surviving spouses. Effective such date Employees who retire shall no longer be required to commence receipt of an immediate retirement Pension to be eligible to participate in the Program."

IN WITNESS WHEREOF, the undersigned has executed this instrument this 30th day of December, 1998.

Richard P. Cowie
Vice President-Employee Relations
and Plan Administrator

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.
SUPPLEMENTAL RETIREMENT INCOME PLAN

Effective as of January 1, 1987
As Amended and Restated as of April 1, 1999

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.
SUPPLEMENTAL RETIREMENT INCOME PLAN

PURPOSE

The Con Edison Supplemental Retirement Income Plan was effective as of January 1, 1987. Effective as of April 1, 1999, the Con Edison Supplemental Retirement Income Plan has been amended and restated in its entirety and renamed the Consolidated Edison Company of New York, Inc. Supplemental Retirement Income Plan (the "Plan"). The purpose of the Plan is to provide those employees participating in The Consolidated Edison Retirement Plan for Management Employees or any successor plan thereto (the "Management Retirement Plan") benefits which would have been payable under the Management Retirement Plan (i) but for the limitations imposed on qualified plans by Sections 401(a)(17) and 415 of the Internal Revenue Code (the "Code") and (ii) if certain portions of Incentive Awards under the Consolidated Edison Company of New York, Inc. Executive Incentive Plan (the "Executive Incentive Plan") and Basic and Supplemental Salary Deferrals under the Consolidated Edison Company of New York, Inc. Deferred Income Plan (the "Deferred Income Plan") were included in pensionable earnings under the Management Retirement Plan.

The inclusion of portions of Incentive Awards in pensionable earnings shall be effective as of January 1, 1997, and only with respect to Participants who retire under the Management Retirement Plan on or after January 1, 1997.

All benefits payable under this Plan, which is intended to constitute both an unfunded excess benefit plan under Section 3(36) of Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and a nonqualified, unfunded deferred compensation plan for a select group of management employees under Title I of ERISA, shall be paid out of the general assets of the Company. The Company may establish and fund a trust in order to aid it in providing benefits due under the Plan.

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.
SUPPLEMENTAL RETIREMENT INCOME PLAN

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CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.
SUPPLEMENTAL RETIREMENT INCOME PLAN

ARTICLE I. DEFINITIONS

The following terms when capitalized herein shall have the meanings assigned below.

1.01 Affiliated Company shall mean any company other than the Company which is a member of a controlled group of corporations (as defined in Section 414(b) of the Code) which also includes as a member the Company; any trade or business under common control (as defined in Section 414(c) of the Code) with the Company; any organization (whether or not incorporated) which is a member of an affiliated service group (as defined in Section 414(m) of the Code) which includes the Company; and any other entity required to be aggregated with the Company pursuant to regulations under Section 414(o) of the Code.

1.02 Annuity Starting Date shall mean a Participant's "Annuity Starting Date", as that term is defined in the Management Retirement Plan, with respect to benefits payable to the Participant or on the Participant's behalf under the Management Retirement Plan.

1.03 Basic Salary Deferrals shall mean "Basic Salary Deferrals", as that term is defined in the Deferred Income Plan.

1.04 Beneficiary shall mean the person determined in accordance with the provisions of the Management Retirement Plan to receive benefits under the Management Retirement Plan after a Participant's death, such determination to be made without regard to the provisions of any qualified domestic relations order, as defined in Section 414(p) of the Code, applicable to the Management Retirement Plan.

1.05 Board of Trustees shall mean the Board of Trustees of Consolidated Edison Company of New York, Inc. or any successor thereto.

1.06 Change in Control shall mean an event which shall occur if:

(a) any person, as defined in Section 3(a)(9) of the Securities Exchange Act of 1934 ("Exchange Act"), as such term is modified in Sections 13(d) and 14(d) of the Exchange Act (other than (i) any employee plan established by any "Corporation" (which for these purposes shall be deemed to be the Company and any corporation, association, joint venture, proprietorship or partnership which is connected with the Company either through stock ownership or through common control, within the meaning of Sections 414(b) and (c) and 1563 of the Code), (ii) the Company or any of its affiliates (as defined in Rule 12b-2 promulgated under the Exchange Act), (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, or (iv) a corporation owned, directly or indirectly, by stockholders of the Company in substantially the same proportions as their ownership of the Company) (a "Person"), is or becomes the beneficial owner (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company (excluding from the securities beneficially owned by such Person any securities directly acquired from the Company or its affiliates other than in connection with the acquisition by the Company or its affiliates of a business) representing 20% or more of either the then outstanding shares of Common Stock of the Company or the combined voting power of the Company's then outstanding voting securities;

(b) during any period of up to two consecutive years (not including any period prior to April 1, 1999) individuals who, at the beginning of such period, constitute the Board cease for any reason to constitute a majority of the directors then serving on the Board, provided that any person who becomes a director subsequent to the beginning of such period and whose appointment or election by the Board or nomination for election by the Company's shareholders was approved by at least two-thirds of the directors then still in office who either were directors at the beginning of such period or whose appointment, election or nomination for election was previously so approved (other than a director (i) whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A under the Exchange Act, or (ii) who was designated by a person who has entered into an agreement with the Company to effect a transaction described in paragraph (a), (c) or (d) of this Section 1.06) shall be deemed a director as of the beginning of such period;

(c) consummation of a merger or consolidation of the Company with any other corporation or approval of the issuance of voting securities of the Company in connection with a merger or consolidation of the Company occurs (other than (i) a merger or consolidation that would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of any Corporation, at least 51% of the combined voting power of the voting securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation, or (ii) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the beneficial

owner (as defined in paragraph (a) above), directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its affiliates other than in connection with the acquisition by the Company or the affiliates of a business) representing 20% or more of either the then outstanding shares of Common Stock of the Company or the combined voting power of the Company's then outstanding voting securities); or

(d) the stockholders of the Company approve a plan of complete liquidation or dissolution of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least 65% of the combined voting power of the voting securities of which are owned by persons in substantially the same proportions as their ownership of the Company immediately prior to the sale.

Notwithstanding the foregoing, no "Change in Control" shall be deemed to have occurred if there is consummated any transaction, or series of integrated transactions, immediately following which the record holders of the Common Stock immediately prior to such transaction, or series of integrated transactions, continue to have substantially the same proportionate ownership in an entity which owns all or substantially all of the assets of the Company immediately following such transaction or series of integrated transactions.

1.07 Code shall mean the Internal Revenue Code of 1986, as amended from time to time.

1.08 Company shall mean Consolidated Edison Company of New York, Inc. or any successor thereto by merger, purchase or otherwise; provided, however, that for purposes of Section 1.06, "Company" shall mean the highest level holding company of Consolidated Edison Company of New York, Inc. (or any successor thereto which continues this Plan) which has publicly traded common stock.

1.09 Deferred Income Plan shall mean the Consolidated Edison Company of New York, Inc. Deferred Income Plan, as amended from time to time.

1.10 Eligible Employee shall mean any person employed by the Company who is participating in the Management Retirement Plan or any other person designated by the Chief Executive Officer of the Company as eligible to participate in the Plan.

1.11 ERISA shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time.

1.12 Excess Benefit Portion shall mean the portion of the Plan which is intended to constitute an unfunded excess benefit plan under Sections 3(36) and 4(b)(5) of Title I of ERISA which provides benefits not otherwise payable under the Management Retirement Plan due to restrictions imposed by Section 415 of the Code.

1.13 Executive Incentive Plan shall mean the Consolidated Edison Company of New York, Inc. Executive Incentive Plan, as amended from time to time.

1.14 Incentive Award shall mean the "Incentive Award", as that term is defined in the Executive Incentive Plan.

1.15 Management Retirement Plan shall mean The Consolidated Edison Retirement Plan for Management Employees, as amended from time to time.

1.16 Mandatory Deferral Portion shall mean the "Mandatory Deferral Portion", as that term is defined in the Executive Incentive Plan.

1.17 Participant shall mean an Eligible Employee who is participating in the Plan pursuant to Section 2.01 hereof.

1.18 Plan shall mean the Consolidated Edison Company of New York, Inc. Supplemental Retirement Income Plan, as set forth herein or as amended from time to time.

1.19 Plan Administrator shall mean the individual appointed by the Chief Executive Officer of the Company to administer the Plan as provided in Article IV.

1.20 Plan Year shall mean the calendar year.

1.21 Select Management Portion shall mean the portion of the Plan, other than the Excess Benefit Portion, which is intended to constitute an unfunded deferred compensation plan for a select group of management or highly-compensated employees under Title I of ERISA.

1.22 Supplemental Salary Deferrals shall mean "Supplemental Salary Deferrals", as that term is defined in the Deferred Income Plan.

ARTICLE II. PARTICIPATION; AMOUNT AND PAYMENT OF BENEFITS

2.01 Participation

(a) An Eligible Employee shall participate in the Excess Benefit Portion of the Plan provided such Eligible Employee's pension at the time of payment under the Management Retirement Plan exceeds the limitations imposed by Code Section 415(b) or 415(e).

(b) An Eligible Employee shall participate in the Select Management Portion of the Plan provided (i) such Eligible Employee's pension at the time of payment under the Management Retirement Plan is limited by reason of the Code Section 401(a)(17) limitation on compensation, (ii) such

Eligible Employee's pension at the time of payment under the Management Retirement Plan would have been limited by reason of the Code Section 401(a)(17) limitation on compensation if Basic Salary Deferrals and/or Supplemental Salary Deferrals under the Deferred Income Plan had not been made, (iii) such Eligible Employee is awarded an Incentive Award under the Executive Incentive Plan, or (iv) such Eligible Employee meets any other terms and conditions for participation specified by the Chief Executive Officer of the Company.

(c) Participation in the Plan shall terminate upon the Participant's death or other termination of employment with the Company and Affiliated Companies, unless a benefit is payable under the Plan with respect to the Participant or the Participant's Beneficiary under the provisions of this Article II.

2.02 Amount of Benefits

A Participant's benefit under the Plan shall be a monthly payment for the life of the Participant and shall, subject to Section 2.07, equal the excess, if any, of (a) over (b) as determined below. In both Sections 2.02(a) and (b), the pension shall be determined prior to any offsets under the Management Retirement Plan for duplicate plan coverage. (a) the monthly pension which would have been payable under the Management Retirement Plan, commencing at the Participant's Annuity Starting Date and determined:

(i) without regard to the provisions of Section 415 of the Code relating to the maximum limitation on benefits;

(ii) without regard to the limitation on compensation set forth in Section 401(a)(17) of the Code and its applicable regulations; and

(iii) as if the definition of compensation (or term of similar import) used for purposes of determining an Eligible Employee's pension benefit under the Management Retirement Plan using the Participant's Final Average Salary included any Basic Salary Deferrals or Supplemental Salary Deferrals under the Deferred Income Plan and any Incentive Award credited on the Participant's behalf under the Executive Incentive Plan; provided, however, that if any portion of the Mandatory Deferral Portion of any Incentive Award credited on the Participant's behalf under the Executive Incentive Plan has been forfeited pursuant to the provisions of the Executive Incentive Plan, such forfeited amount shall not be included; and provided that where Incentive Awards shall be included in determining average compensation, the number of Incentive Awards recognized shall not exceed the averaging period (expressed in whole years); and provided further, however, that with respect to a Participant who is entitled to a deferred pension under the Management Retirement Plan due to cessation of employment because of Disability, the Participant's compensation for the period after such cessation shall not include any Incentive Award credited on the Participant's behalf under the Executive Incentive Plan with respect to any period after such cessation; over

(b) the monthly pension actually payable to the Participant under the Management Retirement Plan, commencing at the Participant's Annuity Starting Date.

(c) If, after a Participant's Annuity Starting Date, changes to the Code or ERISA permit the Management Retirement Plan to provide for payment of the Participant's pension in an amount greater than that permissible at his Annuity Starting Date, the Participant's monthly benefit, if any, under this Plan shall be reduced by the portion of the Participant's pension thereafter paid from the Management Retirement Plan.

(d) If the provisions, if any, of the Management Retirement Plan relating to cost-of-living adjustments result in an increase in the benefit payable to a Participant or the Participant's surviving spouse, the percentage of such increase shall be applied to the Participant's or surviving spouse's benefit under this Plan at the same time and by the same percentage such increase is applicable to the Participant's or surviving spouse's benefit under the Management Retirement Plan.

2.03 Vesting

Subject to the reduction in a Participant's benefit payable under Section 2.02 due to the forfeiture of any portion of the Mandatory Deferral Portion of any Incentive Award credited on the Participant's behalf under the Executive Incentive Plan as set forth in Section 2.02(a)(iii), a Participant shall be vested in, and have a nonforfeitable right to, the benefit payable under Section 2.02 at the same time and to the same extent as the Participant is vested in the Participant's "Accrued Pension", as that term is defined in the Management Retirement Plan.

2.04 Payment of Benefits

(a) Retirement or Termination of Employment

(i) Following a Participant's termination of employment with the Company and Affiliated Companies, other than by reason of death, the Participant shall receive the benefit payable under Section 2.02, to the extent vested pursuant to Section 2.03, at the same time and, except as provided in subparagraph (ii) below, in the same form as the Participant receives a pension under the Management Retirement Plan; provided, however, that the determination of such form and timing is made without regard to the provisions of any qualified domestic relations order (as defined in Section 414(p) of the Code) applicable to the Management Retirement Plan. If the form of payment is other than a single life annuity over the life of the Participant, such benefit shall be adjusted as provided in the Management Retirement Plan to reflect such different payment form.

(ii) Notwithstanding the foregoing provisions of clause (i) above and any election the Participant may make under the Management Retirement Plan with respect to a form of payment, a Participant shall receive the benefit provided under this Plan in the form of a lump sum if the value of such lump sum, determined in accordance with subparagraph (iii) below, does not exceed $25,000 and the Plan Administrator determines, in his or her sole

discretion, that such lump sum payment is to be made. A lump sum payment pursuant to this subparagraph (ii) shall be made as soon as administratively practicable following the later of the Participant's termination of employment or Annuity Starting Date. If a Participant receives a pension under the Management Retirement Plan in the form of a lump sum but the Plan Administrator does not determine that a lump sum will be payable to such Participant under the Plan, payment of the Participant's benefits under the Plan shall be made in any form that may be payable under the Management Retirement Plan, as the Participant elects, other than a lump sum; provided, however, that if the Participant fails to make an election, benefits shall be paid in the form of a single life annuity over the life of the Participant. If a Participant who is to receive the benefit payable under the Plan in the form of a single lump sum payment dies after the later of the Participant's termination of employment or Annuity Starting Date but prior to receiving the lump sum payment, the payment shall be made to the Participant's Beneficiary with the calculation of such payment based on the assumption that payment had been made immediately preceding the Participant's date of death.

(iii) The calculation of a lump sum payment hereunder shall be based on the Participant's pension determined pursuant to Section 2.02 as if it were paid in the form of a single life annuity to the Participant using the same conversion basis as then in effect under the Management Retirement Plan. The calculation of a lump sum payment hereunder shall be made without regard to the possibility of any future changes after the Participant's Annuity Starting Date in the amount of benefits payable under the Management Retirement Plan because of future changes in the limitations referred to in Section 2.02. The lump sum payment represents a complete settlement of all benefits due on the Participant's behalf under the Plan.

(b) Death Prior to a Participant's Annuity Starting Date
If a Participant entitled to a vested benefit under the Management Retirement Plan dies (i) while in active service with the Company after meeting the eligibility requirements for a Preretirement Surviving Spouse Benefit under the Management Retirement Plan, or (ii) after terminating employment with entitlement to a pension hereunder but prior to the Participant's Annuity Starting Date, the Participant's spouse shall receive a monthly payment for life commencing at the same time the spouse receives payment under the Preretirement Surviving Spouse Benefit of the Management Retirement Plan. The amount of benefit payable hereunder to such spouse shall be equal to the monthly income which would have been payable to such spouse under the Management Retirement Plan based on the hypothetical benefit as calculated under Section 2.02 hereof.

2.05 Reemployment of Former Participant or Retired Participant If a Participant who terminated employment with the Company is reemployed by the Company, any payment of a benefit shall cease. Upon the Participant's subsequent termination of employment (by death or otherwise), the Participant's pension shall be recomputed and any benefits then payable hereunder shall be reduced, but not below zero, by a benefit of equivalent actuarial value (as determined in accordance with provisions of the Management Retirement Plan) to any benefit previously paid under the Plan.

2.06 Additional Benefits
The Chief Executive Officer of the Company may authorize such other benefits for any Eligible Employee, or class of Eligible Employees, as he or she deems advisable, including, but not limited to, accelerated vesting, increasing age for retirement purposes, and crediting additional service.

2.07 Transfer to Affiliated Company
If a Participant is transferred to employment with an Affiliated Company and, as a result of such transfer, is no longer an Eligible Employee, the amount under Section 2.02(a) shall be determined as if the Participant terminated employment with the Company and all Affiliated Companies on the date of such transfer.

ARTICLE III. GENERAL PROVISIONS

3.01 Funding

(a) All amounts payable in accordance with this Plan shall constitute a general unsecured obligation of the Company. Such amounts, as well as any administrative costs relating to the Plan, shall be paid out of the general assets of the Company to the extent not paid from the assets of any trust established pursuant to paragraph (b) below.

(b) The Company may, for administrative reasons, establish a grantor trust for the benefit of Participants in the Plan. Notwithstanding the foregoing sentence, the Company shall, if not already existing upon a Change in Control, within 30 days subsequent to the Change in Control establish a grantor trust for the benefit of the Participants and fund such trust at a level at least equal to the value of the liabilities of the Plan as of the day before the Change in Control occurred. The assets placed in the trust shall be held separate and apart from other Company funds and shall be used for the purposes set forth in the Plan and the applicable trust agreement, subject to the following conditions:

(i) the creation of the trust shall not cause the Plan to be other than "unfunded" for purposes of Title I of ERISA;

(ii) the Company shall be treated as "grantor" of the trust for purposes of Section 677 of the Code; and

(iii) the agreement of the trust shall provide that its assets may be used upon the insolvency or bankruptcy of the Company to satisfy claims of the Company's general creditors and that the rights of such general creditors are enforceable by them under federal and state law.

3.02 Discontinuance and Amendment

The Company reserves the right, by action of the Board of Trustees, to discontinue benefit accruals under the Plan at any time; and further reserves the right, by action of the Board of Trustees or the Plan Administrator, to modify or amend the Plan, in whole or in part, at any time. However, no modification, amendment, or discontinuance shall adversely affect the right of any Participant to receive the benefits credited on his behalf under the Plan as of the date of such modification, amendment or discontinuance, and no modification or amendment by action of the Plan Administrator shall have a material effect on the benefits payable under the Plan. Notwithstanding the foregoing, following any amendment and except as provided in Article II with respect to lump sum payments hereunder, benefits may be adjusted as required to take into account the amount of benefits payable under the Management Retirement Plan after the application of the limitations referred to in Section 2.02 hereof.

3.03 Termination of Plan

The Company reserves the right, by action of the Board of Trustees, to terminate the Plan at any time, provided, however, that no termination shall be effective retroactively. As of the effective date of termination of the Plan: (a) the benefits of any Participant, spouse or Beneficiary whose benefit payments have commenced shall continue to be paid; and

(b) no further benefits shall accrue on behalf of any Participant whose benefits have not commenced, and such Participant and the Participant's spouse or Beneficiary shall retain the right to benefits hereunder, provided that on or after the effective date of termination the Participant is vested under the Management Retirement Plan.

All other provisions of this Plan shall remain in effect.

3.04 Plan Not a Contract of Employment

This Plan is not a contract of employment, and the terms of employment of any Participant shall not be affected in any way by this Plan or related instruments, except as specifically provided therein. The establishment of this Plan shall not be construed as conferring any legal rights upon any person for a continuation of employment, nor shall it interfere with the rights of the Company to discharge any person and to treat such person without regard to the effect which such treatment might have upon such person under this Plan. Each Participant and all persons who may have or claim any right by reason of the Participant's participation in this Plan shall be bound by the terms of this Plan and all agreements entered into pursuant thereto.

3.05 Facility of Payment

In the event that the Plan Administrator shall find that a Participant is unable to care for such Participant's affairs because of illness or accident or because he or she is a minor or has died, the Plan Administrator may, unless claim shall have been made therefor by a duly appointed legal representative, direct that any benefit payment due the Participant, to the extent not payable from a grantor trust, be paid on the Participant's behalf to the Participant's spouse, a child, a parent or other blood relative, or to a person with whom the Participant resides or a legal guardian, and any such payment so made shall be a complete discharge of the liabilities of the Company and the Plan therefor.

3.06 Withholding Taxes

The Company shall have the right to deduct from each payment to be made under the Plan any required withholding taxes.

3.07 Nonalienation

Subject to any applicable law, no benefit under the Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, and any attempt to do so shall be void, nor

shall any such benefit be in any manner liable for or subject to garnishment, attachment, execution or levy, or liable for or subject to the debts, contracts, liabilities, engagements or torts of the person entitled to such benefits.

3.08 Assumption of Liabilities
Notwithstanding any Plan provision to the contrary, at the sole discretion and direction of the Board of Trustees, the Plan may assume liabilities with respect to benefits accrued by a Participant under a plan maintained by such Participant's former employer, and upon such assumption such liabilities shall become the obligation of the Company.

3.09 Claims Procedure
(a) Submission of Claims
Claims for benefits under the Plan shall be submitted in writing to the Plan Administrator or to an individual designated by the Plan Administrator for this purpose.

(b) Exhaustion of Remedy
No claimant shall institute any action or proceeding in any state or federal court of law or equity or before any administrative tribunal or arbitrator for a claim for benefits under the Plan until the claimant has first exhausted the procedures promulgated by the Plan Administrator for review of claims.

3.10 Construction
(a) The Plan is intended to constitute both an excess benefit arrangement and an unfunded deferred compensation arrangement maintained for a select group of management or highly-compensated employees within the meaning of Sections 201(2), 301(a)(3), and 401(a)(1) of ERISA, and all rights under this Plan shall be governed by ERISA. Subject to the preceding sentence, the Plan shall be construed, regulated and administered under the laws of the State of New York, to the extent such laws are not superseded by applicable federal law.

(b) The illegality of any particular provision of this document shall not affect the other provisions and the document shall be construed in all respects as if such invalid provision were omitted.

(c) The headings and subheadings in the Plan have been inserted for convenience of reference only, and are to be ignored in any construction of the provisions thereof.

ARTICLE IV. PLAN ADMINISTRATION

4.01 Responsibility for Benefit Determination
The benefit of a Participant, spouse, or Beneficiary under this Plan shall be determined either by the Plan Administrator, as provided in Section 4.02 below, or such other party as is authorized under the terms of any grantor trust.

4.02 Duties of Plan Administrator

The Plan Administrator shall calculate, in accordance with Article II, the benefit of each Participant, spouse or Beneficiary under the Plan. To the extent a Participant's, spouse's or Beneficiary's benefit is payable from the Plan, the Plan Administrator shall have full discretionary authority to resolve any question which shall arise under the Plan as to any person's eligibility for benefits, the calculation of benefits, the form, commencement date, frequency, duration of payment, or the identity of the Beneficiary. Such question shall be resolved by the Plan Administrator under rules uniformly applicable to all person(s) or employee(s) similarly situated.

4.03 Procedure for Payment of Benefits Under the Plan

With respect to any benefit to which a Participant, spouse or Beneficiary is entitled under this Plan, the Plan Administrator (a) shall direct the commencement of benefit payments hereunder in accordance with the applicable procedures established by the Company and/or the Plan Administrator regarding the disbursement of amounts from the general funds of the Company and (b) shall arrange, in conjunction with any other applicable excess benefit plan, for the payment of benefits under this Plan and/or any other applicable excess benefit plan.

IN WITNESS WHEREOF, Consolidated Edison Company of New York, Inc. has caused this instrument to be executed by its officer thereunto duly authorized as of the 25th day of March, 1999.

By: Richard P. Cowie
Vice President - Employee Relations

Consolidated Edison Company
of New York, Inc.

Amendment No. 6
To
The Consolidated Edison
Retiree Health Program for
Management Employees

Dated December 30, 1998

Pursuant to authority granted to the Plan Administrator under the terms of The Consolidated Edison Retiree Health Program for Management Employees (the "Program") to amend the Program, the undersigned hereby approves the following amendments to the Program:

1. A new subdivision (e), which shall read as follows, shall be added to Section 3.01 effective January 1, 1999:

"(e) Effective January 1, 1999, Employees who retire and defer receipt of their retirement Pension under the Management Plan and the spouses and surviving spouses of such Employees shall be eligible to participate in the Program and to defer participation in the Program to the same extent as Employees who retire and commence receiving an immediate retirement Pension under the Management Plan and their spouses and surviving spouses. Effective such date Employees who retire shall no longer be required to commence receipt of an immediate retirement Pension to be eligible to participate in the Program."

IN WITNESS WHEREOF, the undersigned has executed this instrument this 30th day of December, 1998.

Richard P. Cowie
Vice President-Employee Relations
and Plan Administrator

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.
DEFERRED INCOME PLAN

Effective January 1, 1994
Amended and Restated Effective as of April 1, 1999

(i)

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.
DEFERRED INCOME PLAN

The Supplemental Thrift Savings Plan of Consolidated Edison Company of New York, Inc., effective as of January 1, 1994, has been amended and restated in its entirety and renamed the Consolidated Edison Company of New York, Inc. Deferred Income Plan (the "Plan"), effective as of April 1, 1999. The purpose of the Plan is to provide a means (i) for receiving employer matching contributions for those employees participating in The Con Edison Thrift Savings Plan for Management Employees (the "Savings Plan") with respect to whom salary deferral and matching contributions under the Savings Plan are or will be limited by application of the limitations imposed on qualified plans by certain sections of the Internal Revenue Code, as amended from time to time; (ii) of providing such employees with an opportunity to defer a portion of their salary in accordance with the terms of the Plan as hereinafter set forth; and (iii) of providing employees who receive an "Incentive Award," as such term is defined in the Consolidated Edison Company of New York, Inc. Executive Incentive Plan (the "Executive Incentive Plan") on or after April 1, 1999 with an opportunity to defer receipt of all or a portion of such Incentive Award.

All benefits payable under this Plan, which is intended to constitute a nonqualified, unfunded deferred compensation plan for a select group of management employees under Title I of ERISA, shall be paid out of the general assets of the Company. The Company may establish and fund a trust in order to aid it in providing benefits due under the Plan.

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.
DEFERRED INCOME PLAN

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CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.
DEFERRED INCOME PLAN

ARTICLE I. DEFINITIONS

1.01 Accounts shall mean the aggregate of a Participant's Basic Salary Deferral Account, the Company Contribution Account, the Mandatory Bonus Deferral Account, the Optional Bonus Deferral Account and the Supplemental Salary Deferral Account.

1.02 Affiliated Company shall mean any company other than the Company which is a member of a controlled group of corporations (as defined in Section 414(b) of the Code) which also includes as a member the Company; any trade or business under common control (as defined in Section 414(c) of the Code) with the Company; any organization (whether or not incorporated) which is a member of an affiliated service group (as defined in Section 414(m) of the Code) which includes the Company; and any other entity required to be aggregated with the Company pursuant to regulations under Section 414(o) of the Code.

1.03 Basic Salary Deferral Account shall mean the bookkeeping account maintained for each Participant to record all amounts credited on such Participant's behalf as Basic Salary Deferrals, earnings, gains and losses on those amounts pursuant to Section 3.02, and debits for administrative expenses allocated pursuant to Section 6.01(a).

1.04 Basic Salary Deferrals shall mean the amount of contributions credited on a Participant's behalf under Section 3.01(a) and those deemed as Basic Salary Deferrals under Section 3.01(b).

1.05 Beneficiary shall mean the person, persons, or entity designated by the Participant to receive the benefits credited to the Participant's Accounts under the Plan in the event of the Participant's death, or in the absence of such election, or in the event such designated person or persons are not alive on the date payment is to be made, the person, persons, or entity determined in accordance with procedures established by the Plan Administrator. A Participant may make a separate designation of Beneficiary for amounts payable pursuant to Section 4.05.

1.06 Board or Board of Trustees shall mean the Board of Trustees of the Company.

1.07 Change in Administration Date shall mean the date the portion of the applicable Mandatory Deferral Portion or Optional Deferral Portion of an Incentive Award granted under the Executive Incentive Plan is first administered and accounted for as a liability under this Plan in accordance with the Executive Incentive Plan.

1.08 Change in Control shall mean an event which shall occur if:

(a) any person, as defined in Section 3(a)(9) of the Securities Exchange Act of 1934 ("Exchange Act"), as such term is modified in Sections 13(d) and 14(d) of the Exchange Act (other than (i) any employee plan established by any "Corporation" (which for these purposes shall be deemed to be the Company and any corporation, association, joint venture, proprietorship or partnership which is connected with the Company either through stock ownership or through common control, within the meaning of Sections 414(b) and (c) and 1563 of the Code), (ii) the Company or any of its affiliates (as defined in Rule 12b-2 promulgated under the Exchange Act), (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, or (iv) a corporation owned, directly or indirectly, by stockholders of the Company in substantially the same proportions as their ownership of the Company) (a "Person"), is or becomes the beneficial owner (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company (excluding from the securities beneficially owned by such Person any securities directly acquired from the Company or its affiliates other than in connection with the acquisition by the Company or its affiliates of a business) representing 20 percent or more of either the then outstanding shares of Common Stock of the Company or the combined voting power of the Company's then outstanding voting securities;

(b) during any period of up to two consecutive years (not including any period prior to April 1, 1999) individuals who, at the beginning of such period, constitute the Board cease for any reason to constitute a majority of the directors then serving on the Board, provided that any person who becomes a director subsequent to the beginning of such period and whose appointment or election by the Board or nomination for election by the Company's shareholders was approved by at least two-thirds of the directors then still in office who either were directors at the beginning of such period or whose appointment, election or nomination for election was previously so approved (other than a director (i) whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A under the Exchange Act, or (ii) who was designated by a person who has entered into an agreement with the Company to effect a transaction described in paragraph (a), (c) or (d) of this Section 1.08) shall be deemed a director as of the beginning of such period;

(c) consummation of a merger or consolidation of the Company with any other corporation or approval of the issuance of voting securities of the Company in connection with a merger or consolidation of the Company occurs (other than (i) a merger or consolidation that would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by

being converted into voting securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of any Corporation, at least 51 percent of the combined voting power of the voting securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation, or (ii) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the beneficial owner (as defined in paragraph (a) above), directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its affiliates other than in connection with the acquisition by the Company or the affiliates of a business) representing 20 percent or more of either the then outstanding shares of Common Stock of the Company or the combined voting power of the Company's then outstanding voting securities); or

(d) the stockholders of the Company approve a plan of complete liquidation or dissolution of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least 65 percent of the combined voting power of the voting securities of which are owned by persons in substantially the same proportions as their ownership of the Company immediately prior to the sale.

Notwithstanding the foregoing, no "Change in Control" shall be deemed to have occurred if there is consummated any transaction, or series of integrated transactions, immediately following which the record holders of the Common Stock immediately prior to such transaction, or series of integrated transactions, continue to have substantially the same proportionate ownership in an entity which owns all or substantially all of the assets of the Company immediately following such transaction or series of integrated transactions.

1.09 Code shall mean the Internal Revenue Code of 1986, as amended from time to time, and any regulations issued thereunder. Reference to any section of the Code shall include any successor provision thereto.

1.10 Company shall mean Consolidated Edison Company of New York, Inc. or any successor thereto by merger, purchase or otherwise; provided, however, that for purposes of Sections 1.08 and 1.33, "Company" shall mean the highest level holding company of Consolidated Edison Company of New York, Inc. (or any successor thereto which continues this Plan) which has publicly traded common stock.

1.11 Company Contribution Account shall mean the bookkeeping account maintained for each Participant to record all amounts credited on such Participant's behalf under Sections 3.01(c) and (d) and all amounts credited on such Participant's behalf under the Supplemental Thrift Plan as of March 31, 1999 or such later date as of which such amounts are administered under this Plan, earnings, gains and losses on those amounts pursuant to Section 3.02, and debits for administrative expenses allocated pursuant to Section 6.01(a).

1.12 Company Contributions shall mean "Company Contributions," as such term is defined in the Savings Plan.

1.13 Compensation shall mean an Eligible Employee's "Compensation" (as such term is defined in the Savings Plan), determined without regard to the Statutory Compensation Limitation (except as otherwise provided in Section 3.01(a) and (b)). Compensation shall be calculated on a monthly basis by dividing Compensation by 12 and be determined prior to any reduction pursuant to an Eligible Employee's election to make (i) pre-tax contributions under the Savings Plan, (ii) pre-tax contributions to a cafeteria plan under Section 125 of the Code, or (iii) Basic Salary Deferrals or Supplemental Salary Deferrals to this Plan.

1.14 Deemed Investment Option shall mean the investment funds as may from time to time be selected by the Plan Administrator in accordance with Section 3.02.

1.15 Deferred Compensation Agreement shall mean the agreement entered into between the Company and the Participant pursuant to Section 2.02(a), (b), (c), or (d) and Section 3.02 under which the Participant elects to reduce his or her Compensation otherwise payable for a Plan Year and have that amount contributed to the Plan by the Company as Basic Salary Deferrals and Supplemental Salary Deferrals and/or designates his or her preferences with regard to the allocation among the available Deemed Investment Options of the aggregate of the Participant's Basic Salary Deferrals, Supplemental Salary Deferrals, Matching Company Contributions, Supplemental Company Contributions, Mandatory Bonus Deferral Contributions and Optional Bonus Deferral Contributions made in such Plan Year, if any.

1.16 Disability shall mean "Disability," as such term is defined under the Savings Plan.

1.17 Effective Date shall mean January 1, 1994.

1.18 Eligible Employee shall mean an employee of the Company whose Compensation for the Plan Year exceeds the Statutory Compensation Limitation and who is eligible to participate in the Savings Plan, or any other person designated by the Chief Executive Officer of the Company as eligible to participate in the Plan.

1.19 ERISA shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time.

1.20 Executive Incentive Plan shall mean the Consolidated Edison Company of New York, Inc. Executive Incentive Plan as amended from time to time.

1.21 Incentive Award shall mean an "Incentive Award," as such term is defined

in the Executive Incentive Plan.

1.22 Mandatory Bonus Deferral Contributions shall mean the amount of contributions credited on a Participant's behalf pursuant to Section 3.01(e).

1.23 Mandatory Bonus Deferral Account shall mean the bookkeeping account maintained for each Participant to record all amounts credited on such Participant's behalf under Section 3.01(e), earnings, gains and losses on those amounts pursuant to Section 3.02, and debits for administrative expenses allocated pursuant to Section 6.01(a).

1.24 Mandatory Deferral Portion shall mean the "Mandatory Deferral Portion," as such term is defined in the Executive Incentive Plan, of an Incentive Award.

1.25 Matching Company Contributions shall mean the amount of contributions credited on a Participant's behalf under Section 3.01(c).

1.26 Optional Bonus Deferral Contributions shall mean the amount of contributions credited on a Participant's behalf pursuant to Section 3.01(f).

1.27 Optional Bonus Deferral Account shall mean the bookkeeping account maintained for each Participant to record all amounts credited on such Participant's behalf under Section 3.01(f), earnings, gains and losses on those amounts pursuant to Section 3.02, and debits for administrative expenses allocated pursuant to Section 6.01(a).

1.28 Optional Deferral Portion shall mean the "Optional Deferral Portion," as such term is defined in the Executive Incentive Plan, of an Incentive Award.

1.29 Participant shall mean (a) each Eligible Employee who has made an election described in Section 2.02(a), (b), (c), or (d); (b) each person who has made a deferral election under the Executive Incentive Plan which has resulted in all or any portion of any of the Eligible Employee's Incentive Awards granted under the Executive Incentive Plan to be administered and accounted for as a liability under this Plan; (c) each person who has had all or any portion of his or her Incentive Awards granted under the Executive Incentive Plan administered and accounted for as a liability under this Plan; (d) such other Eligible Employee who is credited with Supplemental Company Contributions; and (e) such other Eligible Employee who is covered by the provisions of Section 4.05.

1.30 Plan shall mean the Consolidated Edison Company of New York, Inc. Deferred Income Plan as set forth in this document and as amended from time to time.

1.31 Plan Administrator shall mean the individual appointed by the Chief Executive Officer of the Company to administer the Plan as provided in Article V.

1.32 Plan Year shall mean the calendar year.

1.33 Potential Change in Control shall mean an event which shall occur if: (a) the Company enters into a definitive written agreement, the consummation of which would result in the occurrence of a Change in Control;

(b) the Company or any Person (as defined in Section 1.08(a)) publicly announces an intention to take or to consider taking actions which, if consummated, would constitute a Change in Control; or

(c) any Person becomes the beneficial owner (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company representing 15 percent or more of the then outstanding shares of Common Stock of the Company or the combined voting power of the Company's then outstanding securities.

1.34 Retirement shall mean termination of service either (a) under circumstances in which the Participant is entitled to receive a retirement pension under any "defined benefit plan" (as defined in Section 414(j) of the Code) which is maintained by the Company or an Affiliated Company or (b) in the case of any Participant who is employed after age 60 and who is not entitled to receive a retirement pension under any defined benefit plan, on or after the Participant's 65th birthday.

1.35 Savings Plan shall mean The Con Edison Thrift Savings Plan for Management Employees as amended from time to time.

1.36 Statutory Compensation Limitation shall mean the limitation set forth in Section 401(a)(17) of the Code as in effect each year for the Savings Plan.

1.37 Statutory Limitations shall mean the limitations set forth in Section 401(a)(17) and Section 402(g)(1) of the Code.

1.38 Supplemental Company Contributions shall mean the amount of contributions credited on a Participant's behalf under Section 3.01(d).

1.39 Supplemental Salary Deferral Account shall mean the bookkeeping account maintained for each Participant to record all amounts credited on such Participant's behalf under Section 3.01(b), earnings, gains and losses on those amounts pursuant to Section 3.02, and debits for administrative expenses allocated pursuant to Section 6.01(a).

1.40 Supplemental Salary Deferrals shall mean the amount of contributions credited on a Participant's behalf under Section 3.01(b).

1.41 Supplemental Thrift Plan shall mean the Supplemental Thrift Savings Plan of Consolidated Edison Company of New York, Inc. as effective on March 31, 1999.

1.42 Valuation Date shall mean the last day of each calendar month, commencing with the calendar month in which the Effective Date occurs, and any other date designated as a Valuation Date by the Plan Administrator.

ARTICLE II. PARTICIPATION

2.01 Participation

An Eligible Employee shall become a Participant in the Plan on the earliest of:

(a) the date the Eligible Employee first has Basic Salary Deferrals credited on such Eligible Employee's behalf under the Plan pursuant to Sections 2.02 and 3.01(a);

(b) the date the Eligible Employee first has Supplemental Salary Deferrals credited on such Eligible Employee's behalf under the Plan pursuant to Sections 2.02 and 3.01(b);

(c) the date the Eligible Employee first has Mandatory Bonus Deferral Contributions or Optional Bonus Deferral Contributions administered and accounted for as a liability under the Plan pursuant to Section 3.01(e) or 3.01(f); or

(d) the date the Eligible Employee first has Supplemental Company Contributions credited on such individual's behalf under the Plan pursuant to Section 3.01(d).

2.02 Deferred Compensation Agreements

(a) (i) An individual who is an Eligible Employee before April 1, 1999 and who wishes to have salary reduction contributions credited on such Eligible Employee's behalf to a Basic Salary Deferral Account under the Plan in the 1999 Plan Year must, within 30 days after April 1, 1999 (the effective date of the amended and restated Plan), or the date the amended and restated Pan was approved by the Company, if later, and (ii) any Eligible Employee who wishes to have salary reduction contributions credited on such Eligible Employee's behalf to a Basic Salary Deferral Account under the Plan in a Plan Year commencing on or after April 1, 1999 must, prior to the beginning of that Plan Year, complete, execute and file with the Plan Administrator an irrevocable Deferred Compensation Agreement authorizing Basic Salary Deferrals under this Plan for such Plan Year in accordance with the provisions of paragraph (c)(i) below and Section 3.01(a). Such Deferred Compensation Agreement may also authorize Supplemental Salary Deferrals under this Plan in accordance with the provisions of paragraph (c)(ii) below and Section 3.01(b) for such Plan Year if (i) the Eligible Employee is an officer of the Company or is designated by the Chief Executive Officer as eligible to make Supplemental Salary Deferrals and (ii) the Eligible Employee authorizes on such Deferred Compensation Agreement the Basic Salary Deferrals permitted to be made to this Plan.

(b) Notwithstanding the provisions of paragraph (a) above, an individual who becomes an Eligible Employee after April 1, 1999 who wishes to have salary reduction contributions credited on such Eligible Employee's behalf to a Salary Deferral Account under the Plan in the calendar year such individual first becomes an Eligible Employee must, no later than 30 days following the date such individual becomes an Eligible Employee, complete, execute and file with the Plan Administrator an irrevocable Deferred Compensation Agreement authorizing Basic Salary Deferrals under this Plan for such Plan Year in accordance with the provisions of paragraph (c)(i) below and Section 3.01(a). Such Deferred Compensation Agreement may also authorize Supplemental Salary Deferrals under this Plan in accordance with the provisions of paragraph (c)(ii) below and Section 3.01(b) for such Plan Year if (i) the Eligible Employee is an officer of the Company or is designated by the Chief Executive Officer as eligible to make Supplemental Salary Deferrals and (ii) the Eligible Employee authorizes on such Deferred Compensation Agreement the Basic Salary Deferrals permitted to be made to this Plan.

(c) A Deferred Compensation Agreement for a Plan Year shall be in writing and be properly completed upon a form approved by the Plan Administrator, who shall be the sole judge of the proper completion thereof. Such Deferred Compensation Agreement shall specify:

(i) the percentage of the Participant's Compensation to be reduced and credited on the Participant's behalf to the Plan by the Company as Basic Salary Deferrals, such percentage to be 6 percent (or such other percentage as specified for such purpose by the Plan Administrator);

(ii) the percentage of the Participant's Compensation to be reduced and credited on the Participant's behalf to the Plan by the Company as Supplemental Salary Deferrals, such percentage to be in multiples of 1 percent and to not exceed 25 percent (or such other percentage as specified for such purpose by the Plan Administrator); and

(iii) the Participant's preferences with regard to the allocation among the Deemed Investment Options of the aggregate of Participant's Basic Salary Deferrals, Supplemental Salary Deferrals, Company Matching Contributions, Supplemental Company Contributions, Mandatory Bonus Deferral Contributions and Optional Bonus Deferral Contributions, if any, to be credited for such Plan Year.

(d) Any Deferred Compensation Agreement made by an Eligible Employee shall only be effective with respect to Compensation to be earned and Basic Salary Deferrals, Supplemental Salary Deferrals, Company Matching Contributions, Supplemental Company Contributions, Mandatory Bonus Deferral Contributions and Optional Bonus Deferral Contributions credited in the Plan Year to which such Deferred Compensation Agreement relates. The terms of an Eligible Employee's Deferred Compensation Agreements may differ from Plan Year to Plan Year with respect to:

(i) the deferral percentage with respect to Supplemental Salary Deferrals;

(ii) the deferral period with respect to Supplemental Salary Deferrals, which must end on a January 1 not sooner than the fourth anniversary of

the first day of the Plan Year for which such Supplemental Salary Deferrals are made; (iii) the effective date of Supplemental Salary Deferrals pursuant to
Section 3.01(b); and
(iv) the Participant's preferences with respect to allocation among the Deemed Investment Options.

(e) Notwithstanding the foregoing, if a Participant receives a hardship withdrawal of pre-tax contributions from the Savings Plan or any other plan which is maintained by the Company and which meets the requirements of Section 401(k) of the Code (or any successor thereof) and is precluded from making contributions to such 401(k) plan for at least 12 months after receipt of the hardship withdrawal, the Participant's Deferred Compensation Agreement, if any, shall be suspended during the 12-month period commencing on the date the Participant receives the hardship withdrawal distribution from such plan. Any Compensation payment which would have been deferred pursuant to the Participant's Deferred Compensation Agreement but for the application of this paragraph (e) shall be paid to the Participant as if the Participant had not entered into the Deferred Compensation Agreement.

2.03 Termination of Participation
A Participant's participation in the Plan shall terminate when the vested portion of the Participant's Accounts under the Plan is totally distributed to the Participant or on the Participant's behalf.

ARTICLE III. ACCOUNTS

3.01 Amount of Contributions to be Credited

For any Plan Year, the amount of contributions to be recorded on the books of the Company on behalf of a Participant pursuant to this Article III shall be equal to the sum of the Basic Salary Deferrals, Supplemental Salary Deferrals, Matching Company Contributions, Supplemental Company Contributions, Mandatory Bonus Deferral Contributions and Optional Bonus Deferral Contributions determined under paragraphs (a), (b), (c), (d), (e) and (f) below. In addition, the amounts credited on a Participant's behalf under the Supplemental Thrift Plan shall be recorded on the books of the Company on behalf of such Participant pursuant to paragraph (g)(v) below.
(a) Basic Salary Deferrals
The amount of Basic Salary Deferrals for a Plan Year shall be equal to the designated percentage of Compensation elected by the Participant in the Participant's Deferred Compensation Agreement in accordance with Section 2.02, provided that the reduction in the Participant's Compensation corresponding to the Basic Salary Deferrals elected by the Participant shall be made only with respect to Compensation payable after the date the Participant's Deferred Compensation Agreement becomes effective.

Except as provided in Section 3.01(b), Basic Salary Deferrals shall be permitted under this paragraph (a) only with respect to the Participant's Compensation for which pre-tax contributions could not be contributed to the Savings Plan because of the Statutory Limitations.

(b) Supplemental Salary Deferrals
The amount of Supplemental Salary Deferrals for a Plan Year shall be equal to the designated percentage of Compensation elected by the Participant in the Participant's Deferred Compensation Agreement in accordance with Section 2.02, provided that the reduction in the Participant's Compensation corresponding to the Supplemental Salary Deferrals elected by the Participant shall be made only with respect to Compensation payable after the date the Participant's Deferred Compensation Agreement becomes effective or, if the Participant so elects on the Participant's Deferred Compensation Agreement, only with respect to the Participant's Compensation for which pre-tax contributions could not be contributed to the Savings Plan because of the Statutory Limitations. If the reduction in the Participant's Compensation corresponding to the Supplemental Salary Deferrals elected by the Participant shall reduce the Participant's Compensation below one-twelfth of the Statutory Compensation Limitation, a portion of such Supplemental Salary Deferrals shall be matched by Company Contributions under Section 3.02(c). Such matched Supplemental Salary Deferrals shall be deemed Basic Salary Deferrals for all other provisions of this Plan.

(c) Matching Company Contributions
The amount of Matching Company Contributions for a Plan Year shall be equal to the sum of the Basic Salary Deferrals and Supplemental Salary Deferrals made on the Participant's behalf for the Plan Year multiplied by the rate at which Company Contributions are made under the Savings Plan; provided, however, that such amount shall not exceed the result of (i) minus (ii) as follows: (i) the product of (A), (B) and (C) as follows:
(A) is an amount equal to the Participant's Compensation for the Plan Year;
(B) is the maximum percentage of "Compensation" (as such term is defined under the Savings Plan) with respect to which Company Contributions under the Savings Plan may be made; and
(C) is the rate at which Company Contributions are made under the Savings Plan; and
(ii) is the actual amount of the Company Contributions made by the Company on behalf of the Participant under the Savings Plan for such Plan Year.
(d) Supplemental Company Contributions
The Chief Executive Officer of the Company may authorize that

Supplemental Company Contributions shall be made for a Plan Year, which shall be allocated in such amounts and to such Participants as the Chief Executive Officer of the Company shall determine.

(e) Mandatory Bonus Deferral Contributions
The amount of Mandatory Bonus Deferral Contributions for a Plan Year shall be equal to the value on the Change of Administration Date of any portion of the Mandatory Deferral Portion of an Incentive Award granted under the Executive Incentive Plan that is administered and accounted for as a liability under this Plan in accordance with the Executive Incentive Plan.

(f) Optional Bonus Deferral Contributions
The amount of Optional Bonus Deferral Contributions for a Plan Year shall be equal to the value on the Change of Administration Date of any portion of the Optional Deferral Portion of an Incentive Award granted under the Executive Incentive Plan that is administered and accounted for as a liability under this Plan in accordance with the Executive Incentive Plan.

(g) (i) The contributions recorded on the books of the Company pursuant to paragraphs (a) and (b) above shall be credited to a Participant's Basic Salary Deferral Account and Supplemental Salary Deferral Account, respectively, at the same time as they would have been credited to the Participant's account under the Savings Plan had such contributions been made under the Savings Plan.

(ii) The contributions recorded on the books of the Company pursuant to paragraph (c) above shall be credited to a Participant's Company Contribution Account at the same time as they would have been credited to the Participant's account under the Savings Plan had such contributions been made under the Savings Plan.

(iii) The contributions recorded on the books of the Company pursuant to paragraph (d) above shall be credited to a Participant's Company Contribution Account at the time designated for such purpose by the Chief Executive Officer.

(iv) The contributions recorded on the books of the Company pursuant to paragraphs (e) and (f) above shall be credited to a Participant's Mandatory Bonus Deferral Account and Optional Bonus Deferral Account, respectively, on the date such contributions are first administered and accounted for as a liability under this Plan pursuant to the Executive Incentive Plan.

(v) As of April 1, 1999, or the date thereafter on which it is administratively practicable as determined by the Plan Administrator, the contributions recorded on the books of the Company on account of amounts credited under the Supplemental Thrift Plan shall be credited to a Participant's Company Contribution Account.

(h) Unless the Plan Administrator determines otherwise, no future Basic Salary Deferrals or Supplemental Salary Deferrals by a Participant shall be permitted and no future Matching Company Contributions or Supplemental Company Contributions shall be made on behalf of such Participant if such Participant is no longer an Eligible Employee.

3.02 Investment of Accounts

(a) Accounts shall be credited with earnings, gains and losses of the Deemed Investment Options selected by the Plan Administrator, with such allocation among the Deemed Investment Options as the Plan Administrator selects. However, a Participant shall designate on each Deferred Compensation Agreement his or her preferences with regard to the allocation among the Deemed Investment Options of the aggregate of his or her Basic Salary Deferrals, Supplemental Salary Deferrals, Company Matching Contributions, Supplemental Company Contributions, Mandatory Bonus Deferral Contributions and Optional Bonus Deferral Contributions made pursuant to such Deferred Compensation Agreement or to be credited in the Plan Year to which such Deferred Compensation Agreement relates. A Participant may designate a preference with respect to the allocation in the aggregate of his or her Basic Salary Deferrals, Supplemental Salary Deferrals, Company Matching Contributions, Supplemental Company Contributions, Mandatory Bonus Deferral Contributions and Optional Bonus Deferral Contributions made pursuant to a Deferred Compensation Agreement or to be credited in the Plan Year to which such Deferred Compensation Agreement relates entirely in any one of the Deemed Investment Options or may designate any combination in such multiples as specified by the Plan Administrator. The amounts credited on a Participant's behalf under the Supplemental Thrift Plan shall be allocated to the Deemed Investment Option selected for the Participant's Company Matching Contributions for the Plan Year commencing January 1, 1999. The amounts credited on a Participant's behalf under the Executive Incentive Plan as of March 31, 1999 and transferred to this Plan in accordance with the Executive Incentive Plan shall be allocated to the Deemed Investment Option selected for the Participant's Mandatory and Optional Bonus Deferral Contributions, respectively, for the Plan Year transferred.

The Plan Administrator may from time to time make additional Deemed Investment Options available as a performance measure under this Plan and may determine that any Deemed Investment Option that it has previously established be terminated as a performance measure under this Plan.

(b) A Participant may elect to change his or her preferences with respect to the allocation among the Deemed Investment Options for a Plan Year for the aggregate of future Basic Salary Deferrals, Supplemental Salary Deferrals, Company Matching Contributions, Supplemental Company Contributions, Mandatory Bonus Deferral Contributions, and Optional Bonus Deferral Contributions in that Plan Year at such times and in accordance with such procedures specified by Plan Administrator.

(c) With regard to the aggregate of a Participant's existing Accounts, a Participant may designate a preference to transfer balances among the available Deemed Investment Options at such times and in accordance with such procedures specified by the Plan Administrator. Any transfers must be made in such multiples as specified by the Plan Administrator. The Plan Administrator may impose such additional rules and limitations upon transfers between Deemed Investment Options as the Plan Administrator may consider necessary or appropriate.

(d) Notwithstanding any other provision of the Plan, the Plan Administrator shall have sole and absolute discretion with regard to the investment returns credited to a Participant's Accounts.

3.03 Vesting of Accounts

(a) A Participant shall at all times be fully vested in the Participant's Basic Salary Deferral Account, Supplemental Salary Deferral Account, Mandatory Bonus Deferral Account, and Optional Bonus Deferral Account (including amounts transferred from the Executive Incentive Plan).

(b) A Participant shall vest in the Matching Company Contributions made on the Participant's behalf and earnings thereon at the same time and to the same extent as such Participant is vested in Company Contributions under the Savings Plan.

(c) A Participant shall vest in the Supplemental Company Contributions made on the Participant's behalf and earnings thereon in accordance with Section 3.02 under the vesting schedule established for such contributions by the Plan Administrator.

3.04 Individual Accounts

The Plan Administrator shall maintain, or cause to be maintained, records showing the individual balances of each Participant's Accounts and the vested portion thereof. At least once a year, each Participant shall be furnished with a statement setting forth the value of the Participant's Accounts.

ARTICLE IV. PAYMENT OF BENEFITS

4.01 Commencement of Payment

(a) Except as provided in Section 4.01(b), 4.02(c) or Section 4.03, payment of any portion of a Participant's Accounts payable for a reason other than the Participant's termination of employment with the Company and Affiliated Companies shall commence as follows: (i) in accordance with the Participant's election in the applicable Deferred Compensation Agreement, with respect to payment of a Participant's Supplemental Salary Deferral Account attributable to Supplemental Salary Deferrals made on the Participant's behalf for a Plan Year and earnings thereon;

(ii) in accordance with the Participant's election relating to the Mandatory Deferral Portion of any Incentive Award granted under the Executive Incentive Plan, with respect to payment of a Participant's Mandatory Bonus Deferral Account attributable to Mandatory Bonus Deferral Contributions relating to such Mandatory Deferral Portion and earnings thereon;

(iii) in accordance with the Participant's election relating to the Optional Deferral Portion of any Incentive Award granted under the Executive Incentive Plan, with respect to payment of a Participant's Optional Bonus Deferral Account attributable to Optional Bonus Deferral Contributions relating to such Optional Deferral Portion and earnings thereon; and

(iv) in accordance with the Participant's election in effect under the Executive Incentive Plan immediately prior to the transfer of any Incentive Award granted under such Executive Incentive Plan with respect to payment of such amounts transferred on the Participant's behalf which were credited under the Executive Incentive Plan prior to April 1, 1999 and earnings thereon.

(b) Notwithstanding the provisions of paragraph (a) above, a Participant who has not terminated employment with the Company and Affiliated Companies may make an irrevocable election at any time to accelerate payment of all of his or her Supplemental Salary Deferral Account, Mandatory Bonus Deferral Account and Optional Bonus Deferral Account to a date prior to the date such Accounts would otherwise have been payable pursuant to paragraph (a) above. Such payment shall be made in a single lump sum, as soon as administratively practicable after such election, and shall equal the entire value of his or her Supplemental Salary Deferral Account, Mandatory Bonus Deferral Account and Optional Bonus Deferral Account as of the date of such distribution, reduced by the prime rate as published in the Wall Street Journal as of the date of distribution plus 100 basis points.

Except as provided in Section 4.02(c) or Section 4.03, payment of a Participant's Basic Salary Deferral Account and Company Contribution Account shall not be made before the Participant's termination of employment.

(c) Except as provided in Section 4.02(c) or Section 4.03, payment of a Participant's Accounts payable on account of the Participant's termination of employment with the Company and Affiliated Companies shall commence as follows:

(i) if payment of a Participant's Accounts is to be made in the form of a lump sum, such payment shall commence as soon as administratively practicable after the Participant's termination of

employment with the Company and Affiliated Companies; or (ii) if payment of a Participant's Accounts is to be made in the form of installments pursuant to the Participant's election in accordance with Section 4.02(b), such payments shall commence as soon as administratively practicable after the January 1 coincident with or next following the Participant's termination of employment with the Company and Affiliated Companies.

4.02 Method of Payment

(a) Payment of any portion of a Participant's Accounts payable prior to a Participant's termination of employment with the Company and Affiliated Companies shall be made in the form of a single lump sum.

(b) (i) Unless a Participant elects otherwise in accordance with subparagraph (iii) below, payment of the Participant's Accounts payable on account of such Participant's termination of employment with the Company or an Affiliated Company shall be made in the form of a single lump sum.
(ii) A Participant may elect that payment of a Participant's Accounts attributable to the amounts credited to Participant's Mandatory Bonus Deferral Account and Optional Bonus Deferral Account from the Executive Incentive Plan, which were credited thereunder prior to April 1, 1999 and for which Participant had elected an annuity benefit payable under the Executive Incentive Plan, be paid in the form of annual cash installments for a period of years not to exceed ten.
(iii) If a Participant's total Accounts balance exceeds $25,000, a Participant may elect that payment of the Participant's Accounts payable on account of such Participant's termination of employment with the Company or an Affiliated Company, including Executive Incentive Plan transfers, be made in the form of annual cash installments for a period of years, not to exceed ten, in lieu of a single lump sum.
A Participant may revoke such election, or may designate a different installment period, not to exceed ten years, by duly completing, executing and filing such election, revocation, or change of installment period with the Plan Administrator. Such election, or the revocation of such election, or the designation of a different installment period, shall be made by the Participant on a form designated by the Plan Administrator for such purpose; provided, however, for any such election, revocation or change of installment period to be effective, a full calendar year must pass between the calendar year during which the Participant duly makes such election, revocation or change of period and the calendar year in which the payment is to commence.

During an installment payment period, the Participant's Accounts shall continue to be credited with earnings, gains and losses as provided in Section 3.02. The first installment shall be made as soon as administratively practicable following the January 1 coincident with or next following the Participant's termination of employment with the Company or an Affiliated Company. Subsequent installments, if any, shall be paid as soon as practicable following the beginning of the following calendar year and each subsequent year of the installment period. The amount of each installment shall equal the sum of the balance in the Participant's Accounts as of the Valuation Date coincident with or immediately preceding the date of such installment's distribution divided by the number of remaining installments (including the installment being determined).

(c) If a Participant dies before payment of the entire vested balance of the Participant's Accounts, an amount equal to the unpaid portion thereof as of the Valuation Date coincident with or immediately preceding the Participant's date of death shall be payable in one lump sum to the Participant's Beneficiary as soon as administratively practicable after the Participant's death.

4.03 Payment Upon the Occurrence of a Change in Control

(a) Unless a Participant elects otherwise prior to the date a Change in Control occurs, upon the occurrence of a Change in Control the Participant shall automatically receive, in a single lump sum as soon as administratively practicable after the date the Change in Control occurs, the amount credited to the Participant's Accounts as of the Valuation Date coincident with or immediately preceding the date the Change in Control occurs.

(b) If, due to an election pursuant to paragraph (a) above, a Participant is not to receive a single lump sum upon a Change in Control, the Participant may elect, within 30 days after the date the Change in Control occurs, to receive, in a single lump sum, the value, on the date the Change in Control occurs, of the Participant's vested Accounts, determined in accordance with paragraph (a) above, reduced by the prime rate as published in the Wall Street Journal on the date the Change in Control occurs plus 100 basis points. Such payment will be made as soon as administratively practicable after the Participant's election is received by the Plan Administrator.

(c) The elections permitted to Participants by paragraphs (a) and (b) above shall be made by a writing signed by the Participant and delivered to the Plan Administrator.

4.04 Payment Upon Hardship

The Participant may request, in such manner as the Plan Administrator shall prescribe, to withdraw from his Accounts such amount as is necessary to meet an unforeseen financial hardship. The Plan Administrator shall have the sole and absolute discretion to grant or deny such a request. Any such withdrawal shall result in a penalty against the Participant's Accounts equal to 1 percent above the prime rate reported in The Wall

Street Journal for the last business day of the quarter preceding the calendar quarter in which the withdrawal is processed.

4.05 Additional Death Benefits

An Eligible Employee who is an officer of the Company or is designated by the Chief Executive Officer as eligible shall be covered by an additional death benefit over and above any death benefit payable pursuant to Section 4.02(c). Such benefit shall be equal to such Participant's salary (which for this Section 4.05 is the Participant's annual base rate of salary, including any pre-tax contributions to the Savings Plan, the Company's FLEX Plan, and deferrals made pursuant to Sections 3.01(a) and 3.01(b) hereof, and excluding overtime, bonuses, variable or incentive pay, or any other special payments) as long as such Participant remains in the employ of the Company. Upon the Participant's Retirement, such death benefit coverage shall continue in effect after the date of Retirement. Upon the Participant's death, the benefit shall be paid, in a manner designated by the Plan Administrator, to the Beneficiary last designated by the Participant.

ARTICLE V. PLAN ADMINISTRATION

5.01 Responsibility for Account Determination

The Accounts credited on behalf of a Participant or Beneficiary under this Plan shall be determined either by the Plan Administrator, as provided in Section 5.02 below, or such other party as is authorized under the terms of any grantor trust.

5.02 Duties of Plan Administrator

The Plan Administrator shall calculate, in accordance with Article IV, the Accounts credited on behalf of each Participant or Beneficiary under the Plan. To the extent a Participant's or Beneficiary's vested Account balance is payable from the Plan, the Plan Administrator shall have full discretionary authority to resolve any question which shall arise under the Plan as to any person's eligibility for benefits, the calculation of benefits, the form, commencement date, frequency, duration of payment, or the identity of the Beneficiary. Such question shall be resolved by the Plan Administrator under rules uniformly applicable to all person(s) or employee(s) similarly situated.

5.03 Procedure for Payment of Benefits Under the Plan

With respect to any benefit to which a Participant or Beneficiary is entitled under this Plan, the Plan Administrator (a) shall direct the commencement of benefit payments hereunder in accordance with the applicable procedures established by the Company and/or the Plan Administrator regarding the disbursement of amounts from the general funds of the Company and (b) shall arrange, in conjunction with any other applicable plan, for the payment of benefits under this Plan and/or any other applicable plan.

ARTICLE VI. GENERAL PROVISIONS

6.01 Funding

(a) All amounts payable in accordance with this Plan shall constitute a general unsecured obligation of the Company. Such amounts shall be paid out of the general assets of the Company, to the extent not paid from the assets of any trust established pursuant to paragraph (b) below. The Plan Administrator may determine that any administrative costs relating to the Plan shall be allocated to Participants' Accounts, and such Accounts shall be reduced by the allocated costs.

(b) The Company may, for administrative reasons, establish a grantor trust for the benefit of Participants in the Plan. Notwithstanding the foregoing sentence, the Company shall, upon a Potential Change in Control, (1) establish a grantor trust for the benefit of the Participants in the Plan if one is not already in existence and (2) assure that the funds in such trust are at least equal to the sum of the Participant's Accounts in the Plan, as well as any other liabilities of the Plan in excess of such Accounts, if any, incurred as of the date of the Potential Change in Control. The assets placed in such trust shall be held separate and apart from other Company funds and shall be used for the purposes set forth in the Plan and the applicable trust agreement, subject to the following conditions:
   (i) the creation of such trust shall not cause the Plan to be other than "unfunded" for purposes of Title I of ERISA;
   (ii) the Company shall be treated as "grantor" of such trust for purposes of Section 677 of the Code; and
   (iii) the agreement of such trust shall provide that its assets may be used upon the insolvency or bankruptcy of the Company to satisfy claims of the Company's general creditors and that the rights of such general creditors are enforceable by them under federal and state law; and
   (iv) without in any way limiting the choice of assets thereunder, such trust may invest in life insurance policies, including so-called "split dollar" policies.

6.02 Discontinuance and Amendment

The Company reserves the right, by action of the Board of Trustees, to discontinue the crediting of benefits under the Plan at any time; and further reserves the right, by action of the Board of Trustees or the Plan Administrator, to modify or amend the Plan, in whole or in part, at any time. However, no modification, amendment, or discontinuance shall adversely affect the right of any Participant to receive the benefits credited under the Plan as of the date of such modification, amendment or

discontinuance, and no modification or amendment by action of the Plan Administrator shall have a material effect of the benefits payable under the Plan.

6.03 Termination of Plan

The Company reserves the right, by action of the Board of Trustees, to terminate the Plan at any time, provided, however, that no termination shall be effective retroactively. As of the effective date of termination of the Plan:

(a) the benefits of any Participant or Beneficiary whose benefit payments have commenced shall continue to be paid; and

(b) no further Basic Salary Deferrals, Supplemental Salary Deferrals, Mandatory Bonus Deferral Contributions, Optional Bonus Deferral Contributions, Matching Company Contributions, or Supplemental Company Contributions shall be credited on behalf of any Participant whose benefits have not commenced, and such Participant and the Participant's Beneficiary shall retain the right to benefits hereunder. Earnings, gains and losses shall continue to be credited in accordance with Section 3.02 until payment of a Participant's Accounts has been made under the terms of the Plan in effect immediately prior to the date the Plan is terminated.

All other provisions of this Plan shall remain in effect.

6.04 Plan Not a Contract of Employment

This Plan is not a contract of employment, and the terms of employment of any Participant shall not be affected in any way by this Plan or related instruments, except as specifically provided therein. The establishment of this Plan shall not be construed as conferring any legal rights upon any person for a continuation of employment, nor shall it interfere with the rights of the Company to discharge any person and to treat such person without regard to the effect which such treatment might have upon such person under this Plan. Each Participant and all persons who may have or claim any right by reason of the Participant's participation in this Plan shall be bound by the terms of this Plan and all agreements entered into pursuant thereto.

6.05 Facility of Payment

In the event that the Plan Administrator shall find that a Participant is unable to care for such Participant's affairs because of illness or accident or because the Participant is a minor or has died, the Plan Administrator may, unless claim shall have been made therefor by a duly appointed legal representative, direct that any benefit payment due the Participant, to the extent not payable from a grantor trust, be paid on the Participant's behalf to the Participant's spouse, a child, a parent or other blood relative, a person with whom the Participant resides, or a legal guardian, and any such payment so made shall be a complete discharge of the liabilities of the Company and the Plan therefor.

6.06 Withholding Taxes

The Company shall have the right to deduct from each payment to be made under the Plan any required withholding taxes.

6.07 Nonalienation

Subject to any applicable law, no benefit under the Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, and any attempt to do so shall be void, nor shall any such benefit be in any manner liable for or subject to garnishment, attachment, execution or levy, or liable for or subject to the debts, contracts, liabilities, engagements or torts of the person entitled to such benefits.

6.08 Assumption of Liabilities

Notwithstanding any Plan provision to the contrary, at the discretion and direction of the Board of Trustees, the Plan may assume liabilities with respect to benefits accrued by a Participant under a plan maintained by such Participant's former employer, and upon such assumption such liabilities shall become the obligation of the Company.

6.09 Claims Procedure

(a) Submission of Claims
Claims for benefits under the Plan shall be submitted in writing to the Plan Administrator or to an individual designated by the Plan Administrator for this purpose.

(b) Exhaustion of Remedy
No claimant shall institute any action or proceeding in any state or federal court of law or equity or before any administrative tribunal or arbitrator for a claim for benefits under the Plan until the claimant has first exhausted the procedures promulgated by the Plan Administrator for review of claims.

6.10 Construction

(a) The Plan is intended to constitute an unfunded deferred compensation arrangement maintained for a select group of management or highly-compensated employees within the meaning of Sections 201(2), 301(a)(3), and 401(a)(1) of ERISA, and all rights under this Plan shall be governed by ERISA. Subject to the preceding sentence, the Plan shall be construed, regulated and administered under the laws of the State of New York, to the extent such laws are not superseded by

applicable federal law.

(b) The illegality of any particular provision of this document shall not affect the other provisions and the document shall be construed in all respects as if such invalid provision were omitted.

(c) The headings and subheadings in the Plan have been inserted for convenience of reference only, and are to be ignored in any construction of the provisions thereof.

IN WITNESS WHEREOF, Consolidated Edison Company of New York, Inc. has caused this instrument to be executed by is officer thereunto duly authorized as of the 25th day of March, 1999.

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

CONSOLIDATED EDISON, INC.
RESTRICTED STOCK PLAN FOR NON-OFFICER DIRECTORS
EFFECTIVE OCTOBER 1, 1998

I. PURPOSE. The purpose of the Plan is to advance the interests of Consolidated Edison, Inc. and its stockholders by assisting the Company in attracting and retaining individuals of superior talent, ability and achievement to serve on its Board of Directors.

II. DEFINITIONS. The following words and phrases shall have the meanings set forth below unless a different meaning is required by the context:

(a) Adjustment Shares: New or additional or different shares of Common Stock or other securities (other than rights or warrants to purchase securities) received or entitled to be received by an owner of Restricted Stock as a result of a change in capitalization of the Company as set forth in Article VII hereof.

(b) Annual Meeting: The Annual Meeting of Stockholders of the Company.

(c) Beneficial Owner: As set forth in Rule 13d-3 under the Exchange Act.

(d) Board: The Board of Directors of the Company.

(e) Change in Control: The occurrence of any of the following:

(i) any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its affiliates other than in connection with the acquisition by the Company or its affiliates of a business) representing 20% or more of either the then outstanding shares of Common Stock or the combined voting power of the Company's then outstanding securities; or

(ii) the following individuals cease for any reason to constitute a majority of the number of directors then serving on the Board; individuals who, on the Effective Date hereof, constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company (as such terms are used in Rule 14a-11 of Regulation 14A under the Exchange Act)) whose appointment or election by the Board or nomination for election by the Company's shareholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors on the Effective Date hereof or whose appointment, election or nomination for election was previously so approved; or

(iii) the shareholders of the Company approve a merger or consolidation of the Company with any other corporation or approve the issuance of voting securities of the Company in connection with a merger or consolidation of the Company (or any direct or indirect subsidiary of the Company) pursuant to applicable stock exchange requirements, other than (A) a merger or consolidation that would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any affiliate of the Company, at least 65% of the combined voting power of the voting securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation, or (B) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its affiliates other than in connection with the acquisition by the Company or its affiliates of a business) representing 20% or more of either the then outstanding shares of Common Stock of the Company or the combined voting power of the Company's then outstanding securities; or

(iv) the stockholders of the Company approve a plan of complete liquidation or dissolution of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least 65% of the combined voting power of the voting securities of which are owned by Persons in substantially the same proportions as their ownership of the Company immediately prior to such sale.

Notwithstanding the foregoing, no "Change in Control" shall be deemed to have occurred if there is consummated any transaction or series of integrated transactions immediately following which the record holders of the Common Stock immediately prior to such transaction or series of transactions continue to have substantially the same proportionate ownership in an entity which owns all or substantially all of the assets of the Company immediately following such transaction or series of transactions.

(f) Committee: The Company's Nominating Committee.

(g) Common Stock: The Company's Common Shares, $.10 par value.

(h) Company: Consolidated Edison, Inc., or its successor or successors.

(i) Effective Date: October 1, 1998.

(j) Exchange Act: The Securities Exchange Act of 1934, as amended, or as it may be amended from time to time.

(k) Non-Officer Director: A member of the Board who is not also an officer or employee of the Company.

(l) Person: As defined in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (i) the Company or any of its affiliates (as defined in Rule 12b-2 promulgated under the Exchange Act), (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its affiliates, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, or (iv) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company.

(m) Plan: Consolidated Edison, Inc. Restricted Stock Plan for Non-Officer Directors, as it may be amended from time to time.

(n) Restriction Termination Date: as to each Non-Officer Director, the earlier of (i) five years from the date of grant (determined in accordance with Article IV hereof), (ii) retirement from Service at age 72 (or earlier with the consent of the Board or Committee), (iii) the death of the Director, or (iv) a Change in Control.

(o) Restricted Stock: Shares of Common Stock subject to restrictions awarded pursuant to Article IV hereof.

(p) Securities Act: The Securities Act of 1933, as amended, or as it may be amended from time to time.

(q) Service: A Non-Officer Director's service as a member of the Board.

(r) Year of Service: The annual period of Service commencing the day of each Annual Meeting and ending on the day before the next Annual Meeting. For any person first appointed a member of the Board after the date of an Annual Meeting, his or her first Year of Service shall commence upon his or her appointment as a Director and shall end on the day before the next Annual Meeting.

III. SHARES SUBJECT TO THE PLAN. Shares of Restricted Stock awarded under the Plan shall be purchased on the open market by or on behalf of the Company or its agent.

IV. RESTRICTED STOCK AWARDS.

A. On the Effective Date, each Non-Officer Director shall be granted an award of 200 shares of Restricted Stock.

B. After the Effective Date, each Non-Officer Director shall be granted an award of 200 shares of Restricted Stock upon the commencement of each Year of Service. The date of grant shall be the first business day of the month following the Annual Meeting or the Non-Officer Director's first appointment as a member of the Board.

C. The award of shares of Restricted Stock, including the restrictions thereon, shall be consistent with the following:

(i) Shares of Restricted Stock will be issued in the name of the Non-Officer Director receiving the award, but prior to the Restriction Termination Date the shares will be held by the Company or an agent appointed by the Company for the account of such Non-Officer Director (together with a blank stock power which the Non-Officer Director shall execute and deliver to the Company).

(ii) Upon the Restriction Termination Date, the restrictions on the Restricted Stock shall lapse and the Company shall deliver to the Non-Officer Director, or such other person as may be designated pursuant to Article IV.C (iii) a certificate for the shares which have been awarded to him or her without any legend or restriction of any kind and the Company shall return to the Non-Officer Director or destroy any and all blank stock powers previously provided to it by such Non-Officer Director. The Company shall use its reasonable best efforts to ensure that the shares are freely transferable after the Restriction Termination Date, including, if necessary, registering the shares under the Securities Act and obtaining such listing, qualification and compliance as may be required by state or federal law, or the securities exchange or exchanges on which the Common Stock is listed.

(iii) Shares of Restricted Stock may not be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of, prior to the Restriction Termination Date except with the consent of the Committee or the Board and provided that a Director may direct that the shares of Restricted Stock be registered jointly with another person or transferred to a family member or to a trust or other entity for estate planning purposes. Any attempted sale, assignment, transfer, pledge, hypothecation or other disposition in contravention of the foregoing shall be null and void and without effect.

(iv) Except as otherwise provided herein, a Non-Officer Director receiving an award of shares of Restricted Stock shall have all rights of a stockholder with respect to shares of Restricted Stock issued in his or her name, including the right to vote and to receive dividends and other distributions.

(v) If a Non-Officer Director, as owner of shares of Restricted Stock, receives or shall be entitled to receive Adjustment Shares, the certificates representing the Adjustment Shares (together with a blank stock power executed by such Non-Officer Director) shall be delivered to and held by the Company or its agent. Any Adjustment Shares shall be Restricted Stock for all purposes of the Plan, subject to the same restrictions as the shares of Restricted Stock to which they relate. If a Non-Officer Director shall receive rights or warrants with respect to any shares of Restricted Stock or any Adjustment Shares, such rights or warrants may be held, exercised, sold or otherwise disposed of by the Non-Officer Director, and any shares or other securities acquired by the Non-Officer Director as a result of the exercise of such rights or warrants likewise may be held, sold, or otherwise disposed of by the Non-Officer Director, free and clear of any restrictions.

V. FURTHER CONDITIONS.

A. A Non-Officer Director granted an award of shares of Restricted Stock shall, unless the Company is otherwise advised in writing by the Non-Officer Director, be deemed to represent to the Company that the shares are being acquired for investment purposes only and not with a view towards the further resale or distribution thereof.

B. The Committee may make such provisions and take such steps as it may deem necessary or appropriate for the withholding of any taxes that the Company is required by any law or regulation of any governmental authority, whether federal, state or local, domestic or foreign, to withhold in connection with the award of any Restricted Stock, including, but not limited to (i) the withholding of delivery of certificates for shares of Common Stock until the Non-Officer Director reimburses the Company for the amount the Company is required to withhold with respect to such taxes, (ii) the canceling of any number of shares of Common Stock issuable in an amount sufficient to reimburse the Company for the amount it is required to so withhold or (iii) withholding the amount due from any such Non-Officer Director's other compensation.

VI. ADMINISTRATION. The Plan shall be administered by the Committee, which shall have full and final authority to interpret the provisions of the Plan and, subject to Article VIII hereof, to establish rules and regulations and otherwise make determinations regarding the administration and operation of the Plan. All decisions and determinations by the Committee with respect to the Plan or awards payable thereunder shall be final and binding upon all parties.

VII. ADJUSTMENT UPON CHANGES IN CAPITALIZATION. In the event that the outstanding shares of Common Stock are hereafter changed by reason of recapitalization, reclassification, stock split, combination or exchange of shares of Common Stock or the like, or by the issuance of dividends payable in shares of Common Stock, an appropriate adjustment shall be made by the Committee in the number of shares of Restricted Stock outstanding.

VIII. TERMINATION, MODIFICATION AND AMENDMENT.

A. The Board may, at any time, terminate the Plan or, from time to time, make such modifications or amendments of the Plan as it may deem advisable.

B. Subject to Article X.C hereof, no termination, modification or amendment of the Plan may adversely affect the rights under any outstanding shares of Restricted Stock without the consent of the Non-Officer Director to whom such shares of Restricted Stock shall have been previously awarded.

IX. NOT A CONTRACT FOR CONTINUED SERVICE. Nothing contained in the Plan or shall be deemed to confer upon any Non-Officer Director to whom shares of Restricted Stock are or may be awarded hereunder any right to remain a member of the Board or in any way limit the right of the Board or the stockholders to terminate or fail to re-nominate or reelect any Non-Officer Director as a member of the Board.

X. MISCELLANEOUS.

A. The costs and expenses of administering the Plan shall be borne by the Company and shall not be charged against any award nor to any Non-Officer Director receiving an award.

B. This Plan and actions taken in connection herewith shall be governed and construed in accordance with the laws of the State of New York.

C. In the event of a merger, consolidation or other business combination, liquidation or reorganization of the Company, the Committee may provide for appropriate adjustments, including rescinding any grant of Restricted Stock under this Plan within not more than two years after the grant and only to the extent deemed necessary in the opinion of the Company's independent public accountants to permit the Company to engage in a merger, consolidation or business combination intended to be accounted for as a pooling of interests transaction.

GENERATING PLANT
AND GAS TURBINE
ASSET PURCHASE AND SALE AGREEMENT

FOR

RAVENSWOOD GENERATING PLANTS AND GAS TURBINES
LOCATED AT LONG ISLAND CITY, QUEENS COUNTY, NEW YORK

By and Between

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

and

MARKETSPAN CORPORATION
doing business as
KEYSPAN ENERGY

Dated as of January 28, 1999

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GENERATING PLANT AND GAS TURBINE ASSET PURCHASE AND SALE AGREEMENT (including the Schedules hereto, this "Agreement"), dated as of January 28, 1999, by and between CONSOLIDATED EDISON COMPANY OF NEW YORK, INC., a New York corporation ("Seller"), and MARKETSPAN CORPORATION doing business as KEYSPAN ENERGY, a New York corporation ("Buyer", collectively with Seller, the "Parties").

WHEREAS Seller has offered the Auctioned Assets (as defined herein) for sale at auction pursuant to the Order Authorizing the Process for Auctioning of Generation Plant issued by the PSC (as defined herein) and effective as of July 21, 1998; and

WHEREAS Buyer desires to purchase, and Seller desires to sell, the Auctioned Assets upon the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual covenants, representations, warranties and agreements hereinafter set forth, and intending to be legally bound hereby, the Parties agree as follows:

ARTICLE I

Definitions

SECTION 1.01. Definitions. (a) As used in this Agreement, the following terms have the following meanings:

""A" House Ground Lease and Easement" means the ground lease and easement in respect of certain land underlying and surrounding the Ravenswood "A" Steam House to be entered into between Buyer and Seller, the material terms of which shall be substantially as set forth in Exhibit F.

""A" House Operation and Maintenance Agreement" means the operation and maintenance agreement in respect of the Ravenswood "A" steam house to be entered into between Buyer and Seller, the material terms of which shall be substantially as set forth in Exhibit I.

"Accountants" shall have the meaning set forth in Section 3.02(b).

"Adjustment Amount" shall have the meaning set forth in Section 3.02(a).

"Adjustment Date" shall have the meaning set forth in Section 3.02(c).

"Adjustment Statement" shall have the meaning set forth in Section 3.02(a).

"Affected Employees" shall have the meaning set forth in Section 9.01(a).

"Affected Union Employees" shall have the meaning set forth in Section 9.01(b).

"Affiliate" shall have the meaning set forth in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended.

"Agreement" shall have the meaning set forth in the Preamble.

"Allocation" shall have the meaning set forth in Section 3.03.

"Ancillary Agreements" means the Continuing Site Agreement, the Declaration of Easements Agreement, the Declarations of Subdivision Easements, the Zoning Lot Development Agreements, the Transition Capacity Agreement, the deeds contemplated by Section 8.02(e)(i) and any other agreement to which Buyer and Seller are party and which is expressly identified by its terms as an Ancillary Agreement hereunder.

"Applicable Law" shall have the meaning set forth in Section 3.03.

"Assumed Consent Order Obligations" shall have the meaning set forth in Section 2.03(a)(iv).

"Assumed Obligations" shall have the meaning set forth in Section 2.03(a).

"Auctioned Assets" shall have the meaning set forth in Section 2.02(a).

"Benefit Plans" shall have the meaning set forth in Section 5.13.

"Bidder Confidentiality Agreements" shall have the meaning

set forth in Section 7.02(b).

"Business Day" means any day other than Saturday, Sunday and any day which is a legal holiday or a day on which banking institutions in New York are authorized or required by law or other action of a Governmental Authority to close.

"Buyer" shall have the meaning set forth in the Preamble.

"Buyer Assets" shall have the meaning set forth in Section 2.03(a)(x).

"Buyer Benefit Plans" shall have the meaning set forth in Section 9.02(c).

"Buyer Facilities" shall have the meaning given to such term in the Declaration of Easements Agreement.

"Buyer Indemnitees" shall have the meaning set forth in Section 10.01(a).

"Buyer Material Adverse Effect" shall have the meaning set forth in Section 6.03(a).

"Buyer Real Estate" shall have the meaning set forth in Section 2.02(a)(i).

"Buyer Required Regulatory Approvals" shall have the meaning set forth in Section 6.03(b).

"Buyer's 401(k) Plans" shall have the meaning set forth in Section 9.04(a).

"Buyer's Pension Plans" shall have the meaning set forth in Section 9.03(a).

"Buyer's Welfare Plans" shall have the meaning set forth in Section 9.05(a).

"Closing" shall have the meaning set forth in Section 4.01.

"Closing Date" shall have the meaning set forth in Section 4.01.

"Code" means the Internal Revenue Code of 1986, as amended.

"Collective Bargaining Agreement" shall have the meaning set forth in Section 9.01(b).

"Communications Equipment" means the equipment, systems, switches and lines used in connection with voice, data and other communications activities.

"Confidentiality Agreement" means the Confidentiality Agreement dated August 24, 1998 between Seller and Buyer.

"Continued Employee" shall have the meaning set forth in Section 9.01(a).

"Continued Non-Union Employee" shall have the meaning set forth in Section 9.02(a).

"Continued Union Employee" shall have the meaning set forth in Section 9.01(b).

"Continuing Site Agreement" means the Continuing Site Agreement dated as of even date herewith between Seller and Buyer.

"Contracts" shall have the meaning set forth in Section 2.02(a)(iv).

"Conveyance Plans" shall have the meaning set forth in Section 2.02(a)(i).

"Declaration of Easements Agreement" means the Declaration of Easements Agreement dated as of even date herewith between Seller and Buyer.

"Declarations of Subdivision Easements" means the Ravenswood-Vernon Declaration of Subdivision Easements and the Ravenswood-Rainey Declaration of Subdivision Easements.

"Emission Reduction Credits" means credits, in units that are established by the environmental regulatory agency with jurisdiction over the source or facility that has obtained the credits, resulting from a reduction in the emissions of air pollutants from an emitting source or facility (including, and to the extent allowable under applicable law, reductions from retirements, control of emissions beyond that required by applicable law and fuel switching), that: (i) have been certified by NYSDEC as complying with the law and regulations of the State of New York governing the establishment of such credits (including that such emissions reductions are real, enforceable, permanent and quantifiable); or (ii) have been certified by any other applicable regulatory authority as complying with the law and regulations governing the establishment of such credits (including that such emissions reductions are real, enforceable, permanent and quantifiable). Emission Reduction Credits include certified air emissions reductions, as described above, regardless of whether the regulatory agency certifying such reductions designates such certified air emissions reductions by a name other than "emissions reduction credits".

"Encumbrances" means any mortgages, pledges, liens, security interests, conditional and installment sale agreements, activity and use limitations, exceptions, conservation easements, rights-of-way, deed restrictions, encumbrances and charges of any kind.

"Environmental Laws" means all former, current and future Federal, state, local and foreign laws (including common law), treaties, regulations, rules, ordinances, codes, decrees, judgments, directives or orders (including consent orders) and Environmental Permits, in each case, relating to pollution or protection of the environment or natural resources, including laws relating to Releases or threatened Releases, or otherwise relating to the generation, manufacture, processing, distribution, use, treatment, storage, arrangement for disposal, transport, recycling or handling, of Hazardous Substances.

"Environmental Liability" means all liabilities, obligations, damages, losses, claims, actions, suits, judgments, orders, fines, penalties, fees, expenses and costs, including: (i) remediation costs, engineering costs, environmental consultant fees, laboratory fees, permitting fees, investigation costs and defense costs and reasonable attorneys' fees and expenses; (ii) any claims, demands and causes of action relating to or resulting from any personal injury (including wrongful death), property damage (real or personal) or natural resource damage; and (iii) any penalties, fines or costs associated with the failure to comply with any Environmental Law.

"Environmental Permits" means the permits, licenses, consents, approvals and other governmental authorizations with respect to Environmental Laws relating primarily to the power generation operations of the Generating Plants or the Gas Turbines.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"ERISA Affiliate" shall have the meaning set forth in Section 5.13.

"Estimated Adjustment Amount" shall have the meaning set forth in Section 4.02.

"FERC" means the Federal Energy Regulatory Commission.

"Federal Power Act" shall have the meaning set forth in Section 5.03(b).

"Filed Seller SEC Documents" means the reports, schedules, forms, statements and other documents filed by Seller with the Securities and Exchange Commission since January 1, 1997, and publicly available prior to the date of this Agreement.

"Final Allocation" shall have the meaning set forth in Section 3.03.

"Fuel Supply Agreement" means the fuel supply agreement to be entered into between Buyer and Seller, the material terms of which shall be substantially as set forth in Exhibit H.

"GAAP" shall have the meaning set forth in Section 1.02.

"Guarantee Agreement" means the Guarantee Agreement to be entered into between Guarantor and Seller substantially in the form of Exhibit L.

"Guarantor" means MarketSpan Corporation doing business as KeySpan Energy.

"Gas Turbines" means the gas turbine units comprised of the Ravenswood GT1 through GT11 units.

"Generating Facilities" means the Generating Plants, the Gas Turbines and any additional generating plants, gas turbines or other generating facilities constructed by Buyer after the Closing Date at the site of any Auctioned Assets.

"Generating Plants" means the three steam turbine generating units designated as Ravenswood units 1, 2 and 3.

"Governmental Authority" means any court, administrative or regulatory agency or commission or other governmental entity or instrumentality, domestic, foreign or supranational or any department thereof.

"Hazardous Substances" means (i) any petrochemical or petroleum products, crude oil or any fraction thereof, ash, radioactive materials, radon gas, asbestos in any form, urea formaldehyde foam insulation or polychlorinated biphenyls, (ii) any chemicals, materials, substances or wastes defined as or included in the definition of "hazardous substances," "hazardous wastes," "hazardous materials," "restricted hazardous materials," "extremely hazardous substances," "toxic substances," "contaminants" or "pollutants" or words of similar meaning and regulatory effect contained in any Environmental Law or (iii) any other chemical, material, substance or waste which is prohibited, limited or regulated by any Environmental Law.

"HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

"Income Tax" means any Federal, state, local or foreign Tax or surtax (i) based upon, measured by or calculated with respect to net income, profits or receipts (including the New York State Gross Receipts

Tax (including the excess dividends tax), the New York City Public Utilities Excise Tax, any and all municipal gross receipts Taxes, capital gains Taxes and minimum Taxes) or (ii) based upon, measured by or calculated with respect to multiple bases (including corporate franchise taxes) if one or more of the bases on which such Tax may be based, measured by or calculated with respect to, is described in clause (i), in each case, together with any interest, penalties, or additions to such Tax.

"Indemnifiable Loss" shall have the meaning set forth in Section 10.01(a).

"Indemnifying Party" shall have the meaning set forth in Section 10.01(c).

"Indemnitee" shall have the meaning set forth in Section 10.01(c).

"Independent Engineering Assessments" shall have the meaning set forth in Section 5.15.

"Interconnection Facilities" means those items of switching equipment, switchyard controls, protective relays and related facilities of Seller that are used by Seller in connection with the provision of Interconnection Services.

"Interconnection Services" means the service provided by Seller to Buyer to interconnect the Generating Facilities to the Transmission System.

"Inventory Survey" shall have the meaning set forth in Section 3.02(a).

"ISO" means the New York Independent System Operator.

"Local 1-2" shall have the meaning set forth in Section 9.01(a).

"Local 1-2 Collective Bargaining Agreement" shall have the meaning set forth in Section 9.01(a).

"Material Adverse Effect" means any change, or effect on the Auctioned Assets, that is materially adverse to the business, operations or condition (financial or otherwise) of the Auctioned Assets, taken as a whole, other than (i) any change or effect resulting from changes in the international, national, regional or local wholesale or retail energy, capacity or ancillary services electric power markets, (ii) any change or effect resulting from changes in the international, national, regional or local markets for fuel, (iii) any change or effect resulting from changes in the national, regional or local electric transmission systems, (iv) any change or effect resulting from any bid cap, price limitation, market power mitigation measure, including the Mitigation Measures, or other regulatory or legislative measure in respect of transmission services or the wholesale or retail energy, capacity or ancillary services markets adopted or approved (or failed to be adopted or approved) by FERC, the PSC or any other Governmental Authority or proposed by any person, (v) any change or effect resulting from any regulation, rule, procedure or order adopted or proposed (or failed to be adopted or proposed) by or with respect to, or related to, the ISO, (vi) any change or effect resulting from any action or measure taken or adopted, or proposed to be taken or adopted, by any local, state, regional, national or international reliability organization and (vii) any materially adverse change in or effect on the Auctioned Assets which is cured by Seller before the Closing Date.

"Mitigation Measures" shall have the meaning set forth in Section 6.03(b).

"MMS" means the Material Management System, which is an information resources system served by Seller's mainframe computer.

"NYSDEC" means the New York State Department of Environmental Conservation.

"Off-Site" means any location except (i) the Auctioned Assets and (ii) any location to or under which Hazardous Substances present or Released at the Auctioned Assets have migrated.

"Offering Memorandum" means the Offering Memorandum dated August 1998 describing the Generating Plants and the Gas Turbines, and the materials delivered with such Offering Memorandum, as such Offering Memorandum and such materials may have been amended or supplemented.

"Operating Records" shall have the meaning set forth in Section 2.02(a)(viii).

"Party" shall have the meaning set forth in the Preamble.

"Permits" means the permits, licenses, consents, approvals and other governmental authorizations (other than with respect to Environmental Laws) relating primarily to the power generation operations of the Generating Plants or the Gas Turbines.

"Permitted Exceptions" means (i) all exceptions, restrictions, easements, charges, rights-of-way and monetary and nonmonetary encumbrances which are set forth in any Permits or Environmental Permits, (ii) statutory liens for current taxes or assessments not yet due or delinquent or the validity of which is being contested in good faith by appropriate proceedings, (iii) mechanics', carriers', workers', repairers' and other similar liens arising or incurred in the ordinary course of business relating to obligations as to which there is no default on the

part of Seller or the validity of which are being contested in good faith by appropriate proceedings, (iv) zoning, entitlement, conservation restriction and other land use and environmental regulations by Governmental Authorities, (v) the title matters set forth in the Certificate of Title No. NY971420 issued by the Title Company, as amended, (vi) all matters disclosed on the survey prepared by GEOD Corporation and any other facts that would be disclosed by an accurate survey and physical inspection of the Buyer Real Estate,(vii) Encumbrances, easements or other restrictions created pursuant to or provided for in any Ancillary Agreement, (viii) restrictions and regulations imposed by the ISO, any Governmental Authority or any local, state, regional, national or international reliability council and (ix) such other Encumbrances or imperfections in or failure of title which would not, individually or in the aggregate, reasonably be expected to materially impair the continued use and operation of the Auctioned Assets as currently conducted.

"person" means any individual, partnership, limited liability company, joint venture, corporation, trust, unincorporated organization or Governmental Authority.

"PPMIS" means the Power Plant Maintenance Information System, which is an information resources system served by Seller's mainframe computer.

"Prorated Items" shall have the meaning set forth in Section 2.03(a)(viii).

"Protective Relaying System" means the system relating to the Generating Facilities comprised of components collectively used to detect defective power system elements or other conditions of an abnormal nature, initiate appropriate control circuit action in response thereto and isolate the appropriate system elements in order to minimize damage to equipment and interruption to service.

"PSC" means the New York State Public Service Commission.

"Purchase Price" shall have the meaning set forth in Section 3.01.

"Ravenswood-Rainey Declaration of Subdivision Easements" means the Ravenswood-Rainey Declaration of Subdivision Easements to be made by Seller substantially in the form of Exhibit J, except for changes required by any Governmental Authority to the extent that no such change materially and adversely impairs the continued use and operation of the Auctioned Assets as currently conducted.

"Ravenswood-Vernon Declaration of Subdivision Easements" means the Ravenswood-Vernon Declaration of Subdivision Easements to be made by Seller substantially in the form of Exhibit K, except for changes required by any Governmental Authority to the extent that no such change materially and adversely impairs the continued use and operation of the Auctioned Assets as currently conducted.

"Release" means any release, spill, emission, leaking, dumping, injection, pouring, deposit, disposal, discharge, dispersal, leaching or migration into the environment (including ambient air, surface water, groundwater, land surface or subsurface strata) or within any building, structure, facility or fixture.

"Restraints" shall have the meaning set forth in Section 8.01(b).

"Retained Assets" shall have the meaning set forth in Section 2.02(b).

"Retained Liabilities" shall have the meaning set forth in Section 2.03(b).

"Revenue Meters" means all meters measuring demand, energy and reactive components, and all pulse isolation relays, pulse conversion relays and associated totalizing and remote access pulse recorder equipment, in each case, required to measure the transfer of energy between the Parties.

"Segregated Reimbursement Accounts" shall have the meaning set forth in Section 9.05(b).

"Seller" shall have the meaning set forth in the Preamble.

"Seller Assets" shall have the meaning set forth in Section 2.03(b)(x).

"Seller Consent Orders" shall have the meaning set forth in Section 2.03(a)(iv).

"Seller Facilities" shall have the meaning given to such term in the Declaration of Easements Agreement.

"Seller Indemnitees" shall have the meaning set forth in Section 10.01(b).

"Seller Real Estate" means all real property and leaseholds or other interests in real property of Seller (including the premises on which the Substations are located), other than Buyer Real Estate.

"Seller Required Regulatory Approvals" shall have the meaning set forth in Section 5.03(b).

"Seller's 401(k) Plans" shall have the meaning set forth in Section 9.04(a).

"Seller's Pension Plans" shall have the meaning set forth in Section 9.03(a).

"Seller's Reimbursement Account Plans" shall have the meaning set forth in Section 9.05(b).

"SO2 Allowances" means allowances that have been allocated to Seller for the Generating Plants or the Gas Turbines by the Administrator of the United States Environmental Protection Agency under Title IV of the Clean Air Act authorizing the emission of one ton of sulfur dioxide per allowance during or after the year 2000.

"Substations" shall have the meaning set forth in Section 2.02(b)(i).

"Tax Benefit" means, with respect to any Indemnifiable Loss for any person, the positive excess, if any, of the Tax liability of such person without regard to such Indemnifiable Loss over the Tax liability of such person taking into account such Indemnifiable Loss, with all other circumstances remaining unchanged.

"Tax Cost" means, with respect to any indemnity payment for any person, the positive excess, if any, of the Tax liability of such person taking such indemnity payment into account over the Tax liability of such person without regard to such payment, with all other circumstances remaining unchanged.

"Tax Return" means any return, report, information return or other document (including any related or supporting information) required to be supplied to any authority with respect to Taxes.

"Taxes" means all taxes, surtaxes, charges, fees, levies, penalties or other assessments imposed by any United States Federal, state or local or foreign taxing authority, including Income Tax, excise, property, sales, transfer, franchise, special franchise, payroll, recording, withholding, social security or other taxes, or any liability for taxes incurred by reason of joining in the filing of any consolidated, combined or unitary Tax Returns, in each case including any interest, penalties or additions attributable thereto; provided, however, that "Taxes" shall not include sewer rents or charges for water.

"Termination Date" shall have the meaning set forth in Section 11.01(b).

"Third Party Claim" shall have the meaning set forth in Section 10.02(a).

"Title Company" means Commonwealth Land Title Insurance Company or any other reputable title insurance company licensed to do business in New York.

"Transferable Permits" shall have the meaning set forth in Section 2.02(a)(v).

"Transferring Employee Records" shall have the meaning set forth in Section 2.02(a)(viii).

"Transferring Employees" shall have the meaning set forth in Section 2.02(a)(viii).

"Transition Capacity Agreement" means the Transition Capacity Agreement to be entered into between Seller and Buyer, substantially in the form of Exhibit G.

"Transmission System" shall have the meaning set forth in Section 2.02(b)(i).

"Zoning Lot Development Agreements" means the Ravenswood-Vernon Zoning Lot Development Agreement between Seller and Buyer in the form of Exhibit A-1 and the Ravenswood-Rainey Zoning Lot Development Agreement between Seller and Buyer in the form of Exhibit A-2 hereto.

SECTION 1.02. Accounting Terms. Any accounting terms used in this Agreement or the Ancillary Agreements shall, unless otherwise specifically provided, have the meanings customarily given them in accordance with United States generally accepted accounting principles ("GAAP") and all financial computations hereunder or thereunder shall, unless otherwise specifically provided, be computed in accordance with GAAP consistently applied.

ARTICLE II

Purchase and Sale; Assumption of Certain Liabilities

SECTION 2.01. Purchase and Sale. Upon the terms and subject to the satisfaction of the conditions contained in this Agreement, at the Closing, Seller agrees to sell, assign, convey, transfer and deliver to Buyer, and Buyer agrees to purchase, assume and acquire from Seller all the Auctioned Assets. In the case of any Auctioned Assets not located at the Generating Plants or Gas Turbines (including supplies, materials and spare parts inventory), Buyer agrees that (i) from and after the Closing, except to the extent specifically otherwise provided in the Ancillary Agreements, Buyer will bear all risk of casualty or loss with regard to such Auctioned Assets (regardless of whether they remain on Seller's property or otherwise in Seller's possession) and (ii) Seller shall store such Auctioned Assets in accordance with Section 7.08.

SECTION 2.02. Auctioned Assets and Retained Assets. (a)

Auctioned Assets. The term "Auctioned Assets" means all the assets, real and personal property, goodwill and rights of Seller of whatever kind and nature, whether tangible or intangible, in each case, primarily relating to the power generation operations of the Generating Plants or the Gas Turbines, other than the Retained Assets, including:

(i) all real property and leaseholds or other interests in real property of Seller relating primarily to the power generation operations of the Generating Plants or the Gas Turbines described as Parcel A and D as shown on ALTA/ACSM Land Title Survey Conveyance Plan relating to the Ravenswood Generating Station, dated January 9, 1999, in each case, as may hereafter be amended in immaterial respects (collectively, the "Conveyance Plans"), together with all buildings, improvements, structures and fixtures thereon, subject to Permitted Exceptions or Encumbrances otherwise disclosed to Buyer in this Agreement or the Ancillary Agreements with respect thereto (the "Buyer Real Estate");

(ii) subject to Section 2.04, all inventories of fuels, supplies, materials and spare parts relating primarily to the power generation operations of the Generating Plants or the Gas Turbines, together with and subject to (A) all Permitted Exceptions or Encumbrances otherwise disclosed to Buyer in this Agreement or the Ancillary Agreements with respect thereto and (B) all warranties against manufacturers and vendors relating thereto, including the spare parts listed on Schedule 2.02(a)(ii), in each case, other than assets that become obsolete or that are used, consumed, replaced or disposed in the ordinary course of business consistent with past practice or as permitted by this Agreement;

(iii) subject to Section 2.04, (A) the machinery, equipment, facilities, furniture and other personal property (other than vehicles) relating primarily to the power generation operations of the Generating Plants or the Gas Turbines, including a stand-alone local area network, coal handling equipment and other items of personal property located on Buyer Real Estate or temporarily removed from Buyer Real Estate for repairs, servicing or maintenance and listed on Schedule 2.02(a)(iii)(A) and (B) machinery, equipment, facilities, furniture and other personal property located on Seller Real Estate or temporarily removed from Seller Real Estate for repairs, servicing or maintenance and listed on Schedule 2.02(a)(iii)(B), in each case, (1) together with and subject to (x) all Permitted Exceptions or Encumbrances otherwise disclosed to Buyer in this Agreement or the Ancillary Agreements with respect thereto and (y) all warranties against manufacturers or vendors relating thereto and (2) other than assets that become obsolete or that are used, consumed, replaced or disposed in the ordinary course of business consistent with past practice or as permitted by this Agreement;

(iv) subject to Section 2.04, all right, title and interest of Seller in, to and under all contracts, agreements, personal property leases (whether Seller is lessor or lessee thereunder), commitments and all other legally binding arrangements (other than Seller Consent Orders), whether oral or written, set forth on Schedule 2.02(a)(iv) or otherwise relating primarily to the power generation operations of the Generating Plants or the Gas Turbines and entered into by Seller in accordance with Section 7.01 (the "Contracts"), in each case, to the extent in full force and effect on the Closing Date;

(v) subject to Section 7.03(c), the Permits and Environmental Permits that are transferred or transferable by Seller to Buyer (collectively, the "Transferable Permits"), including the Transferable Permits set forth on Schedule 2.02(a)(v), in each case, to the extent in full force and effect on the Closing Date;

(vi) the SO2 Allowances listed on Schedule 2.02(a)(vi);

(vii) all nitrogen oxide allowances allocated to the Generating Plants or the Gas Turbines by NYSDEC under the New York State Nitrogen Oxides Budget Program that have not been used on or prior to the Closing Date (it being understood that, for purposes of this Agreement, one nitrogen oxide allowance shall be deemed "used" for each ton of actual nitrogen oxide emitted from the Generating Plants or Gas Turbines between May 1 of any year and September 30 of such year, inclusive);

(viii) (A) all data, information, books, operating records, operating, safety and maintenance manuals, engineering design plans, blueprints and as-built plans, specifications, procedures, facility compliance plans, environmental procedures and similar records of Seller relating primarily to the power generation operations of the Generating Plants or the Gas Turbines, to the extent in Seller's possession or readily available (collectively, "Operating Records"), and (B) all personnel files relating to employees of Seller to be employed by Buyer after the Closing Date in accordance with Article IX (the "Transferring Employees"), to the extent in Seller's possession and readily available and to the extent such files pertain to (1) skill and development training and resumes, (2) seniority histories, (3) salary and benefit information, (4) Occupational Safety and Health Act medical reports, (5) active medical restriction forms and (6) any other matters, disclosure of which by Seller to Buyer is permitted under applicable law without the consent of the Transferring Employee, but not including any performance evaluations or disciplinary records (collectively, the "Transferring Employee Records"); provided, however, that Seller shall be permitted to retain copies, or originals to the extent it provides Buyer with copies of same, of all Operating Records and Transferring Employee Records; and

(ix) (A) except as provided in Section 2.02(b)(iv), the software relating primarily to the power generation operations of the Generating Plants or the Gas Turbines (provided, however, that Buyer acknowledges that it will require licenses from third parties in order to be legally entitled to use such software), and (B) a non-exclusive, royalty-free license to use solely in connection with the Auctioned Assets the software or other copyrighted material owned by Seller located at Buyer Real Estate.

(b) Retained Assets. The term "Retained Assets" means:

(i) the transmission and distribution facilities owned, controlled or operated by Seller for purposes of providing point-to-point transmission service, network integration service and distribution service and other related purposes, including the real property and equipment located at the Vernon Substation and the Rainey Substation (collectively, the "Substations"), used in controlling continuity between the Generating Plants and Gas Turbines and the transmission and distribution facilities and for other purposes (the "Transmission System");

(ii)(A) except as set forth in Section 2.02(a)(iii), all Interconnection Facilities and other transmission, distribution and substation machinery, equipment and facilities and related support equipment located on Buyer Real Estate or Seller Real Estate or temporarily removed from Buyer Real Estate or Seller Real Estate for repairs, servicing or maintenance, including items listed on Schedule 2.02(b)(ii)(A); (B) all Revenue Meters installed by Seller; (C) Communications Equipment and related support equipment (1) located on Buyer Real Estate or temporarily removed from Buyer Real Estate for repairs, servicing or maintenance and listed on Schedule 2.02(b)(ii)(C) or acquired by Seller after the date of this Agreement and designated by Seller as a Retained Asset or (2) located on Seller Real Estate or temporarily removed from Seller Real Estate for repairs, servicing or maintenance; and (D) all Protective Relaying Systems not located on Buyer Real Estate;

(iii) all cash, cash equivalents, bank deposits and accounts receivable held or owned by Seller;

(iv) (A) all mainframe computer systems of Seller, (B) the code to all software described in Section 2.02(a)(ix)(B), and (C) all software, copyrights, know-how or other proprietary information relating primarily to any other Retained Assets or any Retained Liabilities, including software, copyrights, know-how or other proprietary information licensed to Buyer pursuant to Section 2.02(a)(ix)(B);

(v) the names "Consolidated Edison", "Con Edison", "Con Ed", "Consolidated Edison Company", "Consolidated Edison Company of New York, Inc.", "Consolidated Edison, Inc.", "New York Edison", "Brooklyn Edison", "Staten Island Edison" and "Edison" and any related or similar trade names, trademarks, service marks or logos (and any rights to and in the same, including any right to use the same);

(vi) subject to Section 7.06(d), any refund or credit related to Taxes attributable to taxable periods (or portions thereof) prior to the Closing Date, and sewer rents or water charges or any other liabilities or obligations paid prior to the Closing Date in respect of the Auctioned Assets;

(vii) all personnel records (other than Transferring Employee Records) and all other records (other than Operating Records);

(viii) (A) all Emission Reduction Credits held or possessed by Seller and (B) SO2 Allowances held or possessed by Seller and not listed on Schedule 2.02(a)(vi); and

(ix) any other asset that is not described with particularity in this Agreement as an Auctioned Asset.

SECTION 2.03. Assumed Obligations and Retained Liabilities. (a) Assumed Obligations. At the Closing, Buyer shall assume, and from and after the Closing, shall discharge, all of the liabilities and obligations, direct or indirect, known or unknown, absolute or contingent, which relate to the Auctioned Assets or are otherwise specified below, other than the Retained Liabilities (collectively, the "Assumed Obligations"), including:

(i) except as set forth in Section 2.03(b)(ii), any liabilities and obligations under the Contracts;

(ii) any liabilities and obligations for goods delivered or services rendered on or after the Closing Date relating to the Auctioned Assets;

(iii) except as set forth in Sections 2.03(b)(iii) or (iv), any Environmental Liability arising out of or in connection with (A) any violation or alleged violation of, or noncompliance or alleged noncompliance with, any Environmental Laws, prior to, on or after the Closing Date, with respect to the ownership or operation of the Auctioned Assets, notwithstanding that, as contemplated by Section 7.03(c), Seller may remain the "holder of record" with respect to certain Transferable Permits, (B) the condition of any Auctioned Assets prior to, on or after the Closing Date, including any actual or alleged presence, Release or threatened Release of any Hazardous Substance at, on, in, under or migrating onto or from, the Auctioned Assets, prior to, on or after the Closing Date (except for any such

Release from equipment or property owned or operated by Seller and located on, or constituting, Seller Real Estate adjacent to Buyer Real Estate that (1) occurs on or after the Closing Date and (2) is caused by Seller or its Affiliates), (C) any Release or threatened Release of any Hazardous Substance on or after the Closing Date from the Buyer Facilities or otherwise originating from, or relating to, any equipment owned or used by Buyer that is located on Seller Real Estate or (D) the transportation, storage, Release, threatened Release or recycling of, or arrangement for such activities with respect to, Hazardous Substances generated in respect of the Auctioned Assets at or to any location, on or after the Closing Date;

(iv) any liabilities and obligations relating to the Auctioned Assets under the consent orders listed on Schedule 2.03(a)(iv) (the "Seller Consent Orders") and identified thereon as "Assumed Consent Order Obligations" (the "Assumed Consent Order Obligations");

(v) except as set forth in Section 2.03(b)(iv), any liabilities and obligations with respect to the Permits to the extent arising or accruing on or after the Closing Date;

(vi) (A) all wages, overtime, employment taxes, severance pay, transition payments, workers compensation benefits, occupational safety and health liabilities or other similar liabilities and obligations in respect of Transferring Employees to the extent arising or accruing on or after the Closing Date, and (B) all other liabilities and obligations with respect to the Transferring Employees for which Buyer is responsible pursuant to Article IX;

(vii) (A) any liabilities and obligations (other than any Environmental Liabilities which are Retained Liabilities) in respect of any personal injury or property damage claim relating to, resulting from or arising out of the Generating Plants or Gas Turbines or (B) any liabilities and obligations in respect of any discrimination, wrongful discharge or unfair labor practice claim by any Transferring Employee, in the case of each of the foregoing clauses (A) and (B), to the extent arising or accruing on or after the Closing Date;

(viii) any liabilities and obligations, with respect to the periods that include the Closing Date, with respect to real or personal property rent, taxes based on the ownership or use of property, utilities charges and similar charges that primarily relate to the Generating Plants or the Gas Turbines (collectively, the "Prorated Items"), to the extent such Prorated Items relate to the period from and after the Closing Date, including (A) personal property taxes, real estate and occupancy taxes, assessments and other charges (which shall be apportioned as provided in the Zoning Lot Development Agreements),(B) rent and all other items payable by Seller under any Contract, (C) any fees with respect to any Transferable Permit and (D) sewer rents and charges for water, telephone, electricity and other utilities, in each case calculated by multiplying the amount of any such Prorated Item by a fraction the numerator of which is the number of days in such period from and after the Closing Date and the denominator of which is the number of days in such period;

(ix) any liabilities and obligations in respect of Taxes (other than Prorated Items) attributable to the Auctioned Assets arising or accruing during taxable periods (or portions thereof) beginning on or after the Closing Date;

(x) any liabilities and obligations in respect of damage to property or personal injury or death relating to, resulting from or arising out of any property, machinery, equipment, facilities or systems from time to time owned by Buyer or its Affiliates subject to the Ancillary Agreements or employed by Buyer in connection with the performance of the Ancillary Agreements ("Buyer Assets"), or any Protective Relaying System owned by Seller as contemplated by the Continuing Site Agreement, regardless of whether the property damage or personal injury is caused by a Seller Indemnitee or a Buyer Indemnitee; and

(xi) any liabilities and obligations under the Ancillary Agreements in respect of the Auctioned Assets to the extent arising on or after the Closing Date.

(b) Retained Liabilities. Buyer shall not assume or be obligated to pay, perform or otherwise discharge the following liabilities or obligations (the "Retained Liabilities"):

(i) any liabilities and obligations of Seller primarily relating to any Retained Assets (other than as contemplated by Section 2.03(a)(x));

(ii) any payment obligations of Seller, including under Contracts, for goods delivered or services rendered prior to the Closing Date;

(iii) (A) any Environmental Liability of Seller arising out of or in connection with the transportation, storage, Release, threatened Release or recycling of, or arrangement for such activities with respect to, Hazardous Substances at or to any Off-Site location, prior to the Closing Date, (B) any Environmental Liability of Seller arising out of or in connection with any Release or threatened Release of any Hazardous Substance on or after the Closing Date from the Seller Facilities or otherwise originating from, or relating to, any equipment owned or used by Seller that is located on Buyer Real Estate and (C) any liabilities and obligations relating to Auctioned Assets under the Seller Consent Orders, except

Assumed Consent Order Obligations;

(iv) any monetary fines (excluding (A) natural resource damages, (B) cleanup or remediation costs and (C) other costs of a similar nature) imposed by a Governmental Authority to the extent arising out of or relating to acts or omissions of Seller in respect of the Auctioned Assets prior to the Closing Date;

(v) (A) all wages, overtime, employment taxes, severance pay, transition payments, workers compensation benefits, occupational safety and health liabilities or other similar liabilities and obligations in respect of Transferring Employees to the extent arising or accruing prior to the Closing Date and (B) all other liabilities and obligations with respect to the Transferring Employees for which Seller is responsible pursuant to Article IX;

(vi) (A) any liabilities and obligations (other than any Environmental Liabilities which are Assumed Obligations) in respect of any personal injury or property damage claim relating to the Generating Plants or Gas Turbines or (B) any liabilities and obligations in respect of any discrimination, wrongful discharge or unfair labor practice claim by any Transferring Employee, in the case of each of the foregoing clauses (A) and (B), to the extent arising out of or relating to acts or omissions of Seller prior to the Closing Date;

(vii) any liabilities and obligations, with respect to the period prior to the Closing Date, for the Prorated Items, calculated as set forth in Section 2.03(a)(viii);

(viii) any liabilities and obligations in respect of Taxes (other than Prorated Items) attributable to the Auctioned Assets arising or accruing during taxable periods (or portions thereof) ending before the Closing Date, including Income Taxes attributable to income realized by Seller pursuant to the transactions contemplated by this Agreement;

(ix) any liabilities and obligations arising after the date of this Agreement in respect of which Seller has provided pursuant to Section 7.01(d)(ii) that such liabilities and obligations shall not be assumed or retained by Buyer;

(x) any liabilities and obligations in respect of damage to property or personal injury or death relating to, resulting from or arising out of any property, machinery, equipment, facilities or systems from time to time owned by Seller or its Affiliates subject to the Ancillary Agreements or employed by Seller in connection with the performance of the Ancillary Agreements ("Seller Assets"), regardless of whether the property damage or personal injury is caused by a Seller Indemnitee or a Buyer Indemnitee; and

(xi) any liabilities and obligations under the Ancillary Agreements in respect of the Retained Assets.

SECTION 2.04. Third Party Consents. (a) Notwithstanding Section 2.02(a)(ii), (iii) or (iv), to the extent that Seller's rights under any Contract or warranty may not be assigned without the consent of another person which consent has not been obtained, this Agreement shall not constitute an agreement to assign the same if an attempted assignment would constitute a breach thereof or be unlawful, and Seller, at its expense, shall use its reasonable best efforts to obtain prior to the Closing any such required consents.

(b) Seller and Buyer agree that if any consent to an assignment of any such Contract or warranty shall not be obtained or if any attempted assignment would in Seller's reasonable opinion be ineffective or would impair any material rights and obligations of Buyer under such Contract or warranty, as applicable, so that Buyer would not acquire the benefit of all such rights and obligations, Seller, to the maximum extent permitted by law and such Contract or warranty, as applicable, shall after the Closing appoint Buyer to be Seller's representative and agent with respect to such Contract or warranty, as applicable, and Seller shall, to the maximum extent permitted by law and such Contract or warranty, as applicable, enter into such reasonable arrangements with Buyer as are necessary to provide Buyer with the benefits and obligations of such Contract or warranty, as applicable. Seller and Buyer shall cooperate and shall each use their reasonable best efforts after the Closing to obtain an assignment of each such Contract or warranty, as applicable, to Buyer.

ARTICLE III

Purchase Price

SECTION 3.01. Purchase Price. The purchase price for the Auctioned Assets shall be $596,840,000 (the "Purchase Price").

SECTION 3.02. Post-Closing Adjustment. (a) Within 20 Business Days after the Closing, Seller shall prepare and deliver to Buyer a statement (an "Adjustment Statement") which reflects the book cost, as reflected on the books of Seller as of the Closing Date, of all fuel inventory and supplies, materials and spare parts inventory included in the Auctioned Assets (the "Adjustment Amount") and, upon request of Buyer, related accounting material used by Seller to prepare the Adjustment Statement. The Adjustment Amount will be based, in respect of fuel, on the actual fuel inventory on the Closing Date and, in respect of supplies, materials and spare parts, on an inventory survey conducted within ten Business Days prior to the Closing Date, in each case, consistent with the inventory procedures of Seller in effect as of the date of this Agreement

(the "Inventory Survey"). Seller will permit an employee, or representative, of Buyer to observe the Inventory Survey. The Adjustment Statement shall be prepared using (i) GAAP and (ii) the same rolling average unit costs that Seller has historically used to calculate the book cost of its fuel and supplies, materials and spare parts inventory. Buyer agrees to cooperate with Seller in connection with the preparation of the Adjustment Statement and related information, and shall provide to Seller such access, books, records and information as may be reasonably requested from time to time.

(b) Buyer may dispute the quantity delivered or quality of any inventory item shown on the Adjustment Statement, or the mathematical calculations reflected therein, by notifying Seller in writing of the disputed amount, and the basis of such dispute, within 20 Business Days of Buyer's receipt of the Adjustment Statement; provided, however, that in respect of the quality of any inventory item, Buyer may not dispute Seller's normal and customary methods for accounting for excess inventory. Buyer shall have no right to dispute any other matter in respect of the Adjustment Statement, including historical rolling average unit costs used to calculate the book cost of the inventory or the appropriateness, under GAAP or otherwise, of using such historical rolling average unit cost to determine the book cost of any particular item of inventory. In the event of a dispute with respect to the quantity or quality of any inventory item shown on the Adjustment Statement, or the mathematical calculations reflected therein, Buyer and Seller shall attempt to reconcile their differences and any resolution by them as to any disputed amounts shall be final, binding and conclusive on the Parties. If Buyer and Seller are unable to reach a resolution of such differences within 20 Business Days of receipt of Buyer's written notice of dispute to Seller, Buyer and Seller shall submit the amounts remaining in dispute for determination and resolution to PricewaterhouseCoopers LLP or any other accounting firm of recognized national standing reasonably acceptable to Seller and Buyer (the "Accountants"), which shall be instructed to determine and report to the Parties, within 20 Business Days after such submission, upon such remaining disputed amounts, and such report shall be final, binding and conclusive on the Parties with respect to the amounts disputed. Buyer and Seller shall each pay one-half of the fees and disbursements of the Accountants in connection with the resolution of such disputed amounts.

(c) If the Adjustment Amount is greater or less than the Estimated Adjustment Amount, then on the Adjustment Date (as defined below), (i) to the extent that the Adjustment Amount exceeds the Estimated Adjustment Amount, Buyer shall pay to Seller the amount of such excess and (ii) to the extent that the Adjustment Amount is less than the Estimated Adjustment Amount, Seller shall pay to Buyer the amount of such deficiency. "Adjustment Date" means (1) if Buyer does not disagree in any respect with the Adjustment Statement, the twenty-third Business Day following Buyer's receipt of the Adjustment Statement or (2) if Buyer shall disagree in any respect with the Adjustment Statement, the third Business Day following either the resolution of such disagreement by the Parties or a final determination by the Accountants in accordance with Section 3.02(b). Any amount paid under this Section 3.02(c) shall be paid with interest for the period commencing on the Closing Date through the date of payment, calculated at the prime rate of the Chase Manhattan Bank in effect on the Closing Date, and in cash by wire transfer of immediately available funds.

SECTION 3.03. Allocation of Purchase Price. Buyer shall deliver to Seller at Closing a preliminary allocation among the Auctioned Assets of the Purchase Price and among such other consideration paid to Seller pursuant to this Agreement that is properly includible in Buyer's tax basis for the Auctioned Assets for Federal income tax purposes, and, as soon as practicable following the Closing (but in any event within 10 Business Days following the final determination of the Adjustment Amount), Buyer shall prepare and deliver to Seller a final allocation of the Purchase Price and additional consideration described in the preceding clause, and the post-closing adjustment pursuant to Section 3.02, among the Auctioned Assets (the "Allocation"). The Allocation shall be consistent with Section 1060 of the Code and the Treasury Regulations thereunder. Seller hereby agrees to accept Buyer's Allocation unless Seller determines that such Allocation was not prepared in accordance with Section 1060 of the Code and the regulations thereunder ("Applicable Law"). If Seller so determines, Seller shall within 20 Business Days thereafter propose any changes necessary to cause the Allocation to be prepared in accordance with Applicable Law. Within 10 Business Days following delivery of such proposed changes, Buyer shall provide Seller with a statement of any objections to such proposed changes, together with a reasonably detailed explanation of the reasons therefor. If Buyer and Seller are unable to resolve any disputed objections within 10 Business Days thereafter, such objections shall be referred to the Accountants, whose review will be limited to whether Buyer's Allocation of such disputed items regarding the Allocation was prepared in accordance with Applicable Law. The Accountants shall be instructed to deliver to Seller and Buyer a written determination of the proper allocation of such disputed items within 20 Business Days. Such determination shall be conclusive and binding upon the parties hereto for all purposes, and the Allocation shall be so adjusted (the Allocation, including the adjustment, if any, to be referred to as the "Final Allocation"). The fees and disbursements of the Accountants attributable to the Allocation shall be shared equally by Buyer and Seller. Each of Buyer and Seller agrees to timely file Internal Revenue Service Form 8594, and all Federal, state, local and foreign Tax Returns, in accordance with such Final Allocation and to report the transactions contemplated by this Agreement for Federal Income Tax and all other tax purposes in a manner consistent with the Final Allocation. Each of Buyer and Seller agrees to promptly provide the other party with any additional information and reasonable assistance required to complete Form 8594, or compute Taxes arising in connection with (or otherwise affected by) the transactions contemplated hereunder. Each of Buyer and Seller shall timely notify the other Party and each shall timely provide the other Party with reasonable assistance in the

event of an examination, audit or other proceeding regarding the Final Allocation.

ARTICLE IV

The Closing

SECTION 4.01. Time and Place of Closing. Upon the terms and subject to the satisfaction of the conditions contained in Article VIII, the closing of the sale of the Auctioned Assets contemplated by this Agreement (the "Closing") will take place on such date as the Parties may agree, which date shall be as soon as practicable, but no later than ten Business Days, following the date on which all of the conditions set forth in Article VIII have been satisfied or waived, at the offices of Cravath, Swaine & Moore in New York City or at such other place or time as the Parties may agree. The date and time at which the Closing actually occurs is hereinafter referred to as the "Closing Date".

SECTION 4.02. Payment of Purchase Price and Estimated Adjustment Amount. At the Closing, Buyer will pay or cause to be paid to Seller by wire transfer of immediately available funds to an account previously designated in writing by Seller an amount in United States dollars equal to (a) the Purchase Price plus or minus (b) Seller's good faith estimate of the Adjustment Amount (the "Estimated Adjustment Amount"), which estimate shall be provided to Buyer no later than five Business Days prior to the Closing.

ARTICLE V

Representations and Warranties of Seller

Seller represents and warrants to Buyer as follows:

SECTION 5.01. Organization; Qualification. Seller is a corporation duly incorporated, validly existing and in good standing under the laws of the State of New York and has all requisite corporate power and authority to own, lease and operate the Auctioned Assets and to carry on the business of the Auctioned Assets as currently conducted.

SECTION 5.02. Authority Relative to This Agreement. Seller has all necessary corporate power and authority to execute and deliver this Agreement and the Ancillary Agreements and to consummate the transactions contemplated hereby and thereby. The execution and delivery by Seller of this Agreement and the Ancillary Agreements and the consummation by Seller of the transactions contemplated hereby and thereby have been duly and validly authorized by the Board of Trustees of Seller or by a committee thereof to whom such authority has been delegated and no other corporate proceedings on the part of Seller are necessary to authorize this Agreement or the Ancillary Agreements or the consummation of the transactions contemplated hereby or thereby. This Agreement and the Ancillary Agreements have been duly and validly executed and delivered by Seller and, assuming that this Agreement and the Ancillary Agreements constitute valid and binding agreements of Buyer and each other party thereto, subject to the receipt of the Seller Required Regulatory Approvals and the Buyer Required Regulatory Approvals, constitute valid and binding agreements of Seller, enforceable against Seller in accordance with their respective terms.

SECTION 5.03. Consents and Approvals; No Violation. (a) Subject to obtaining the Seller Required Regulatory Approvals and the Buyer Required Regulatory Approvals, neither the execution and delivery of this Agreement or the Ancillary Agreements by Seller nor the sale by Seller of the Auctioned Assets pursuant to this Agreement will (i) conflict with or result in any breach of any provision of the Certificate of Incorporation or By-laws of Seller, (ii) except as set forth on Schedule 5.03(a), result in a default (or give rise to any right of termination, cancelation or acceleration) under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, license, agreement, lease or other instrument or obligation to which Seller is a party or by which Seller, or any of the Auctioned Assets, may be bound, except for such defaults (or rights of termination, cancelation or acceleration) as to which requisite waivers or consents have been obtained or which would not, individually or in the aggregate, create a Material Adverse Effect or (iii) violate any order, writ, injunction, decree, statute, rule or regulation applicable to Seller, or the Auctioned Assets, except for such violations which would not, individually or in the aggregate, create a Material Adverse Effect.

(b) Except for (i) application by Seller to, and the approval of, the PSC, pursuant to ss. 70 of the Public Service Law of the State of New York, of the transfer to Buyer of the Auctioned Assets, (ii) the filings by Seller and Buyer required by the HSR Act and the expiration or earlier termination of all waiting periods under the HSR Act, (iii) application by Seller to, and the approval of, FERC under (A) Section 203 of the Federal Power Act of 1935 (the "Federal Power Act") with respect to the transfer of Auctioned Assets constituting jurisdictional assets under the Federal Power Act and (B) Section 205 of the Federal Power Act with respect to the Continuing Site Agreement (to the extent necessary) and any wholesale power sales agreement to be entered into by Seller and Buyer, including the Transition Capacity Agreement,(iv) the issuance of approval by the New York City Department of Buildings and, to the extent required, the New York City Department of Business Services of the tax lot subdivision contemplated by this Agreement in a form suitable for submission to the New York City Department of Finance for the issuance of tax lot numbers and (v) declarations, filings or registrations with, or notices to, or authorizations, consents or approvals of, any Governmental Authority which become applicable to Seller or the transactions contemplated hereby or by the Ancillary Agreements as a result of the specific regulatory status or jurisdiction of incorporation or

organization of Buyer (or any of its Affiliates) or as a result of any other facts that specifically relate to the business or activities in which Buyer (or any of its Affiliates) is or proposes to be engaged (collectively, the "Seller Required Regulatory Approvals"), no declaration, filing or registration with, or notice to, or authorization, consent or approval of any Governmental Authority is necessary for the consummation by Seller of the transactions contemplated hereby or by the Ancillary Agreements, other than such declarations, filings, registrations, notices, authorizations, consents or approvals (A) which, if not obtained or made, would not, individually or in the aggregate, create a Material Adverse Effect or (B) which relate to the Transferable Permits.

(c) To the knowledge of Seller, there is no reason that it should fail to obtain the Seller Required Regulatory Approvals.

SECTION 5.04. Year 2000. Seller has informed Buyer of the status, as of the date of this Agreement, of measures to prevent computer software, hardware and embedded systems used in connection with the Auctioned Assets from experiencing malfunctions or other usage problems in connection with years beginning with "20", except for such malfunctions or other usage problems which would not, individually or in the aggregate, create a Material Adverse Effect.

SECTION 5.05. Personal Property. Except for Permitted Exceptions, Seller has good and marketable title, free and clear of all Encumbrances, to all personal property included in the Auctioned Assets.

SECTION 5.06. Real Estate. The Conveyance Plans contain descriptions of the Buyer Real Estate. Copies of the most recent real property surveys and title insurance information in the possession of Seller with respect to the Buyer Real Estate or any portion thereof have heretofore been delivered by Seller to Buyer or made available for inspection by Buyer, receipt of which is hereby acknowledged by Buyer.

SECTION 5.07. Leases. As of the date of this Agreement, Seller is neither a tenant nor a licensee under any real property leases which (a) are to be transferred and assigned to Buyer on the Closing Date and (b) (i) provide for annual payments of more than $100,000 or (ii) are material to the Auctioned Assets.

SECTION 5.08. Certain Contracts and Arrangements. (a) Except for (i) any contract or agreement listed on Schedule 2.02(a)(iv) or Schedule 5.08(a) and (ii) Contracts which will expire prior to the Closing Date or that are permitted to be entered into under this Agreement, Seller is not a party to any contract which is material to the business or operations of the Auctioned Assets.

(b) Each Contract (i) constitutes a valid and binding obligation of Seller, and, to the knowledge of Seller, constitutes a valid and binding obligation of the other parties thereto, (ii) to the knowledge of Seller, is in full force and effect and (iii) other than Contracts covered by Section 2.04, to the knowledge of Seller, may be transferred to Buyer pursuant to this Agreement and will continue in full force and effect thereafter, in each case, without breaching the terms thereof or resulting in the forfeiture or impairment of any rights thereunder, except for such breaches, forfeitures or impairments which would not, individually or in the aggregate, create a Material Adverse Effect.

(c) There is not, under any of the Contracts, any default or event which, with notice or lapse of time or both, would constitute a default by Seller, except for such events of default and other events as to which requisite waivers or consents have been obtained or which would not, individually or in the aggregate, create a Material Adverse Effect.

SECTION 5.09. Legal Proceedings. Except as set forth in the Filed Seller SEC Documents, as of the date of this Agreement, there are no claims, actions, proceedings or investigations pending or, to the knowledge of Seller, threatened against or relating to Seller which would, individually or in the aggregate, be reasonably expected to create a Material Adverse Effect. With respect to the business or operations of the Auctioned Assets, Seller is not, as of the date of this Agreement, subject to any outstanding judgment, rule, order, writ, injunction or decree of any court, governmental or regulatory authority which would create a Material Adverse Effect. The representations and warranties of Seller set forth in this Section 5.09 shall not apply to, and do not cover, any environmental matters which, with respect to any representations and warranties of Seller, are exclusively governed by Section 5.11.

SECTION 5.10. Permits; Compliance with Law. (a) Except as set forth on Schedule 5.10(a)(i), Seller holds, and is in compliance with, all Permits necessary to conduct the business and operations of the Auctioned Assets as currently conducted, and, to the knowledge of Seller, Seller is otherwise in compliance with all laws, statutes, orders, rules, regulations, ordinances or judgments of any Governmental Authority applicable to the business and operations of the Auctioned Assets, except for such failures to hold or comply with such Permits, or such failures to be in compliance with such laws, statutes, orders, rules, regulations, ordinances or judgments, which would not, individually or in the aggregate, create a Material Adverse Effect. Except as set forth on Schedule 5.10(a)(ii), Seller has not received any written notification that it is in violation of any of such Permits or laws, statutes, orders, rules, regulations, ordinances or judgments, except for notifications of violations which would not, individually or in the aggregate, create a Material Adverse Effect. The representations and warranties of Seller set forth in this Section 5.10 shall not apply to, and do not cover, any environmental matters which, with respect to any representations and warranties of Seller, are exclusively governed by Section 5.11.

(b) Notwithstanding the last sentence of Section 5.10(a),

except as set forth on Schedule 5.10(b), there are no material Permits or material Environmental Permits that, in each case, are not Transferable Permits and are required for Buyer to conduct the business and operations of the Auctioned Assets as currently conducted.

SECTION 5.11. Environmental Matters. (a) Except as set forth in Schedule 5.11 or disclosed in the Filed Seller SEC Documents, Seller holds, and is in compliance with, the Environmental Permits required for Seller to conduct the business and operations of the Auctioned Assets as currently conducted under applicable Environmental Laws, and, to the knowledge of Seller, Seller is otherwise in compliance with applicable Environmental Laws with respect to the business and operations of the Auctioned Assets, except for such failures to hold or comply with such Environmental Permits, or such failures to be in compliance with such Environmental Laws, which would not, individually or in the aggregate, create a Material Adverse Effect.

(b) Except as set forth in Schedule 5.11 or disclosed in the Filed Seller SEC Documents, Seller has not received any written notice of violation of any Environmental Law or any written request for information with respect thereto, or been notified that it is a potentially responsible party under the Federal Comprehensive Environmental Response, Compensation, and Liability Act or any similar state law with respect to any real property included in the Buyer Real Estate or in any lease forming part of the Auctioned Assets, except for such matters under such laws as would not, individually or in the aggregate, create a Material Adverse Effect.

(c) Except as set forth in Schedule 5.11 or disclosed in the Filed Seller SEC Documents, with respect to the business and operations of the Auctioned Assets, Seller is not subject to any outstanding judgment, decree or judicial order relating to compliance with any Environmental Law or to investigation or cleanup of Hazardous Substances under any applicable Environmental Law, except for (i) the Seller Consent Orders and (ii) such judgments, decrees or judicial orders that would not, individually or in the aggregate, create a Material Adverse Effect.

(d) Except as set forth in Schedule 5.11 or disclosed in the Filed Seller SEC Documents, as of the date of this Agreement, there are no claims, actions, proceedings or investigations pending, or to the knowledge of Seller, threatened against or relating to Seller, with respect to the exposure at the Auctioned Assets of any person to Hazardous Substances, which, if adversely determined, would, individually or in the aggregate, create a Material Adverse Effect.

SECTION 5.12. Labor Matters. Seller has previously made available to Buyer copies of all collective bargaining agreements to which Seller is a party or is subject and which relate to the business or operations of the Auctioned Assets. With respect to the business and operations of the Auctioned Assets, as of the date of this Agreement, (a) Seller is in compliance with all applicable laws regarding employment and employment practices, terms and conditions of employment and wages and hours, (b) Seller has not received written notice of any unfair labor practice complaint against Seller pending before the National Labor Relations Board, (c) there is no labor strike, slowdown or stoppage actually pending or, to the knowledge of Seller, threatened against or affecting Seller, (d) Seller has not received notice that any representation petition respecting the employees of Seller has been filed with the National Labor Relations Board, (e) no arbitration proceeding arising out of or under collective bargaining agreements is pending against Seller and (f) Seller has not experienced any primary work stoppage since at least December 31, 1996, except, in the case of each of the foregoing clauses (a) through (f), for such matters as would not, individually or in the aggregate, create a Material Adverse Effect.

SECTION 5.13. ERISA; Benefit Plans. Schedule 5.13 sets forth a list of all material deferred compensation, profit-sharing, retirement and pension plans and all material bonus and other material employee benefit or fringe benefit plans maintained, or with respect to which contributions have been made, by Seller with respect to current or former employees employed in connection with the power generation operations of the Generating Plants and the Gas Turbines (collectively, "Benefit Plans"). Seller and each trade or business (whether or not incorporated) which are or have ever been under common control, or which are or have ever been treated as a single employer, with Seller under Section 414(b), (c), (m) or (o) of the Code (an "ERISA Affiliate") have fulfilled their respective obligations under the minimum funding requirements of Section 302 of ERISA, and Section 412 of the Code, with respect to each Benefit Plan which is an "employee pension benefit plan" as defined in Section 3(2) of ERISA and each such plan is in compliance in all material respects with the presently applicable provisions of ERISA and the Code, except for such failures to fulfill such obligations or comply with such provisions which would not, individually or in the aggregate, create a Material Adverse Effect. Neither Seller nor any ERISA Affiliate has incurred any liability under Section 4062(b) of ERISA, or any withdrawal liability under Section 4201 of ERISA, to the Pension Benefit Guaranty Corporation in connection with any Benefit Plan which is subject to Title IV of ERISA which liability remains outstanding, and there has not been any reportable event (as defined in Section 4043 of ERISA) with respect to any such Benefit Plan (other than a reportable event with respect to which the 30-day notice requirement has been waived by the PBGC). Neither Seller nor any ERISA Affiliate or parent corporation, within the meaning of Section 4069(b) or Section 4212(c) of ERISA, has engaged in any transaction, within the meaning of Section 4069(b) or Section 4212(c) of ERISA. No Benefit Plan and no "employee pension benefit plan" (as defined in Section 3(2) of ERISA) maintained by Seller or any ERISA Affiliate or to which Seller or any ERISA Affiliate has contributed is a multiemployer plan.

SECTION 5.14. Taxes. With respect to the Auctioned Assets and trades or businesses associated with the Auctioned Assets, (a) all Tax

Returns required to be filed have been filed and (b) all Taxes shown to be due on such Tax Returns, and all Taxes otherwise owed, have been paid in full, except to the extent that any failure to file or any failure to pay any Taxes would not, individually or in the aggregate, create a Material Adverse Effect. No written notice of deficiency or assessment has been received from any taxing authority with respect to liabilities for Taxes of Seller in respect of the Auctioned Assets which has not been fully paid or finally settled or which is not being contested in good faith through appropriate proceedings, except for any such notices regarding Taxes which would not, individually or in the aggregate, create a Material Adverse Effect. There are no outstanding agreements or waivers extending the applicable statutory periods of limitation for Taxes associated with the Auctioned Assets for any period, except for any such agreements or waivers which would not, individually or in the aggregate, create a Material Adverse Effect.

SECTION 5.15. Independent Engineering Assessments. (a) Seller has reviewed the 1998 assessments prepared by Stone & Webster with respect to the Generating Plants and the Gas Turbines (the "Independent Engineering Assessments"), and, except as set forth on Schedule 5.15(a), to the knowledge of Seller, as of the date of the Independent Engineering Assessments, there was no untrue statement of a material fact or omission of any material fact therein that would reasonably suggest that the condition of the Generating Plants and the Gas Turbines, taken as a whole, as of such date was materially and adversely different from that described in such Independent Engineering Assessments.

(b) Except as set forth on Schedule 5.15(b), since the date of the Independent Engineering Assessments, there has not been, subject to ordinary wear and tear and to routine maintenance, any casualty, physical damage, destruction or physical loss with respect to, or, to the knowledge of Seller, any adverse change in the physical condition of, any Generating Plant or Gas Turbine, except for such casualty, physical damage, destruction, physical loss or adverse change which would not, individually or in the aggregate, create a Material Adverse Effect.

SECTION 5.16. Undisclosed Liabilities. With respect to the Auctioned Assets, there are no liabilities or obligations of any nature or kind (absolute, accrued, contingent or otherwise) that would have been required to be set forth on a balance sheet in respect of the Auctioned Assets or in the notes thereto prepared in accordance with GAAP, as applied by Seller in connection with its December 31, 1997 balance sheet, except for any such liabilities or obligations which (a) are disclosed in or contemplated or permitted by this Agreement or the Ancillary Agreements (including the Assumed Obligations), (b) are disclosed in the Offering Memorandum, (c) are disclosed in the Filed Seller SEC Documents, (d) have been incurred in the ordinary course of business, (e) are disclosed on Schedule 5.16 or (f) which would not, individually or in the aggregate, create a Material Adverse Effect.

SECTION 5.17. Brokers. No broker, finder or other person is entitled to any brokerage fees, commissions or finder's fees in connection with the transaction contemplated hereby by reason of any action taken by Seller, except Morgan Stanley & Co. Incorporated, which is acting for and at the expense of Seller.

SECTION 5.18. Insurance. Seller carries policies of insurance covering fire, workers' compensation, property all-risk, comprehensive bodily injury, property damage liability, automobile liability, product liability, completed operations, explosion, collapse, contractual liability, personal injury liability and other forms of insurance relating to the Auctioned Assets, or otherwise self-insures in accordance with all statutory and regulatory criteria against any such liabilities, which insurance is in such amounts, has such deductibles and retentions and is underwritten by such companies as would be obtained by a reasonably prudent electric power business.

EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES EXPRESSLY SET FORTH IN THIS ARTICLE V, THE AUCTIONED ASSETS ARE BEING SOLD AND TRANSFERRED "AS IS, WHERE IS", AND SELLER IS NOT MAKING ANY OTHER REPRESENTATIONS OR WARRANTIES WRITTEN OR ORAL, STATUTORY, EXPRESS OR IMPLIED, CONCERNING SUCH AUCTIONED ASSETS OR WITH RESPECT TO THIS AGREEMENT OR THE ANCILLARY AGREEMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY, INCLUDING, IN PARTICULAR WITH RESPECT TO THE AUCTIONED ASSETS, ANY WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, ALL OF WHICH ARE HEREBY EXPRESSLY EXCLUDED AND DISCLAIMED BY SELLER AND WAIVED BY BUYER. WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, SELLER MAKES NO REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION SET FORTH IN, OR CONTEMPLATED BY, THE OFFERING MEMORANDUM (EXCEPT TO THE EXTENT EXPRESSLY INCORPORATED BY REFERENCE INTO THIS AGREEMENT).

ARTICLE VI

Representations and Warranties of Buyer

Buyer represents and warrants to Seller as follows:

SECTION 6.01. Organization. Buyer is a corporation duly incorporated, validly existing and in good standing under the laws of the State of New York and has all requisite corporate power and authority to own, lease and operate its properties and to carry on its business as is now being conducted.

SECTION 6.02. Authority Relative to This Agreement. Buyer has all necessary corporate power and authority to execute and deliver this Agreement and the Ancillary Agreements to which it is party and to consummate the transactions contemplated hereby and thereby. The execution and delivery by Buyer of this Agreement and such Ancillary Agreements and

the consummation by Buyer of the transactions contemplated hereby and thereby have been duly and validly authorized by the Board of Directors of Buyer and no other corporate proceedings on the part of Buyer are necessary to authorize this Agreement or such Ancillary Agreements or the consummation of the transactions contemplated hereby or thereby. This Agreement and such Ancillary Agreements have been duly and validly executed and delivered by Buyer and, assuming that this Agreement and the Ancillary Agreements constitute valid and binding agreements of Seller and each other party thereto, subject to the receipt of the Buyer Required Regulatory Approvals and the Seller Required Regulatory Approvals, this Agreement and the Ancillary Agreements constitute valid and binding agreements of Buyer, enforceable against Buyer in accordance with their respective terms.

SECTION 6.03. Consents and Approvals; No Violation. (a) Subject to obtaining the Buyer Required Regulatory Approvals and the Seller Required Regulatory Approvals, neither the execution and delivery of this Agreement or the Ancillary Agreements to which it is party by Buyer nor the purchase by Buyer of the Auctioned Assets pursuant to this Agreement will (i) conflict with or result in any breach of any provision of the Certificate of Incorporation or By-laws (or other similar governing documents) of Buyer, (ii) result in a default (or give rise to any right of termination, cancelation or acceleration) under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, license, agreement, lease or other instrument or obligation to which Buyer or any of its subsidiaries is a party or by which any of their respective assets may be bound or (iii) violate any order, writ, injunction, decree, statute, rule or regulation applicable to Buyer, or any of its assets, except in the case of clauses (ii) and (iii) for such failures to obtain a necessary consent, defaults and violations which would not, individually or in the aggregate, have a material adverse effect on the ability of Buyer to consummate the transactions contemplated by, and discharge its obligations under, this Agreement and the Ancillary Agreements (a "Buyer Material Adverse Effect").

(b) Except for (i) approval of the PSC pursuant to ss. 70 of the Public Service Law of the State of New York, of the transfer to Buyer of the Auctioned Assets, (ii) the filings by Buyer and Seller required by the HSR Act and the expiration or earlier termination of all waiting periods under the HSR Act, (iii) application by Buyer to, and the approval of, FERC under (A) Section 203 of the Federal Power Act with respect to the transfer of Auctioned Assets constituting jurisdictional assets under the Federal Power Act and (B) Section 205 of the Federal Power Act with respect to (1) the Continuing Site Agreement (to the extent necessary) and any wholesale power sales agreement to be entered into by Seller and Buyer, including the Transition Capacity Agreement, and (2) authorization to sell capacity and energy from Generating Plants and Gas Turbines at market-based rates (provided, however, that Buyer acknowledges that "market-based rates" for the purpose of this Agreement means rates that are subject to any bid cap, price limitation or other market power mitigation measure imposed by FERC or PSC in respect of the New York State or New York City wholesale and retail energy and capacity electric power markets or any other restriction imposed by FERC or PSC with respect to the power generation operations and assets of Buyer, including the FERC Order Accepting Market Power Mitigation Measures dated September 22, 1998, as modified (Docket No. ER98-3169-000) (the "Mitigation Measures")), (iv) qualification of Buyer, with respect to the Auctioned Assets, as an exempt wholesale generator under the Energy Policy Act of 1992 and (v) the issuance of approval by the New York City Department of Buildings and, to the extent required, the New York City Department of Business Services of the tax lot subdivision contemplated by this Agreement in a form suitable for submission to the New York City Department of Finance for the issuance of tax lot numbers (collectively, the "Buyer Required Regulatory Approvals"), no declaration, filing or registration with, or notice to, or authorization, consent or approval of any Governmental Authority is necessary for the consummation by Buyer of the transactions contemplated hereby or by the Ancillary Agreements, other than such declarations, filings, registrations, notices, authorizations, consents or approvals (A) which, if not obtained or made would not, individually or in the aggregate, have a Buyer Material Adverse Effect or (B) which relate to the Transferable Permits.

(c) To the knowledge of Buyer, there is no reason that it should fail to obtain the Buyer Required Regulatory Approvals.

SECTION 6.04. Availability of Funds. Buyer has sufficient funds available to it or has received binding written commitments (copies of which have heretofore been delivered to Seller) from one or more nationally recognized financial institutions to provide sufficient funds on the Closing Date to pay the Purchase Price and Estimated Adjustment Amount.

SECTION 6.05. Brokers. No broker, finder or other person is entitled to any brokerage fees, commissions or finder's fees in connection with the transaction contemplated hereby by reason of any action taken by Buyer, except Merrill Lynch & Co., Inc., which is acting for and at the expense of Buyer.

ARTICLE VII

Covenants of the Parties

SECTION 7.01. Conduct of Business Relating to the Auctioned Assets. (a) Except with the prior written consent of Buyer (such consent not to be unreasonably withheld) or as required to effect the purchase and sale of the Auctioned Assets and related transactions contemplated by this Agreement, during the period from the date of this Agreement to the Closing Date, Seller will operate the Auctioned Assets in the usual, regular and ordinary course and in accordance with good industry practice and applicable legal requirements, and continue to pay accounts payable

which relate to the Auctioned Assets in a timely manner, consistent with past practice.

(b) Notwithstanding the foregoing, except as contemplated in this Agreement or the Ancillary Agreements, prior to the Closing Date, without the prior written consent of Buyer (such consent not to be unreasonably withheld), Seller will not:

(i) except for Permitted Exceptions, grant any Encumbrance on the Auctioned Assets securing any indebtedness for borrowed money or guarantee or other liability for the obligations of any person;

(ii) make any material change in the levels of fuel inventory and supplies, materials and spare parts inventory customarily maintained by Seller with respect to the Auctioned Assets, other than consistent with past practice (including the use of spare parts in connection with certain power generation assets of Seller described in the Offering Memorandum other than the Generating Plants or Gas Turbines);

(iii) sell, lease (as lessor), transfer or otherwise dispose of, any of the Auctioned Assets, other than assets that become obsolete or assets used, consumed or replaced in the ordinary course of business consistent with past practice (including the use of spare parts in connection with certain power generation assets of Seller described in the Offering Memorandum other than the Generating Plants or Gas Turbines);

(iv) terminate, materially extend or otherwise materially amend any of the Contracts (other than in accordance with their respective terms) or waive any default by, or release, settle or compromise any material claim against, any other party thereto;

(v) amend any of the Transferable Permits, other than (A) Transferable Permits not material to the operations of the Auctioned Assets as currently conducted, (B) as reasonably necessary to complete the transfer of Permits as contemplated hereby, (C) routine renewals or non-material modifications or amendments and (D) modifications, alterations and amendments contemplated by Section 7.03(b);

(vi) enter into any Contract for the purchase, sale or storage of fuel with respect to the Auctioned Assets (whether commodity or transportation) with a term in excess of 12 months, if the aggregate future liability or receivable outstanding on the date for measurement for the purpose of this covenant for all such Contracts would be in excess of $2 million, not including any such Contract terminable by notice of not more than 30 days without penalty or cost (other than de minimis administrative costs); provided, however, that Seller may enter into Contracts for the storage of fuel with respect to the Auctioned Assets with a term ending not later than December 31, 2000 and otherwise on terms consistent with Seller's past practice;

(vii) (A) establish, adopt, enter into or amend any Collective Bargaining Agreement or Benefits Plans, except (1) if such action would not create a Material Adverse Effect or (2) as required under applicable law or under the terms of any Collective Bargaining Agreement or (B) grant to any Affected Employee any increase in compensation, except (1) in the ordinary course of business consistent with past practice or (2) to the extent required by the terms of any Collective Bargaining Agreement, employment agreement in effect as of the date of this Agreement or applicable law;

(viii) enter into any Contract with respect to the Auctioned Assets for goods or services not addressed in clauses (i) through (vii) with a term in excess of 12 months, if the aggregate future liability or receivable outstanding on the date for measurement for the purpose of this covenant for all such Contracts would be in excess of $2 million, not including any such Contract terminable by notice of not more than 30 days without penalty or cost (other than de minimis administrative costs); provided, however, that notwithstanding any other provision of this Agreement to the contrary, Seller may (A) enter into any Contract reasonably necessary to effect the physical, legal or operational separation of the sites on which the Auctioned Assets are located or to otherwise implement the change of ownership contemplated hereby, or subdivision, of such sites or implement the provisions of the Ancillary Agreements and (B) enter into and record the Declarations of Subdivision Easements; or

(ix) enter into any Contract with respect to the Auctioned Assets relating to any of the transactions set forth in the foregoing clauses (i) through (viii).

(c) Without limiting the generality of Sections 7.01(a) and (b), to the extent Section 7.01(a) or (b) prohibits Seller from entering into any Contract for goods and services in connection with maintenance or capital expenditures, Buyer agrees that Seller may request Buyer's consent to enter into such Contract, such consent not to be unreasonably withheld, and to the extent Buyer so consents, all liabilities and obligations under such Contract shall constitute Assumed Obligations and Buyer shall otherwise reimburse Seller for all its expenditures thereunder.

(d) Notwithstanding anything in this Section 7.01 to the contrary, Seller may take any action, incur any expense or enter into any obligation with respect to the Auctioned Assets to the extent that (i) all obligations and liabilities arising with respect thereto do not constitute Assumed Obligations or (ii) Seller otherwise provides that such obligations and liabilities shall not be assumed or retained by Buyer.

SECTION 7.02. Access to Information. (a) Between the date of this Agreement and the Closing Date, Seller will, subject to the Confidentiality Agreement, during ordinary business hours and upon reasonable notice (i) give Buyer and its representatives reasonable access (A) to all books, records, plants, offices and other facilities and properties constituting the Auctioned Assets, including for the purpose of observing the operation by Seller of the Auctioned Assets and (B) to the Auctioned Assets that are not located at the Generating Plants or Gas Turbines and to applicable employees of the Seller, in each case for the purpose of preparing to store spare parts after the Closing, (ii) permit Buyer to make such reasonable inspections thereof as Buyer may reasonably request, (iii) furnish Buyer with such financial and operating data and other information with respect to the Auctioned Assets as Buyer may from time to time reasonably request, (iv) furnish Buyer upon request a copy of each material report, schedule or other document with respect to the Auctioned Assets filed by Seller with, or received by Seller from, the PSC or FERC; provided, however, that (A) any such activities shall be conducted in such a manner as not to interfere unreasonably with the operation of the Auctioned Assets, (B) Seller shall not be required to take any action which would constitute a waiver of the attorney-client privilege and (C) Seller need not supply Buyer with (1) any information or access which Seller is under a legal obligation not to supply or (2) any information which Seller has previously supplied to Buyer. Notwithstanding anything in this Section 7.02 to the contrary, (I) Seller will not be required to provide such information or access to any employee records other than Transferring Employee Records, (II) Buyer shall not have the right to perform or conduct any environmental sampling or testing at, in, on, around or underneath the Auctioned Assets and (III) Seller shall not be required to provide such access or information with respect to any Retained Asset or Retained Liabilities.

(b) Unless otherwise agreed to in writing by Buyer, Seller shall, for a period commencing on the Closing Date and terminating three years after the Closing Date, keep confidential and shall cause its representatives to keep confidential all Confidential Information (as defined in the Confidentiality Agreement) on the terms set forth in the Confidentiality Agreement. Except as contemplated by the following sentence, Seller shall not release any person from any confidentiality agreement now existing with respect solely to the Auctioned Assets or waive or amend any provision thereof. After the Closing Date, upon reasonable request of Buyer, Seller shall, to the maximum extent permitted by law and the applicable Bidder Confidentiality Agreement (as defined below), appoint Buyer to be Seller's representative and agent in respect of confidential information relating to the Auctioned Assets under the confidentiality agreements ("Bidder Confidentiality Agreements") between Seller and prospective purchasers of certain generation assets of Seller of which the Auctioned Assets form part.

(c) From and after the Closing Date, Buyer shall retain all Operating Records (whether in electronic form or otherwise) relating to the Auctioned Assets on or prior to the Closing Date. Buyer also agrees that, from and after the Closing Date, Seller shall have the right, upon reasonable request to Buyer, to receive from Buyer copies of any Operating Records or other information in Buyer's possession relating to the Auctioned Assets on or prior to the Closing Date and required by Seller in order to comply with applicable law. Seller shall reimburse Buyer for its reasonable costs and expenses incurred in connection with the foregoing sentence.

SECTION 7.03. Consents and Approvals; Transferable Permits. (a) Seller and Buyer shall cooperate with each other and (i) prepare and file (or otherwise effect) as soon as practicable all applications, notices, petitions and filings with respect to and (ii) use their reasonable best efforts (including (x) negotiating in good faith modifications and amendments to this Agreement and the Ancillary Agreements and (y) Buyer agreeing, and causing its Affiliates to agree, to propose and implement procedures for processing requests for gas transportation in an expeditious manner (including procedures for evaluating requests to connect with local gas delivery facilities in New York City and for dispute resolution relating thereto) and such other market power mitigation measures as may be appropriate) to obtain (A) the Seller Required Regulatory Approvals and the Buyer Required Regulatory Approvals and (B) any other consents, approvals or authorizations of any other Governmental Authorities or third parties that are necessary to consummate the transactions contemplated by this Agreement or the Ancillary Agreements. Without limiting the generality of the foregoing, (1) each Party agrees to, upon the other Party's request, support such other Party's applications for regulatory approvals of the purchase and sale of the Auctioned Assets contemplated by this Agreement, (2) Buyer agrees not to seek any relief from, or modifications or amendments in respect of, any bid cap, price limitation or other market power mitigation measure or other restriction with respect to any power generation operations and assets described in or contemplated by Section 6.03(b)(iii)(B)(2) until after the Closing Date and (3) Buyer and Seller agree to defend any lawsuits or other legal proceedings, whether judicial or administrative, challenging this Agreement or the Ancillary Agreements, or the consummation of the transactions contemplated hereby or thereby, including seeking to have any stay or temporary restraining order entered by any Governmental Authority vacated or reversed.

(b) Upon execution of this Agreement, Seller shall commence the process of transferring to Buyer the Transferable Permits, including completing and filing applications and related documents with the appropriate Governmental Authorities. Seller hereby reserves the right to modify, alter or amend any Transferable Permit or to refuse to correct violations or deficiencies in respect of any Transferable Permit as long as such modification, alteration, amendment or refusal would not, individually or in the aggregate, create a Material Adverse Effect. Seller shall use its reasonable best efforts to give notice to Buyer of any

modification, alteration or amendment to any Transferable Permit.

(c) Seller shall use its reasonable best efforts to cooperate with Buyer in the transfer of Transferable Permits to Buyer by Closing. If the transfer of any Transferable Permit cannot be completed by Closing, Buyer is hereby authorized, but not required, to act as Seller's representative and agent in respect of such Transferable Permit and to do all things necessary for effecting transfer of such Transferable Permit as soon after the Closing as is practicable, with Seller remaining the Transferable Permit "holder of record" in such case until such transfer is completed. In the case of each such Transferable Permit, Seller shall, to the maximum extent permitted by law and such Transferable Permit, enter into such reasonable arrangements with Buyer as are necessary to provide Buyer with the benefits and obligations of such Transferable Permit. If Buyer is able to complete the transfer of any Transferable Permit after Closing without the occurrence of any event that, if such event had occurred between the execution of this Agreement and the Closing, would have created, individually or in the aggregate, a Material Adverse Effect, Seller may substitute Buyer in its place and stead as the Party responsible for completing the transfer of such Transferable Permit.

SECTION 7.04. Further Assurances. (a) Subject to the terms and conditions of this Agreement, each of the Parties will use its reasonable best efforts to take, or cause to be taken, as soon as possible, all action, and to do, or cause to be done, as soon as possible, all things necessary, proper or advisable under applicable laws and regulations to consummate the sale of the Auctioned Assets pursuant to this Agreement as soon as possible, including using its reasonable best efforts to ensure satisfaction of the conditions precedent to each Party's obligations hereunder. Prior to Buyer's submission of any application with a Governmental Authority for a regulatory approval, Buyer shall submit such application to Seller for review and comment and Buyer shall incorporate into such application any revisions reasonably requested by Seller. Neither of the Parties will, without prior written consent of the other Party, take or fail to take, or permit their respective Affiliates to take or fail to take, any action, which would reasonably be expected to prevent or materially impede, interfere with or delay the consummation, as soon as possible, of the transactions contemplated by this Agreement or the Ancillary Agreements. Without limiting the generality of the foregoing, each of the Parties shall use its reasonable best efforts to negotiate in good faith as soon as possible after the date of this Agreement, and enter into (i) the "A" House Ground Lease and Easement, the "A" House Operation and Maintenance Agreement and the Fuel Supply Agreement, the terms of which shall be substantially as set forth in Exhibits F, I and H, respectively and (ii) any other agreement reasonably necessary to consummate the sale of the Auctioned Assets pursuant to this Agreement as soon as possible.

(b) From time to time after the date hereof, without further consideration and at its own expense, (i) Seller will execute and deliver such instruments of assignment or conveyance as Buyer may reasonably request to more effectively vest in Buyer Seller's title to the Auctioned Assets (subject to Permitted Exceptions and the other terms of this Agreement) and (ii) Buyer will execute and deliver such instruments of assumption as Seller may reasonably request in order to more effectively consummate the sale of the Auctioned Assets and the assumption of the Assumed Obligations pursuant to this Agreement.

(c) Seller shall not sponsor or support any recommendation or application to effect prior to April 1, 2002 (i) a reduction in the locational generation capacity requirement that 80% of New York City peak electric loads must be met with in-City generation capacity, as in effect as of the date of this Agreement, unless such reduction is justified by a significant change in the transmission import capability into New York City whether as a result of actions by Seller or others, (ii) a reduction in the $105/kW-year bid and price cap in respect of capacity under the Mitigation Measures, as in effect as of the date of this Agreement or (iii) a change in the method of determining required system capability set forth in NYPP Billing Procedure 4-11 (Installed Reserve Requirements), as in effect as of the date of this Agreement that would reduce the installed reserve requirements for the winter capability period applicable to summer peaking systems if such reduction would also reduce the annual price for installed capacity that Buyer could otherwise obtain.

(d) Seller shall join or support Buyer's application to the PSC for the certification required under Section 32(c) of the Public Utility Holding Company Act of 1935 in order for Buyer to obtain qualification, with respect to the Auctioned Assets, as an exempt wholesale generator under the Energy Policy Act of 1992.

(e) Seller and Buyer shall cooperate in good faith to establish a transition committee to consider operational and business issues related to the purchase and sale of the Auctioned Assets.

(f) Prior to the Closing Date, Seller shall cooperate in good faith with Buyer to enable Buyer to obtain insurance in respect of the Auctioned Assets comparable to that maintained by Seller as of the date of this Agreement.

(g) Seller and Buyer shall cooperate in good faith to enable Buyer to obtain fuel storage capacity with respect to the Auctioned Assets.

SECTION 7.05. Public Statements. The Parties shall consult with each other prior to issuing any public announcement, statement or other disclosure with respect to this Agreement, the Ancillary Agreements or the transactions contemplated hereby or thereby, including any statement appearing in any filing contemplated hereby or thereby, and shall not issue any such public announcement, statement or other disclosure prior to such consultation, except as may be required by law.

SECTION 7.06. Tax Matters. (a) All transfer and sales taxes (including any petroleum business taxes and similar excise taxes on sales of petroleum based products) incurred in connection with this Agreement and the transactions contemplated hereby shall be borne by Buyer. Buyer shall prepare and file in a timely manner any and all Tax Returns or other documentation relating to such taxes; provided, however, that, to the extent required by applicable law, Seller will join in the execution of any such Tax Returns or other documentation relating to any such taxes. Buyer shall provide to Seller copies of each Tax Return described in the proviso in the preceding sentence at least 30 days prior to the date such Tax Return is required to be filed.

(b) At Seller's election, but on no less than 10 Business Days' notice to Buyer, the transfer of the Auctioned Assets and the receipt of the Purchase Price shall be made through a qualified intermediary in a manner satisfying the requirements of Treasury Regulation Section 1.1031(k)-1(g), so long as such election by Seller does not create a Material Adverse Effect and Seller indemnifies Buyer for its additional costs and expenses incurred by reason of such election.

(c) Each Party shall provide the other Party with such assistance as may reasonably be requested by the other Party in connection with the preparation of any Tax Return, any audit or other examination by any taxing authority, or any judicial or administrative proceedings relating to liability for Taxes, and each Party shall retain and provide the other Party with any records or information which may be relevant to such return, audit, examination or proceedings. Any information obtained pursuant to this Section 7.06(c) or pursuant to any other Section hereof providing for the sharing of information or review of any Tax Return or other instrument relating to Taxes shall be kept confidential by the parties hereto.

(d) If either Buyer or Seller receives a refund of Taxes in respect of the Auctioned Assets for a taxable period including the Closing Date, Buyer shall pay to Seller the portion of any such refund attributable to the portion of such taxable period prior to the Closing Date, and Seller shall pay to Buyer the portion of any such refund attributable to the portion of such taxable period on and after the Closing Date.

SECTION 7.07. Bulk Sales or Transfer Laws. Buyer acknowledges that Seller will not comply with the provisions of any bulk sales or transfer laws of any jurisdiction in connection with the transactions contemplated by this Agreement. Buyer hereby waives compliance by Seller with the provisions of the bulk sales or transfer laws of all applicable jurisdictions.

SECTION 7.08. Storage. Seller shall store for Buyer the Auctioned Assets described in the second sentence of Section 2.01 until the date that is six months after the Closing Date or, in respect of all or a portion of such Auctioned Assets, until one or more earlier dates proposed by Buyer with reasonable advance notice, which schedule shall be reasonably acceptable to Seller. Buyer agrees to reimburse Seller for its reasonable costs and expenses in connection with such storage. Buyer agrees that Seller shall have no responsibility or liability for the actual removal of such Auctioned Assets from the actual storage location, and that Buyer shall have sole responsibility therefor. Notwithstanding the provisions of Section 10.01, Buyer agrees that Seller shall have no liability for loss or damage with respect to the matters contemplated by this Section 7.08 or such Auctioned Assets, and Buyer agrees to hold each Seller Indemnitee harmless from and against all loss or damage or Indemnifiable Losses, and to indemnify each Seller Indemnitee from and against all loss or damage or Indemnifiable Losses incurred, asserted against or suffered as a result of any storage or other services provided by Seller pursuant to this Section 7.08, in each case, except to the extent any such loss or damage or Indemnifiable Loss results in whole or in part from the gross negligence or wilful or wanton acts or omissions to act of any Seller Indemnitee (or any contractor or subcontractor of Seller).

SECTION 7.09. Information Resources. From the Closing Date until the date that is three months thereafter, Seller shall provide Buyer with access to Seller's mainframe computer only to the extent reasonably necessary to enable Buyer to use the PPMIS and MMS (in read only mode) systems and applications solely in connection with the Auctioned Assets. Buyer agrees that it will not use any such access for any purpose other than for the use of the PPMIS and MMS systems and applications solely in connection with the Auctioned Assets. Buyer acknowledges that, as long as it retains access to Seller's mainframe computer, Seller, its employees and third parties may have access to Buyer's information resources systems and applications (including the PPMIS and MMS systems and applications served by Seller's mainframe computer). Notwithstanding the provisions of Section 10.01, Buyer agrees that Seller shall have no liability or obligation whatsoever with respect to the matters contemplated by this Section 7.09, and Buyer agrees to hold each Seller Indemnitee harmless from and against all loss or damage or Indemnifiable Losses, and to indemnify each Seller Indemnitee from and against all loss or damage or Indemnifiable Losses incurred, asserted against or suffered as a result of Buyer's access to Seller's mainframe computer pursuant to this Section 7.09, in each case, except to the extent any such loss or damage or Indemnifiable Loss results in whole or in part from the gross negligence or wilful or wanton acts or omissions to act of any Seller Indemnitee (or any contractor or subcontractor of Seller).

SECTION 7.10. Witness Services. At all times from and after the Closing Date, each Party shall use reasonable best efforts to make available to the other Party, upon reasonable written request, its and its subsidiaries' then current or former officers, directors, employees (including former employees of Seller) and agents as witnesses to the extent that (i) such persons may reasonably be required by such requesting

Party in connection with any claim, action, proceeding or investigation in which such requesting Party may be involved and (ii) there is no conflict between Buyer and Seller in such claim, action, proceeding or investigation. Such other Party shall be entitled to receive from such requesting Party, upon the presentation of invoices for such witness services, payments for such amounts, relating to supplies, disbursements and other out-of-pocket expenses and direct and indirect costs of employees who are witnesses, as may be reasonably incurred in providing such witness services.

SECTION 7.11. Consent Orders. Buyer and Seller agree to cooperate with each other and NYSDEC to facilitate the entry of a consent order between NYSDEC and Buyer, wherein Buyer will agree to assume and perform the Assumed Consent Order Obligations.

SECTION 7.12. Nitrogen Oxide Allowances. Seller agrees to negotiate in good faith with NYSDEC for nitrogen oxide allowances to be allocated to the Auctioned Assets for any period subsequent to the year 2002.

SECTION 7.13. Trade Names. Seller shall not object to the use by Buyer of any trade names, trademarks, service marks or logos (and any rights to and in the same, including any right to use the same) primarily relating to the Generating Facilities that contain the word "Ravenswood".

ARTICLE VIII

Conditions

SECTION 8.01. Conditions Precedent to Each Party's Obligation To Effect the Purchase and Sale. The respective obligations of each Party to effect the purchase and sale of the Auctioned Assets shall be subject to the satisfaction or waiver by such Party on or prior to the Closing Date of the following conditions, unless, in the case of Section 8.01(c) below, the PSC determines that such condition need not be included or complied with:

(a) the Seller Required Regulatory Approvals and Buyer Required Regulatory Approvals shall have been obtained and all conditions to effectiveness prescribed therein or otherwise by law, regulation or order shall have been satisfied; provided, however, that if at the time any Seller Required Regulatory Approval or Buyer Required Regulatory Approval is obtained, a Party reasonably expects a request for rehearing or a challenge thereto to be filed or if a request for rehearing or a challenge thereto has been filed, in each case, which, if successful, would cause such Seller Required Regulatory Approval or Buyer Required Regulatory Approval, as the case may be, to be reversed, stayed, enjoined, set aside, annulled, suspended or substantially modified, then such Party may by notice to the other Party within five Business Days after receipt of such Seller Required Regulatory Approval or Buyer Required Regulatory Approval, as the case may be, delay the Closing until the time for requesting rehearing has expired or until such challenge is decided, in each case, whether or not any appeal thereof is pending; provided further, however, that if the Closing is delayed pursuant to the foregoing provision, the Termination Date shall be automatically extended for a period of time equal to the period of such delay;

(b) no preliminary or permanent injunction or other order or decree by any Federal or state court of competent jurisdiction and no statute or regulation enacted by any Governmental Authority prohibiting the consummation of the purchase and sale of the Auctioned Assets (collectively, "Restraints") shall be in effect;

(c) the ISO shall have become operational to the extent reasonably necessary to monitor market power in respect of the Auctioned Assets; and

(d) delivery of the Continuing Site Agreement, the Declaration of Easements Agreement, each Declaration of Subdivision Easements, each Zoning Lot Development Agreement and the "A" House Ground Lease and Easement to the Title Company for recording.

SECTION 8.02. Conditions Precedent to Obligation of Buyer To Effect the Purchase and Sale. The obligation of Buyer to effect the purchase and sale of the Auctioned Assets contemplated by this Agreement shall be subject to the satisfaction or waiver by Buyer on or prior to the Closing Date of the following additional conditions:

(a) Seller shall have performed in all material respects its covenants and agreements contained in this Agreement which are required to be performed on or prior to the Closing Date;

(b) the representations and warranties of Seller which are set forth in this Agreement shall be true and correct as of the date of this Agreement and as of the Closing Date, as if made at and as of such time (except to the extent expressly made as of an earlier date, in which case as of such date), except where the failure of such representations and warranties to be so true and correct (without giving effect to any limitation as to "materiality" or "Material Adverse Effect" set forth therein) would not, individually or in the aggregate, create a Material Adverse Effect;

(c) Buyer shall have received a certificate from an authorized officer of Seller, dated the Closing Date, to the effect that, to the best of such officer's knowledge, the conditions set forth in Sections 8.02(a) and (b) have been satisfied;

(d) all material Permits and Environmental Permits required

for Buyer to conduct the business and operations of the Auctioned Assets as currently conducted shall have been transferred or will be transferable to Buyer, or shall have been obtained or will be obtainable by Buyer, or shall have been made available to Buyer in accordance with Section 7.03(c), on, prior to or within a reasonable period of time after the Closing Date;

(e) Buyer shall have received (i) the deeds of conveyance substantially in the form of Exhibit B, (ii) a Foreign Investment in Real Property Tax Act Certification and Affidavit substantially in the form of Exhibit C and (iii) an opinion from John D. McMahon, Esq., General Counsel of Seller or other counsel reasonably acceptable to Buyer, dated the Closing Date, substantially in the form set forth in Exhibit D;

(f) execution and delivery by Seller of each of (i) the Transition Capacity Agreement and the Zoning Lot Development Agreements and (ii) the Fuel Supply Agreement, the "A" House Ground Lease and Easement and the "A" House Operation and Maintenance Agreement, each in a form and on terms reasonably satisfactory to Buyer;

(g) the Title Company shall be willing to issue to Buyer a New York form of ALTA (1992) Owner's Title Insurance Policy insuring fee title to the Buyer Real Estate in an amount equal to that portion of the Purchase Price properly allocable to Buyer Real Estate, subject only to the Permitted Exceptions; and

(h) Buyer shall have received originals of the ALTA/ACSM Land Title Surveys which include the Buyer Real Estate in addition to other property signed by the surveyor with Buyer's name and the name of not more than one other Party designated by Buyer added to the certification set forth thereon.

SECTION 8.03. Conditions Precedent to Obligation of Seller To Effect the Purchase and Sale. The obligation of Seller to effect the purchase and the sale of the Auctioned Assets contemplated by this Agreement shall be subject to the satisfaction or waiver by Seller on or prior to the Closing Date of the following additional conditions:

(a) Buyer shall have performed in all material respects its covenants and agreements contained in this Agreement which are required to be performed on or prior to the Closing Date;

(b) the representations and warranties of Buyer which are set forth in this Agreement shall be true and correct as of the date of this Agreement and as of the Closing Date, as if made at and as of such time (except to the extent expressly made as of an earlier date, in which case as of such date), except where the failure of such representations and warranties to be so true and correct (without giving effect to any limitation as to "materiality" or "Buyer Material Adverse Effect" set forth therein) would not, individually or in the aggregate, create a Buyer Material Adverse Effect;

(c) Seller shall have received a certificate from an authorized officer of Buyer, dated the Closing Date, to the effect that, to the best of such officer's knowledge, the conditions set forth in Sections 8.03(a) and (b) have been satisfied;

(d) Seller shall have received an opinion substantially in the form of Exhibit E dated as of the Closing Date and from counsel reasonably acceptable to Seller;

(e) execution and delivery by Buyer of each of (i) the Transition Capacity Agreement and the Zoning Lot Development Agreements and (ii) the Fuel Supply Agreement, the "A" House Ground Lease and Easement and the "A" House Operation and Maintenance Agreement, each in a form reasonably satisfactory to Seller;

(f) Buyer shall have provided evidence in form and substance reasonably satisfactory to Seller of compliance by Buyer with its obligations under Article IX;

(g) if Buyer has assigned its rights, interests and obligations in accordance with Section 12.05(a)(ii)(A),

(i) the Guarantee Agreement shall be in full force and effect;

(ii) the Guarantor shall have performed in all material respects its covenants and agreements contained in the Guarantee Agreement which are required to be performed on or prior to the Closing Date;

(iii) the representations and warranties of the Guarantor which are set forth in the Guarantee Agreement shall be true and correct as of the date of the Guarantee Agreement and as of the Closing Date, as if made at and as of such time (except to the extent expressly made as of an earlier date, in which case as of such date), except where the failure of such representations and warranties to be so true and correct (without giving effect to any limitation as to "materiality" or "Guarantor Material Adverse Effect" set forth therein) would not, individually or in the aggregate, create a Guarantor Material Adverse Effect (as defined therein);

(iv) Seller shall have received a certificate from an authorized officer of the Guarantor, dated the Closing Date, to the effect that, to the best of such officer's knowledge,

the conditions set forth in Sections 8.03(g)(ii) and (iii) have been satisfied; and

(v) Seller shall have received an opinion substantially in the form of Exhibit M dated the Closing Date and from counsel reasonably acceptable to Seller.

ARTICLE IX

Employee Matters

SECTION 9.01. Employee Matters. (a) Buyer shall offer equivalent employment at the Auctioned Assets to those employees of Seller regularly assigned by Seller to work at the Auctioned Assets or at the Ravenswood "A" Steam House on the Closing Date in the job titles and facilities listed in Schedule 9.01(a)(all such employees described above and those individuals described in the following sentence being hereinafter referred to as "Affected Employees"). Affected Employees include each such employee of Seller who is not actively at work on the Closing Date due solely to a temporary short-term absence, whether paid or unpaid, in accordance with applicable policies of Seller, including as a result of vacation, holiday, personal time, leave of absence, union leave, short- or long-term disability leave, military leave or jury duty. Affected Employees shall cease to be employees of Seller on the Closing Date and their period of employment by Buyer shall begin on the Closing Date. Seller shall be responsible for any obligation to provide employee benefits to an Affected Employee prior to such employee's period of employment by Buyer.

All such offers of employment will be made (i) in accordance with all applicable laws and regulations, and (ii) for employees represented by Utility Workers' Union of America AFL-CIO and its Local Union 1-2 ("Local 1-2"), in accordance with the Local 1-2 Collective Bargaining Agreement (as defined in Schedule 9.01(b)). Each Affected Employee who becomes employed by Buyer pursuant to this Section 9.01(a) shall be referred to herein as a "Continued Employee".

Buyer may commence discussions concerning offers for employment beginning on the Closing Date to Affected Employees at any time following the date of this Agreement.

(b) Schedule 9.01(b) sets forth the collective bargaining agreements, and amendments thereto, to which Seller is a party in connection with the Auctioned Assets (the "Collective Bargaining Agreement"). Affected Employees who are included in the collective bargaining unit covered by the Collective Bargaining Agreement are referred to herein as "Affected Union Employees". Each Continued Employee who is an Affected Union Employee shall be referred to herein as a "Continued Union Employee". On the Closing Date, Buyer will assume the terms and conditions of the Collective Bargaining Agreement, except as set forth in Section 9.02(b) below, as it relates to Affected Union Employees until the expiration date of the Collective Bargaining Agreement. Buyer will comply with its legal obligations with respect to collective bargaining under Federal labor law for the employees at the Auctioned Assets in the job titles or related work responsibilities of the Affected Union Employees, and Buyer will comply with all applicable obligations thereunder as the new owner of the Auctioned Assets. Buyer shall recognize Local 1-2 as the exclusive collective bargaining representative of the employees at the Auctioned Assets in the job titles or related work responsibilities of the Affected Union Employees and Buyer agrees that, should any other business entity (regardless of its relationship to Buyer) acquire all or a portion of the Auctioned Assets from Buyer prior to the expiration date of the Collective Bargaining Agreement, Buyer will require such business entity to (i) offer employment to Affected Union Employees employed by Buyer at the Auctioned Assets immediately prior to the change in ownership, (ii) recognize Local 1-2 as the exclusive collective bargaining representative of Buyer's employees at the Auctioned Assets in the job titles and work responsibilities of the Affected Union Employees, and (iii) assume the terms and conditions of the Collective Bargaining Agreement as it relates to Affected Union Employees from the date of such acquisition through the expiration date of the Collective Bargaining Agreement.

SECTION 9.02. Continuation of Equivalent Benefit Plans/Credited Service. (a) For not less than three years following the Closing Date, Buyer shall maintain compensation (including base pay and bonus compensation) and employee benefits and employee benefit plans and arrangements for each Continued Employee who is not a Continued Union Employee (a "Continued Non-Union Employee") which are at least equivalent to those provided pursuant to the compensation, employee benefits and employee benefit plans and arrangements in effect on the Closing Date for the Affected Employees who are not Affected Union Employees. Such total compensation shall be based upon (x) such employee's existing individual base pay, (y) such employee's authorized overtime, if applicable, and (z) the average bonus and benefit component for such employee's salary plan level, as consistently applied by Seller, apportioned according to such employee's base pay. No provision of this Agreement shall affect any Continued Non-Union Employee's status as an employee-at-will.

(b) From the Closing Date until the expiration date of the Collective Bargaining Agreement, Buyer shall provide to each Continued Union Employee benefits and employee benefit plans and arrangements which are equivalent to those provided under such Collective Bargaining Agreement. Such benefits, plans and arrangements include the following: (i) hospital, medical, dental, vision care and prescription drug benefits (including employee contributions to be made on a pre-tax basis), (ii) health care and dependent care flexible spending accounts; (iii) employer-provided basic group term life and accidental death and dismemberment insurance; (iv) employee-paid group universal life and

spousal and dependent child life insurance; (v) sick allowance (short term disability) and long term disability benefits; (vi) business travel accident insurance and crime protection insurance; (vii) occupational accidental death insurance; (viii) adoption benefits and child care and elder care referral benefits; (ix) tuition aid benefits; (x) vacation and holidays; (xi) employee stock purchase plan (including employer matching contributions) and (xii) defined benefit pension and 401(k) plan benefits. In providing such benefits, Buyer shall have the right, subject to any applicable laws, to use different providers from those used by Seller and to establish Buyer's own benefit plans or use Buyer's existing benefit plans. For purposes hereof, except as provided in Section 9.04(b), Buyer shall have no obligation to maintain a fund holding or measured by common stock of Seller's parent under any of Buyer's plans or arrangements, notwithstanding any such fund maintained by Seller under its plans and arrangements.

(c) Continued Employees shall be given credit by Buyer for all service with Seller and its Affiliates under all existing or future employee benefit and fringe benefit plans, programs and arrangements of the Buyer ("Buyer Benefit Plans") in which they become participants. The service credit given by Buyer shall be for purposes of eligibility, vesting, eligibility for early retirement and early retirement subsidies, benefit accrual and service-related level of benefits. Buyer shall assume and honor all vacation, sick and personal days accrued and unused by Continued Employees through the Closing Date in accordance with Seller's applicable policies and arrangements.

SECTION 9.03. Pension Plan. (a) Effective as of the Closing Date, Buyer shall have in effect defined benefit pension plans ("Buyer's Pension Plans") intended to be (i) qualified pursuant to Section 401(a) of the Code and (ii) nonqualified, in order to provide for benefits which would otherwise be payable under the applicable qualified plan but for the application of Sections 401(a)(17) and 415 of the Code, providing benefits as of the Closing Date identical in all material respects (except for such changes as may be required by law) to the benefits provided to them under Seller's Pension Plans (as defined below), in particular (x) for Continued Non-Union Employees, such Buyer's Pension Plans to provide benefits identical in all material respects to those benefits provided under Seller's Retirement Plan for Management Employees and Seller's Supplemental Retirement Income Plan, and (y) for Continued Union Employees, such Buyer's Pension Plans to provide benefits identical in all material respects to those provided under Seller's Pension and Benefits Plan (collectively, "Seller's Pension Plans"), in each case, as of the Closing Date. Buyer acknowledges and agrees that one such material respect is to count age after termination of employment for purposes of satisfying requirements for early retirement eligibility and early retirement subsidies.

(b) Continued Employees participating in Seller's Pension Plans immediately prior to the Closing Date shall become participants in Buyer's Pension Plans as of the Closing Date. Without limiting the generality of Section 9.02(c), Continued Employees shall receive credit for all compensation and service with Seller (subject to the terms of Seller's Pension Plans) for purposes of eligibility for participation, vesting, eligibility for early retirement and early retirement subsidies and benefit accrual under Buyer's Pension Plans. Seller shall be responsible for Continued Employees' pension benefits accrued up to the Closing Date, and Buyer shall be responsible for pension benefits accrued by such Continued Employees on and after the Closing Date as provided herein. Buyer may offset against the accrued benefits determined under Buyer's Pension Plans the accrued benefits determined under Seller's Pension Plans. For the purpose of this Section 9.03(b), "accrued benefit" means the amount that would be paid as a life annuity at normal retirement age irrespective of the date of actual distribution from either Seller's or Buyer's Pension Plans. Seller shall make pension distributions to Continued Employees of the vested portion of their accrued benefits in accordance with the terms of Seller's Pension Plans as in effect from time to time. As soon as reasonably practicable following the Closing Date, Seller shall provide Buyer a list showing, as of the Closing Date, the accrued benefit of each Continued Employee under Seller's Pension Plans.

(c) In the event that any other business entity (regardless of its relationship to Buyer) acquires all or a portion of the Auctioned Assets from Buyer at any time prior to the third anniversary of the Closing Date in the case of Continued Non-Union Employees and prior to the expiration date of the Collective Bargaining Agreement in the case of Continued Union Employees, Buyer will require such entity to maintain the defined benefit plans, provide the benefits and recognize compensation and service with Seller and Buyer to the same extent as Buyer is required under Sections 9.03(a) and (b) above.

SECTION 9.04. 401(k) Plan. (a) Effective as of the Closing Date, Buyer shall have in effect tax-qualified defined contribution plans that include a qualified cash or deferred arrangement within the meaning of Section 401(k) of the Code ("Buyer's 401(k) Plans") that will provide benefits that are identical in all material respects (except for such changes as may be required by law) to those provided by (i) Seller's Thrift Savings Plan for Management Employees, in the case of Continued Non-Union Employees, and (ii) Seller's Retirement Income Savings Plan for Weekly Employees, in the case of Continued Union Employees (such Seller plans herein referred to collectively as "Seller's 401(k) Plans"), in each case, as of the Closing Date. Each Continued Employee participating in Seller's 401(k) Plans immediately prior to the Closing Date shall become a participant in Buyer's 401(k) Plans as of the Closing Date. Continued Employees shall receive credit for all service with Seller for purposes of eligibility and vesting under Buyer's 401(k) Plans.

(b) At such time after the Closing Date as Seller is reasonably satisfied that Buyer's 401(k) Plans meet the requirements for qualification under Section 401(a) of the Code, Seller shall cause to be

transferred to Buyer's 401(k) Plans in a trust-to-trust transfer in common stock of Seller's parent (as provided in the following sentence) and cash (or other property reasonably acceptable to Buyer) an amount equal to the value of the assets held in the accounts of all Continued Employees (including any outstanding loan balances of Continued Employees in Seller's 401(k) Plans), subject to any qualified domestic relations orders. In connection therewith, Buyer shall establish an investment fund under Buyer's 401(k) Plans to which shall be transferred the shares of common stock of Seller's parent (or any successor thereto) which, as of the date of transfer, are credited to the accounts of the Continued Employees under Seller's 401(k) Plans. After the Closing Date and prior to any such transfer, Buyer shall cooperate with Seller in the administration of distributions to and loan repayments by Continued Employees. Prior to such transfer of assets, Seller shall vest any unvested benefits of Continued Employees under Seller's 401(k) Plans. Following any such transfer of assets, Buyer shall assume all obligations and liabilities of Seller under Seller's 401(k) Plans with respect to such Continued Employees, and Seller shall have no further liability to Buyer or any Continued Employee with respect thereto.

SECTION 9.05. Welfare Plans. (a) Continued Employees and their dependents who are eligible to participate in Seller's current welfare benefits plans, programs or arrangements shall be eligible to participate in the welfare benefits plans, programs or arrangements maintained or established by Buyer ("Buyer's Welfare Plans"), effective as of the Closing Date. Effective as of the Closing Date, any and all limitations as to pre-existing conditions and actively-at-work exclusions and waiting periods under Buyer's Welfare Plans shall be waived by Buyer with respect to Continued Employees and their eligible dependents to the extent satisfied under Seller's applicable Welfare Plans. In addition, effective as of the Closing Date, Buyer shall cause Buyer's Welfare Plans to recognize any out-of-pocket health care expenses incurred by Continued Employees and their eligible dependents prior to the Closing Date and during the calendar year in which such Closing Date occurs for purposes of determining their deductibles and out-of-pocket maximums under Buyer's Welfare Plans. Seller shall retain responsibility under Seller's welfare plans for claims relating to expenses incurred by Continued Employees and their eligible dependents prior to the Closing Date. Buyer shall have responsibility under Buyer's Welfare Plans for claims relating to expenses incurred by Continued Employees and their eligible dependents on and after the Closing Date.

(b) Effective as of the Closing Date, Buyer shall have in effect health care and dependent care reimbursement account plans for the benefit of each Continued Employee, the terms of which shall (i) be identical in all material respects to the Flexible Reimbursement Account Plans for Management and Weekly Employees of Seller ("Seller's Reimbursement Account Plans") as in effect on the Closing Date and (ii) give full effect to, and continue in effect, salary reduction elections made under Seller's Reimbursement Account Plans. Prior to the Closing Date, Seller shall cause the accounts of Continued Employees under Seller's Reimbursement Account Plans to be segregated into separate health care and dependent care reimbursement accounts (the "Segregated Reimbursement Accounts"), and such Segregated Reimbursement Accounts shall be transferred to and assumed by Buyer as of the Closing Date.

(c) Buyer shall, subject to any applicable laws, provide a retiree health program identical in all material respects to Seller's retiree health program as in effect on the Closing Date to each Continued Employee who terminates his employment with Buyer within three years after the Closing Date, in the case of a Continued Non-Union Employee, and on or prior to the expiration date of the Collective Bargaining Agreement, in the case of a Continued Union Employee, and, in each case, who at the time of such termination of employment satisfies the eligibility requirements for such retiree health program provided by Buyer; provided, however, that Seller shall remain liable, pursuant to Seller's retiree health program, for all Continued Employees who satisfy, as of the Closing Date, the eligibility requirements then in effect for Seller's retiree health program.

SECTION 9.06. Short- and Long-Term Disability. Effective as of the Closing Date, Buyer shall have in effect short- and long-term disability plans for the benefit of Continued Employees, the cost of which to Continued Employees shall be the same as under, and the terms of which are identical in all material respects to, Seller's applicable plans as in effect as of the Closing Date. Any and all waiting periods and pre-existing condition clauses shall be waived under Buyer's short-and long-term disability plans with respect to Continued Employees.

SECTION 9.07. Life Insurance and Accidental Death and Dismemberment Insurance. Effective as of the Closing Date, Buyer shall have in effect group term life insurance, group universal life insurance, accidental death and dismemberment insurance, occupational accidental death insurance, business travel accident insurance and crime protection insurance plans for the benefit of Continued Employees, the cost of which to Continued Employees shall be the same as under, and terms of which are identical in all material respects to, Seller's applicable plans that provide such benefits to Continued Employees immediately prior to the Closing Date.

SECTION 9.08. Severance. (a) Effective as of the Closing Date, Buyer shall have in effect a severance plan covering Continued Non-Union Employees that contains terms identical in all material respects to those under Seller's Severance Pay Plan for Management Employees as of the Closing Date.

(b) Buyer shall, subject to any applicable laws, provide a special separation allowance for any Continued Employee whose employment with Buyer is terminated involuntarily by Buyer other than for cause on or prior to, in the case of Continued Non-Union Employees, three years after the Closing Date and, in the case of Continued Union Employees, the

expiration date of the Collective Bargaining Agreement. Such allowance shall be not less than the sum of four weeks pay plus one week pay for each completed year of service (as determined by aggregating each affected individual's respective service with Seller and Buyer) and shall be payable by Buyer in a lump sum within 30 days after termination of employment. In addition, in the case of each Continued Non-Union Employee described in the first sentence of this Section 9.08(b), Buyer shall pay the Continued Non-Union Employee a lump sum equal to the excess of (i) the actuarial equivalent of the Employee's "potential benefit" under the applicable Buyer's Pension Plans, which such Employee would receive if such Employee's employment continued until three years after the Closing Date and such Employee's base and incentive compensation for such deemed additional period was the same as in effect on the date of such Employee's termination of employment with Buyer, over (ii) the actuarial equivalent of such Employee's "actual benefit" under the applicable Buyer's Pension Plans, as of the date of such Employee's termination of employment from Buyer. For the purpose of the foregoing sentence, (i) the term "potential benefit" shall refer to the monthly pension that would have been payable to the applicable Employee commencing on the first day of the month following the latest of (A) the last day of the deemed additional period, (B) Employee's attainment of age 55, or (C) the earlier of (1) the first date as of which the sum of such Employee's age and years of service, as taken into account in determining the actuarial reduction for commencement prior to normal retirement age that is to be applied to his accrued benefit under the applicable Buyer's Pension Plans, equals 75 or (2) such Employee's attainment of age 65, (ii) the term "actual benefit" shall refer to the monthly pension payable to such Employee under the applicable Buyer's Pension Plans commencing as of the date determined in accordance with clause (i) of this sentence, and (iii) the actuarial equivalent of the "potential benefit" and the "actual benefit" shall each be a lump sum payable as of the date of such Employee's termination of employment from Buyer, determined on the basis of the interest rate used to determine the amount of lump sum distributions and, to the extent applicable, other actuarial assumptions then in effect under the applicable Buyer's Pension Plans. Buyer shall also provide outplacement services to such terminated Continued Non-Union Employee appropriate to the level of the Employee's position and job responsibilities. Buyer shall also continue to provide or cause to be provided to any such terminated Continued Employee health insurance coverage and group term and universal life insurance coverage at the same rates as for active Continued Employees for a period equal to the number of weeks of separation allowance which any such terminated Continued Employee is entitled to from Buyer. Buyer shall have the right to require a release in form reasonably satisfactory to Buyer as a condition for eligibility to receive such separation allowance. The allowance shall not apply to Continued Employees whose employment is terminated due to death or expiration of sick allowance or other authorized leave of absence or who terminate employment voluntarily. If at any time during the three-year period following the Closing Date, Buyer shall assign a Continued Non-Union Employee to work on a regular basis at a location that is more than fifty miles from the location to which such Employee is assigned as of the Closing Date, Buyer shall offer such Employee the option to terminate employment and receive the severance benefits set forth in this Section 9.08(b) in lieu of the reassignment.

SECTION 9.09. Workers Compensation. Effective as of the Closing Date, Buyer shall have in effect a workers compensation program for Continued Employees that shall provide coverage identical in all material respects to Seller's workers compensation program as of the Closing Date.

ARTICLE X

Indemnification and Dispute Resolution

SECTION 10.01. Indemnification. (a) Seller will indemnify and hold harmless Buyer and its Affiliates and their respective directors, officers, employees and agents (collectively with Buyer and its Affiliates, the "Buyer Indemnitees") from and against any and all claims, demands or suits by any person, and all losses, liabilities, damages, obligations, payments, costs and expenses (including reasonable legal fees and expenses and including costs and expenses incurred in connection with investigations and settlement proceedings) (each, an "Indemnifiable Loss"), as incurred, asserted against or suffered by any Buyer Indemnitee relating to, resulting from or arising out of:

(i) any breach by Seller of any covenant or agreement of Seller contained in this Agreement or, prior to their expiration in accordance with Section 12.03, the representations and warranties contained in Sections 5.01, 5.02, 5.03 and 5.17;

(ii) the Retained Liabilities;

(iii) noncompliance by Seller with any bulk sales or transfer laws as provided in Section 7.07; or

(iv) any breach by Seller of any Ancillary Agreement.

(b) Buyer will indemnify and hold harmless Seller and its Affiliates and their respective directors, officers, trustees, employees and agents (collectively with Seller and its Affiliates, the "Seller Indemnitees") from and against any and all Indemnifiable Losses, as incurred, asserted against or suffered by any Seller Indemnitee relating to, resulting from or arising out of:

(i) any breach by Buyer of any covenant or agreement of Buyer contained in this Agreement or, prior to their expiration in accordance with Section 12.03, the representations and warranties contained in Sections 6.01, 6.02, 6.03 and 6.05;

(ii) the Assumed Obligations;

(iii) any obligation resulting from any action or inaction of Buyer (A) under any Contract or warranty pursuant to Section 2.04(b) (whether acting as principal or representative and agent for Seller pursuant to Section 2.04(b) or otherwise) or (B) pursuant to any Transferable Permit in respect of which Seller remains the holder of record after the Closing Date pursuant to Section 7.03(c); or

(iv) any breach by Buyer of any Ancillary Agreement.

(c) The amount of any Indemnifiable Loss shall be reduced to the extent that the relevant Buyer Indemnitee or Seller Indemnitee (each, an "Indemnitee") receives any insurance proceeds with respect to an Indemnifiable Loss and shall be (i) increased to take account of any Tax Cost incurred by the Indemnitee arising from the receipt of indemnity payments hereunder (grossed up for such increase) and (ii) reduced to take account of any Tax Benefit realized by the Indemnitee arising from the incurrence or payment of any such Indemnifiable Loss. If the amount of any Indemnifiable Loss, at any time subsequent to the making of an indemnity payment in respect thereof, is reduced by recovery, settlement or otherwise under or pursuant to any insurance coverage, or pursuant to any claim, recovery, settlement or payment by or against any other person, the amount of such reduction, less any costs, expenses or premiums incurred in connection therewith, will promptly be repaid by the Indemnitee to the Party required to provide indemnification hereunder (the "Indemnifying Party") with respect to such Indemnifiable Loss.

(d) To the fullest extent permitted by law, neither Party nor any Buyer Indemnitee or any Seller Indemnitee shall be liable to the other Party or any other Buyer Indemnitee or Seller Indemnitee for any claims, demands or suits for consequential, incidental, special, exemplary, punitive, indirect or multiple damages connected with or resulting from any breach after the Closing Date of this Agreement or the Ancillary Agreements (other than breach of this Article X), or any actions undertaken in connection with or related hereto or thereto, including any such damages which are based upon breach of contract, tort (including negligence and misrepresentation), breach of warranty, strict liability, statute, operation of law or any other theory of recovery.

(e) The rights and remedies of Seller and Buyer under this Article X are, solely as between Seller and Buyer, exclusive and in lieu of any and all other rights and remedies which Seller and Buyer may have under this Agreement, the Ancillary Agreements (except as expressly provided in the Continuing Site Agreement or the Declaration of Easements Agreement) or otherwise for monetary relief with respect to (i) any breach of, or failure to perform, any covenant or agreement set forth in this Agreement or the Ancillary Agreements by Seller or Buyer, (ii) any breach of any representation or warranty by Seller or Buyer, (iii) the Assumed Obligations or the Retained Liabilities, (iv) noncompliance by Seller with any bulk sales or transfer laws and (v) any obligation in respect of Section 2.04 or Section 7.03. Each Party agrees that the previous sentence shall not limit or otherwise affect any non-monetary right or remedy which either Party may have under this Agreement or the Ancillary Agreements or otherwise limit or affect either Party's right to seek equitable relief, including the remedy of specific performance.

(f) Buyer and Seller agree that, notwithstanding Section 10.01(e), each Party shall retain, subject to the other provisions of this Agreement, including Sections 10.01(d) and 12.03, all remedies at law or in equity with respect to (i) fraud or wilful or intentional breaches of this Agreement or the Ancillary Agreements and (ii) gross negligence or wilful or wanton acts or omissions to act of any Indemnitee (or any contractor or subcontractor thereof) on or after the Closing Date.

SECTION 10.02. Third Party Claims Procedures. (a) If any Indemnitee receives notice of the assertion of any claim or of the commencement of any claim, action, or proceeding made or brought by any person who is not a Party or an Affiliate of a Party (a "Third Party Claim") with respect to which indemnification is to be sought from an Indemnifying Party, the Indemnitee will give such Indemnifying Party reasonably prompt written notice thereof, but in any event not later than 20 Business Days after the Indemnitee's receipt of notice of such Third Party Claim; provided, however, that a failure to give timely notice will not affect the rights or obligations of any Indemnitee except if, and only to the extent that, as a result of such failure, the Indemnifying Party was actually prejudiced. Such notice shall describe the nature of the Third Party Claim in reasonable detail and will indicate the estimated amount, if practicable, of the Indemnifiable Loss that has been or may be sustained by the Indemnitee.

(b) If a Third Party Claim is made against an Indemnitee, the Indemnifying Party will be entitled to participate in the defense thereof and, if it so chooses, to assume the defense thereof with counsel selected by the Indemnifying Party; provided, however, that such counsel is not reasonably objected to by the Indemnitee; and provided further that the Indemnifying Party first admits in writing its liability to the Indemnitee with respect to all material elements of such claim. Should the Indemnifying Party so elect to assume the defense of a Third Party Claim, the Indemnifying Party will not be liable to the Indemnitee for any legal expenses subsequently incurred by the Indemnitee in connection with the defense thereof. If the Indemnifying Party elects to assume the defense of a Third Party Claim, the Indemnitee will (i) cooperate in all reasonable respects with the Indemnifying Party in connection with such defense, (ii) not admit any liability with respect to, or settle, compromise or discharge, any Third Party Claim without the Indemnifying Party's prior written consent and (iii) agree to any settlement, compromise or discharge of a Third Party Claim which the Indemnifying Party may recommend and which by its terms obligates the Indemnifying Party to pay the full amount of the liability in connection with such Third Party Claim and releases the Indemnitee completely in connection with such Third Party Claim. In

the event the Indemnifying Party shall assume the defense of any Third Party Claim, the Indemnitee shall be entitled to participate in (but not control) such defense with its own counsel at its own expense. If the Indemnifying Party does not assume the defense of any such Third Party Claim, the Indemnitee may defend the same in such manner as it may deem appropriate, including settling such claim or litigation after giving notice to the Indemnifying Party of the terms of the proposed settlement and the Indemnifying Party will promptly reimburse the Indemnitee upon written request. Anything contained in this Agreement to the contrary notwithstanding, no Indemnifying Party shall be entitled to assume the defense of any Third Party Claim if such Third Party Claim seeks an order, injunction or other equitable relief or relief for other than monetary damages against the Indemnitee which, if successful, would materially adversely affect the business of the Indemnitee.

ARTICLE XI

Termination

SECTION 11.01. Termination. (a) This Agreement may be terminated at any time prior to the Closing by an instrument in writing signed on behalf of each of the Parties.

(b) This Agreement may be terminated by Seller or Buyer if the Closing shall not have occurred on or before the date that is 12 months from the date of this Agreement (the "Termination Date"); provided, however, that the right to terminate this Agreement pursuant to this Section 11.01(b) shall not be available to any Party whose failure to fulfill any obligation under this Agreement has been the cause of, or resulted in, the failure of the Closing to occur on or before such date.

(c) This Agreement may be terminated by either Seller or Buyer if any Restraint having any of the effects set forth in Section 8.01(b) shall be in effect and shall have become final and nonappealable; provided, however, that the Party seeking to terminate this Agreement pursuant to this Section 11.01(c) shall have used its reasonable best efforts to prevent the entry of and to remove such Restraint.

ARTICLE XII

Miscellaneous Provisions

SECTION 12.01. Expenses. Except to the extent specifically provided herein, all costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be borne by the Party incurring such costs and expenses, whether or not the transactions contemplated hereby are consummated.

SECTION 12.02. Amendment and Modification; Extension; Waiver. This Agreement may be amended, modified or supplemented only by an instrument in writing signed on behalf of each of the Parties. Either Party may (i) extend the time for the performance of any of the obligations or other acts of the other Party, (ii) waive any inaccuracies in the representations and warranties of the other Party contained in this Agreement or (iii) waive compliance by the other Party with any of the agreements or conditions contained in this Agreement. Any agreement on the part of a Party to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such Party. The failure of a Party to this Agreement to assert any of its rights under this Agreement or otherwise shall not constitute a waiver of such rights.

SECTION 12.03. No Survival of Representations or Warranties. Each and every representation and warranty contained in this Agreement, other than the representations and warranties contained in Sections 5.01, 5.02, 5.03 and 5.17 and 6.01, 6.02, 6.03 and 6.05 (which representations and warranties shall survive for 18 months from the Closing Date), shall expire with, and be terminated and extinguished by the Closing and no such representation or warranty shall survive the Closing Date. From and after the Closing Date, none of Seller, Buyer or any officer, director, trustee or Affiliate of any of them shall have any liability whatsoever with respect to any such representation or warranty. The expiration of the representations and warranties contained in Sections 5.01, 5.02, 5.03 and 5.17 and 6.01, 6.02, 6.03 and 6.05 shall not affect the Parties' obligations under Article X if the Indemnitee provided the Indemnifying Party with proper notice of the claim or event for which indemnification is sought prior to such expiration.

SECTION 12.04. Notices. All notices and other communications hereunder shall be in writing and shall be deemed given (as of the time of delivery or, in the case of a telecopied communication, of confirmation) if delivered personally, telecopied (which is confirmed) or sent by overnight courier (providing proof of delivery) to the Parties at the following addresses (or at such other address for a Party as shall be specified by like notice):

if to Seller, to:

Consolidated Edison Company of New York, Inc.
4 Irving Place
New York, NY 10003
Telecopy No.: (212) 677-0601
Attention: General Counsel

with a copy on or prior to the Closing Date to:

Cravath, Swaine & Moore
825 Eighth Avenue

New York, NY 10019
Telecopy No.: (212) 474-3700
Attention: George W. Bilicic, Jr., Esq.

if to Buyer, to:

MarketSpan Corporation d/b/a
KeySpan Energy
One MetroTech Center
Brooklyn, New York 11201-3850
Telecopy No.: (718) 696-7139
Attention: General Counsel

with a copy on or prior to the Closing Date to:

Dickstein Shapiro Morin & Oshinsky LLP
2101 L Street NW
Washington, D.C. 20037-1526
Telecopy No.: (202) 887-0689
Attention: Kenneth Simon, Esq.

SECTION 12.05. Assignment; No Third Party Beneficiaries. (a) This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the Parties and their respective successors and permitted assigns, but neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any Party, including by operation of law, without the prior written consent of the other Party, except (i) in the case of Seller (A) to an Affiliate of Seller or a third party in connection with the transfer of the Transmission System to such Affiliate or third party or (B) to a lending institution or trustee in connection with a pledge or granting of a security interest in all or any part of the Transmission System and this Agreement and (ii) in the case of Buyer (A) prior to the Closing, to a wholly-owned subsidiary so long as Buyer shall have duly executed and delivered the Guarantee Agreement and such assignment is for all of Buyer's rights, interests and obligations hereunder, (B) to an Affiliate of Buyer in connection with the transfer of the Auctioned Assets to such Affiliate and (C) to a lending institution or trustee in connection with a pledge or granting of a security interest in the Auctioned Assets and this Agreement; provided, however, that no assignment or transfer of rights or obligations by either Party shall relieve it from the full liabilities and the full financial responsibility, as provided for under this Agreement, unless and until the transferee or assignee shall agree in writing to assume such obligations and duties and the other Party has consented in writing to such assumption; provided, further, that such consent shall not be required with respect to any assignment by Buyer pursuant to subclause (ii)(A) above.

(b) Notwithstanding any provision in this Agreement to the contrary, prior to the Closing Buyer may, with the prior written consent of Seller, assign its rights, interests or obligations hereunder to a special purpose entity for financing purposes in connection with the acquisition of the Auctioned Assets; provided, however, that no such assignment of rights, interests or obligations by Buyer shall relieve it from the full liabilities and obligations hereunder unless Buyer shall deliver a guarantee agreement in form and substance satisfactory to Seller in respect of such liabilities and obligations.

(c) Nothing in this Agreement is intended to confer upon any other person except the Parties any rights or remedies hereunder or shall create any third party beneficiary rights in any person, including, with respect to continued or resumed employment, any employee or former employee of Seller (including any beneficiary or dependent thereof). No provision of this Agreement shall create any rights in any such persons in respect of any benefits that may be provided, directly or indirectly, under any employee benefit plan or arrangement except as expressly provided for thereunder.

SECTION 12.06. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York (regardless of the laws that might otherwise govern under applicable principles of conflicts of law).

SECTION 12.07. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

SECTION 12.08. Interpretation. When a reference is made in this Agreement to an Article, Section, Schedule or Exhibit, such reference shall be to an Article or Section of, or Schedule or Exhibit to, this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words "include", "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation" or equivalent words. The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. All terms defined in this Agreement shall have the defined meanings when used in the Ancillary Agreements and any certificate or other document made or delivered pursuant hereto or thereto unless otherwise defined therein. The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms and to the masculine as well as to the feminine and neuter genders of such term. Any agreement, instrument, statute, regulation, rule or order defined or referred to herein or in any agreement or instrument that is referred to herein means such agreement, instrument, statute, regulation, rule or order as from time to time amended, modified or supplemented, including (in the case of agreements or instruments) by waiver or consent

and (in the case of statutes, regulations, rules or orders) by succession of comparable successor statutes, regulations, rules or orders and references to all attachments thereto and instruments incorporated therein. References to a person are also to its permitted successors and assigns.

SECTION 12.09. Jurisdiction and Enforcement. (a) Each of the Parties irrevocably submits to the exclusive jurisdiction of (i) the Supreme Court of the State of New York, New York County and (ii) the United States District Court for the Southern District of New York, for the purposes of any suit, action or other proceeding arising out of this Agreement or any transaction contemplated hereby. Each of the Parties agrees to commence any action, suit or proceeding relating hereto either in the United States District Court for the Southern District of New York or, if such suit, action or proceeding may not be brought in such court for jurisdictional reasons, in the Supreme Court of the State of New York, New York County. Each of the Parties further agrees that service of process, summons, notice or document by hand delivery or U.S. registered mail at the address specified for such Party in Section 12.04 (or such other address specified by such Party from time to time pursuant to Section 12.04) shall be effective service of process for any action, suit or proceeding brought against such Party in any such court. Each of the Parties irrevocably and unconditionally waives any objection to the laying of venue of any action, suit or proceeding arising out of this Agreement or the transactions contemplated hereby in (i) the Supreme Court of the State of New York, New York County, or (ii) the United States District Court for the Southern District of New York, and hereby further irrevocably and unconditionally waives and agrees not to plead or claim in any such court that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum.

(b) The Parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement or any Ancillary Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the Parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement or any Ancillary Agreement and to enforce specifically the terms and provisions of this Agreement or any Ancillary Agreement, this being in addition to any other remedy to which they are entitled at law or in equity.

SECTION 12.10. Entire Agreement. This Agreement, the Confidentiality Agreement and the Ancillary Agreements including the Exhibits, Schedules, documents, certificates and instruments referred to herein or therein and other contracts, agreements and instruments contemplated hereby or thereby, embody the entire agreement and understanding of the Parties in respect of the transactions contemplated by this Agreement. There are no restrictions, promises, representations, warranties, covenants or undertakings other than those expressly set forth or referred to herein or therein. This Agreement and the Ancillary Agreements supersede all prior agreements and understandings between the Parties with respect to the transactions contemplated by this Agreement other than the Confidentiality Agreement.

SECTION 12.11. Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the Parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible to the fullest extent permitted by applicable law in an acceptable manner to the end that the transactions contemplated hereby are fulfilled to the extent possible.

SECTION 12.12. Conflicts. Except as expressly otherwise provided herein or therein, in the event of any conflict or inconsistency between the terms of this Agreement and the terms of any Ancillary Agreement, the terms of this Agreement shall prevail.

IN WITNESS WHEREOF, Seller and Buyer have caused this Agreement to be signed by their respective duly authorized officers as of the date first above written.

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.,

by /s/Joan S. Freilich

Name: Joan S. Freilich
Title:Executive Vice President and CFO

MARKETSPAN CORPORATION doing business as KEYSPAN ENERGY,

by /s/ Howard A. Kosel

Name: Howard A. Kosel
Title:Vice President

GENERATING PLANT
AND GAS TURBINE
ASSET PURCHASE AND SALE AGREEMENT

FOR

ARTHUR KILL GENERATING PLANTS
LOCATED AT STATEN ISLAND, RICHMOND COUNTY, NEW YORK
AND
ASTORIA GAS TURBINES
LOCATED AT ASTORIA, QUEENS COUNTY, NEW YORK

By and Between

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

and

NRG ENERGY, INC.

Dated as of January 27, 1999

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GENERATING PLANT AND GAS TURBINE ASSET PURCHASE AND SALE AGREEMENT (including the Schedules hereto, this "Agreement"), dated as of January 27, 1999, by and between CONSOLIDATED EDISON COMPANY OF NEW YORK, INC., a New York corporation ("Seller"), and NRG ENERGY, INC., a Delaware corporation ("Buyer", collectively with Seller, the "Parties").

WHEREAS Seller has offered the Auctioned Assets (as defined herein) for sale at auction pursuant to the Order Authorizing the Process for Auctioning of Generation Plant issued by the PSC (as defined herein) and effective as of July 21, 1998; and

WHEREAS Buyer desires to purchase, and Seller desires to sell, the Auctioned Assets upon the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual covenants, representations, warranties and agreements hereinafter set forth, and intending to be legally bound hereby, the Parties agree as follows:

ARTICLE I

Definitions

SECTION 1.01. Definitions. (a) As used in this Agreement, the following terms have the following meanings:

"A-11 License" means the license from Seller to Buyer in respect of the A-11 dock at Astoria, the material terms of which shall be substantially as set forth in Exhibit F.

"Accountants" shall have the meaning set forth in Section 3.02(b).

"Adjustment Amount"shall have the meaning set forth in Section 3.02(a).

"Adjustment Date" shall have the meaning set forth in Section 3.02(c).

"Adjustment Statement" shall have the meaning set forth in Section 3.02(a).

"Affected Employees" shall have the meaning set forth in Section 9.01(a).

"Affected Union Employees" shall have the meaning set forth in Section 9.01(b).

"Affiliate" shall have the meaning set forth in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended.

"Agreement" shall have the meaning set forth in the Preamble.

"Allocation" shall have the meaning set forth in Section 3.03.

"Ancillary Agreements" means the Continuing Site Agreements, the Declaration of Easements Agreements, the Declarations of Subdivision Easements, the Zoning Lot Development Agreements, the Transition Capacity Agreement, the deeds contemplated by Section 8.02(e)(i) and any other agreement to which Buyer and Seller are party and which is expressly identified by its terms as an Ancillary Agreement hereunder.

"Applicable Law" shall have the meaning set forth in Section 3.03.

"Arthur Kill Continuing Site Agreement" means the Arthur Kill Continuing Site Agreement dated as of even date herewith between Seller and Buyer.

"Arthur Kill Declaration of Easements Agreement" means the Arthur Kill Declaration of Easements Agreement dated as of even date herewith between Seller and Buyer.

"Arthur Kill Declaration of Subdivision Easements" means the Arthur Kill Declaration of Subdivision Easements to be made by Seller substantially in the form of Exhibit H, except for changes required by any Governmental Authority to the extent that no such change materially and adversely impairs the continued use and operation of the Auctioned Assets as currently conducted.

"Arthur Kill Zoning Lot Development Agreement" means the Arthur Kill Zoning Lot Development Agreement between Seller and Buyer in the form of Exhibit A-1.

"Assumed Consent Order Obligations" shall have the meaning set forth in Section 2.03(a)(iv).

"Assumed Obligations" shall have the meaning set forth in Section 2.03(a).

"Astoria Acquiror" means the person referred to as "Buyer" under the Generating Plant and Gas Turbine Asset Purchase and Sale Agreement for Astoria Generating Plants, Gowanus Gas Turbines and Narrows Gas Turbines between Seller and such person.

"Astoria Declaration of Easements" means the Astoria Declaration of Easements by Seller dated as of even date herewith, as may be modified in accordance with changes requested by the Astoria Acquiror to the extent that no such change materially and adversely impairs the continued use and operation of the Auctioned Assets as currently conducted.

"Astoria Declaration of Subdivision Easements" means the Astoria Declaration of Subdivision Easements to be made by Seller substantially in the form of Exhibit I, except for changes required by any Governmental Authority or requested by the Astoria Acquiror to the extent that no such change materially and adversely impairs the continued use and operation of the Auctioned Assets as currently conducted.

"Astoria Gas Turbine Continuing Site Agreement" means the Astoria Gas Turbine Continuing Site Agreement dated as of even date herewith between Seller and Buyer.

"Astoria Zoning Lot Development Agreement" means (a) the Astoria Zoning Lot Development Agreement between Seller and Astoria Acquiror, in the form of Exhibit A-2, if executed and delivered prior to the Closing Date or (b) the Astoria Zoning Lot Development Agreement between Seller and Buyer, in the form of Exhibit A-3.

"Auctioned Assets" shall have the meaning set forth in Section 2.02(a).

"Benefit Plans" shall have the meaning set forth in Section 5.13.

"Bidder Confidentiality Agreements" shall have the meaning set forth in Section 7.02(b).

"Business Day" means any day other than Saturday, Sunday and any day which is a legal holiday or a day on which banking institutions in New York are authorized or required by law or other action of a Governmental Authority to close.

"Buyer" shall have the meaning set forth in the Preamble.

"Buyer Assets" shall have the meaning set forth in Section 2.03(a)(x).

"Buyer Benefit Plans" shall have the meaning set forth in Section 9.02(c).

"Buyer Facilities" shall mean the "Buyer Facilities" under the Arthur Kill Declaration of Easements Agreement, together with the "Parcel C Facilities" under the Astoria Declaration of Easements.

"Buyer Indemnitees" shall have the meaning set forth in Section 10.01(a).

"Buyer Material Adverse Effect" shall have the meaning set Section forth in Section 6.03(a).

"Buyer Real Estate" shall have the meaning set forth in 2.02(a)(i).

"Buyer Required Regulatory Approvals" shall have the meaning set forth in Section 6.03(b).

"Buyer's 401(k) Plans" shall have the meaning set forth in Section 9.04(a).

"Buyer's Pension Plans" shall have the meaning set forth in Section 9.03(a).

"Buyer's Welfare Plans" shall have the meaning set forth in Section 9.05(a).

"Closing" shall have the meaning set forth in Section 4.01.

"Closing Date"shall have the meaning setforth in Section 4.01.

"Code" means the Internal Revenue Code of 1986, as amended.

"Collective Bargaining Agreements" shall have the meaning set forth in Section 9.01(b).

"Communications Equipment" means the equipment, systems, switches and lines used in connection with voice, data and other communications activities.

"Confidentiality Agreement" means the Confidentiality Agreement dated August 19, 1998 between Seller and Buyer.

"Continued Employee" shall have the meaning set forth in Section 9.01(a).

"Continued Non-Union Employee" shall have the meaning set forth in Section 9.02(a).

"Continued Union Employee" shall have the meaning set forth in Section 9.01(b).

"Continuing Site Agreements" means the Arthur Kill Continuing Site Agreement and the Astoria Gas Turbine Continuing Site Agreement.

"Contracts" shall have the meaning set forth in Section 2.02(a)(iv).

"Conveyance Plans" shall have the meaning set forth in Section 2.02(a)(i).

"Declaration of Easements Agreements" means the Arthur Kill Declaration of Easements Agreement and the Astoria Declaration of Easements.

"Declarations of Subdivision Easements" means the Arthur Kill Declaration of Subdivision Easements and the Astoria Declaration of Subdivision Easements.

"Emission Reduction Credits" means credits, in units that are established by the environmental regulatory agency with jurisdiction over the source or facility that has obtained the credits, resulting from a reduction in the emissions of air pollutants from an emitting source or facility (including, and to the extent allowable under applicable law, reductions from retirements, control of emissions beyond that required by applicable law and fuel switching), that: (i) have been certified by NYSDEC as complying with the law and regulations of the State of New York governing the establishment of such credits (including that such emissions reductions are real, enforceable, permanent and quantifiable); or (ii) have been certified by any other applicable regulatory authority as complying with the law and regulations governing the establishment of such credits (including that such emissions reductions are real, enforceable, permanent and quantifiable). Emission Reduction Credits include certified air emissions reductions, as described above, regardless of whether the regulatory agency certifying such reductions designates such certified air emissions reductions by a name other than "emissions reduction credits".

"Encumbrances" means any mortgages, pledges, liens, security interests, conditional and installment sale agreements, activity and use limitations, exceptions, conservation easements, rights-of-way, deed restrictions, encumbrances and charges of any kind.

"Environmental Laws" means all former, current and future Federal, state, local and foreign laws (including common law), treaties, regulations, rules, ordinances, codes, decrees, judgments, directives or orders (including consent orders) and Environmental Permits, in each case, relating to pollution or protection of the environment or natural resources, including laws relating to Releases or threatened Releases, or otherwise relating to the generation, manufacture, processing, distribution, use, treatment, storage, arrangement for disposal, transport, recycling or handling, of Hazardous Substances.

"Environmental Liability" means all liabilities, obligations, damages, losses, claims, actions, suits, judgments, orders, fines, penalties, fees, expenses and costs, including: (i) remediation costs, engineering costs, environmental consultant fees, laboratory fees, permitting fees, investigation costs and defense costs and reasonable attorneys' fees and expenses; (ii) any claims, demands and causes of action relating to or resulting from any personal injury (including wrongful death), property damage (real or personal) or natural resource damage; and (iii) any penalties, fines or costs associated with the failure to comply with any Environmental Law.

"Environmental Permits" means the permits, licenses, consents, approvals and other governmental authorizations with respect to Environmental Laws relating primarily to the power generation operations of the Generating Plants or the Gas Turbines.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"ERISA Affiliate" shall have the meaning set forth in Section 5.13.

"Estimated Adjustment Amount" shall have the meaning set forth in Section 4.02.

"FERC" means the Federal Energy Regulatory Commission.

"Federal Power Act" shall have the meaning set forth in Section 5.03(b).

"Filed Seller SEC Documents" means the reports, schedules, forms, statements and other documents filed by Seller with the Securities and Exchange Commission since January 1, 1997, and publicly available prior to the date of this Agreement.

"Final Allocation" shall have the meaning set forth in Section 3.03.

"GAAP" shall have the meaning set forth in Section 1.02.

"Gas Turbines" means the gas turbine units comprised of the Arthur Kill GT1, Astoria GT2 through GT5 and GT7 through GT13.

"Generating Facilities" means the Generating Plants, the Gas Turbines and any additional generating plants, gas turbines or other generating facilities constructed by Buyer after the Closing Date at the site of any Auctioned Assets.

"Generating Plants" means the two steam turbine generating

units designated as Arthur Kill units 2 and 3.

"Governmental Authority" means any court, administrative or regulatory agency or commission or other governmental entity or instrumentality, domestic, foreign or supranational or any department thereof.

"Guarantee Agreement" means the Guarantee Agreement to be entered into between Guarantor and Seller substantially in the form of Exhibit J.

"Guarantor" means NRG Energy, Inc.

"Hazardous Substances" means (i) any petrochemical or petroleum products, crude oil or any fraction thereof, ash, radioactive materials, radon gas, asbestos in any form, urea formaldehyde foam insulation or polychlorinated biphenyls, (ii) any chemicals, materials, substances or wastes defined as or included in the definition of "hazardous substances," "hazardous wastes," "hazardous materials," "restricted hazardous materials," "extremely hazardous substances," "toxic substances," "contaminants" or "pollutants" or words of similar meaning and regulatory effect contained in any Environmental Law or (iii) any other chemical, material, substance or waste which is prohibited, limited or regulated by any Environmental Law.

"HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

"Income Tax" means any Federal, state, local or foreign Tax or surtax (i) based upon, measured by or calculated with respect to net income, profits or receipts (including the New York State Gross Receipts Tax (including the excess dividends tax), the New York City Public Utilities Excise Tax, any and all municipal gross receipts Taxes, capital gains Taxes and minimum Taxes) or (ii) based upon, measured by or calculated with respect to multiple bases (including corporate franchise taxes) if one or more of the bases on which such Tax may be based, measured by or calculated with respect to, is described in clause (i), in each case, together with any interest, penalties, or additions to such Tax.

"Indemnifiable Loss" shall have the meaning set forth in Section 10.01(a).

"Indemnifying Party" shall have the meaning set forth in Section 10.01(c).

"Indemnitee" shall have the meaning set forth in Section 10.01(c).

"Independent Engineering Assessments" shall have the meaning set forth in Section 5.15.

"Interconnection Facilities" means those items of switching equipment, switchyard controls, protective relays and related facilities of Seller that are used by Seller in connection with the provision of Interconnection Services.

"Interconnection Services" means the service provided by Seller to Buyer to interconnect the Generating Facilities to the Transmission System.

"Inventory Survey" shall have the meaning set forth in Section 3.02(a).

"ISO" means the New York Independent System Operator.

"Local 1-2" shall have the meaning set forth in Section 9.01(a).

"Local 1-2 Collective Bargaining Agreement" shall have the meaning set forth in Section 9.01(a).

"Local 3" shall have the meaning set forth in Section 9.01(a).

"Local 3 Collective Bargaining Agreement" shall have the meaning set forth in Section 9.01(a).

"Material Adverse Effect" means any change, or effect on the Auctioned Assets, that is materially adverse to the business, operations or condition (financial or otherwise) of the Auctioned Assets, taken as a whole, other than (i) any change or effect resulting from changes in the international, national, regional or local wholesale or retail energy, capacity or ancillary services electric power markets, (ii) any change or effect resulting from changes in the international, national, regional or local markets for fuel, (iii) any change or effect resulting from changes in the national, regional or local electric transmission systems, (iv) any change or effect resulting from any bid cap, price limitation, market power mitigation measure, including the Mitigation Measures, or other regulatory or legislative measure in respect of transmission services or the wholesale or retail energy, capacity or ancillary services markets adopted or approved (or failed to be adopted or approved) by FERC, the PSC or any other Governmental Authority or proposed by any person, (v) any change or effect resulting from any regulation, rule, procedure or order adopted or proposed (or failed to be adopted or proposed) by or with respect to, or related to, the ISO, (vi) any change or effect resulting from any action or measure taken or adopted, or proposed to be taken or adopted, by any local, state, regional, national or international reliability organization and (vii) any materially adverse change in or effect on the Auctioned Assets which is cured by Seller before the Closing Date.

"Mitigation Measures" shall have the meaning set forth in Section 6.03(b).

"MMS" means the Material Management System, which is an information resources system served by Seller's mainframe computer.

"NYPA" means the Power Authority of the State of New York.

"NYPA Assignment" means the assignment to be entered into by Buyer, Seller and NYPA pursuant to which certain rights and obligations under the NYPA Agreements shall be assigned and amended.

"NYPA Agreements" means the Post Closing Agreement dated as of December 13, 1974, between Seller and NYPA, as amended, and the Astoria Operating Agreement dated January 5, 1981, between Seller and NYPA, as amended.

"NYSDEC" means the New York State Department of Environmental Conservation.

"Off-Site" means any location except (i) the Auctioned Assets and (ii) any location to or under which Hazardous Substances present or Released at the Auctioned Assets have migrated.

"Offering Memorandum" means the Offering Memorandum dated August 1998 describing the Generating Plants and the Gas Turbines, and the materials delivered with such Offering Memorandum, as such Offering Memorandum and such materials may have been amended or supplemented.

"Operating Records" shall have the meaning set forth in Section 2.02(a)(viii).

"Party" shall have the meaning set forth in the Preamble.

"Permits" means the permits, licenses, consents, approvals and other governmental authorizations (other than with respect to Environmental Laws) relating primarily to the power generation operations of the Generating Plants or the Gas Turbines.

"Permitted Exceptions" means (i) all exceptions, restrictions, easements, charges, rights-of-way and monetary and nonmonetary encumbrances which are set forth in any Permits or Environmental Permits, (ii) statutory liens for current taxes or assessments not yet due or delinquent or the validity of which is being contested in good faith by appropriate proceedings, (iii) mechanics', carriers', workers', repairers' and other similar liens arising or incurred in the ordinary course of business relating to obligations as to which there is no default on the part of Seller or the validity of which are being contested in good faith by appropriate proceedings, (iv) zoning, entitlement, conservation restriction and other land use and environmental regulations by Governmental Authorities, (v) such title matters set forth in the Certificate of Title No. NY981785, as amended, and the Certificate of Title No. NY981605, as amended, in each case issued by the Title Company and which would not, individually or in the aggregate, reasonably be expected to materially impair the continued use and operation of the Auctioned Assets as currently conducted, (vi) all matters disclosed on the surveys prepared by GEOD Corporation and any other facts that would be disclosed by an accurate survey and physical inspection of the Buyer Real Estate, (vii) the VISY Option Agreement, (viii) Encumbrances, easements or other restrictions created pursuant to or provided for in any Ancillary Agreement, (ix) restrictions and regulations imposed by the ISO, any Governmental Authority or any local, state, regional, national or international reliability council and (x) such other Encumbrances or imperfections in or failure of title which would not, individually or in the aggregate, reasonably be expected to materially impair the continued use and operation of the Auctioned Assets as currently conducted.

"person" means any individual, partnership, limited liability company, joint venture, corporation, trust, unincorporated organization or Governmental Authority.

"PPMIS" means the Power Plant Maintenance Information System, which is an information resources system served by Seller's mainframe computer.

"Prorated Items" shall have the meaning set forth in Section 2.03(a)(viii).

"Protective Relaying System" means the system relating to the Generating Facilities comprised of components collectively used to detect defective power system elements or other conditions of an abnormal nature, initiate appropriate control circuit action in response thereto and isolate the appropriate system elements in order to minimize damage to equipment and interruption to service.

"PSC" means the New York State Public Service Commission.

"Purchase Price" shall have the meaning set forth in Section 3.01.

"Release" means any release, spill, emission, leaking, dumping, injection, pouring, deposit, disposal, discharge, dispersal, leaching or migration into the environment (including ambient air, surface water, groundwater, land surface or subsurface strata) or within any building, structure, facility or fixture.

"Restraints" shall have the meaning set forth in Section 8.01(b).

"Retained Assets" shall have the meaning set forth in Section 2.02(b).

"Retained Liabilities" shall have the meaning set forth in Section 2.03(b).

"Revenue Meters" means all meters measuring demand, energy and reactive components, and all pulse isolation relays, pulse conversion relays and associated totalizing and remote access pulse recorder equipment, in each case, required to measure the transfer of energy between the Parties.

"Segregated Reimbursement Accounts" shall have the meaning set forth in Section 9.05(b).

"Seller" shall have the meaning set forth in the Preamble.

"Seller Assets" shall have the meaning set forth in Section 2.03(b)(x).

"Seller Consent Orders" shall have the meaning set forth in Section 2.03(a)(iv).

"Seller Facilities" shall mean the "Seller Facilities" under the Arthur Kill Declaration of Easements Agreement, together with the "Parcel A Facilities" under the Astoria Declaration of Easements.

"Seller Indemnitees" shall have the meaning set forth in Section 10.01(b).

"Seller Real Estate" means all real property and leaseholds or other interests in real property of Seller (including the premises on which the Substations are located), other than Buyer Real Estate.

"Seller Required Regulatory Approvals" shall have the meaning set forth in Section 5.03(b).

"Seller's 401(k) Plans" shall have the meaning set forth in Section 9.04(a).

"Seller's Pension Plans" shall have the meaning set forth in Section 9.03(a).

"Seller's Reimbursement Account Plans" shall have the meaning set forth in Section 9.05(b).

"SO2 Allowances" means allowances that have been allocated to Seller for the Generating Plants or the Gas Turbines by the Administrator of the United States Environmental Protection Agency under Title IV of the Clean Air Act authorizing the emission of one ton of sulfur dioxide per allowance during or after the year 2000.

"Substations" shall have the meaning set forth in Section 2.02(b)(i).

"Tax Benefit" means, with respect to any Indemnifiable Loss for any person, the positive excess, if any, of the Tax liability of such person without regard to such Indemnifiable Loss over the Tax liability of such person taking into account such Indemnifiable Loss, with all other circumstances remaining unchanged.

"Tax Cost" means, with respect to any indemnity payment for any person, the positive excess, if any, of the Tax liability of such person taking such indemnity payment into account over the Tax liability of such person without regard to such payment, with all other circumstances remaining unchanged.

"Tax Return" means any return, report, information return or other document (including any related or supporting information) required to be supplied to any authority with respect to Taxes.

"Taxes" means all taxes, surtaxes, charges, fees, levies, penalties or other assessments imposed by any United States Federal, state or local or foreign taxing authority, including Income Tax, excise, property, sales, transfer, franchise, special franchise, payroll, recording, withholding, social security or other taxes, or any liability for taxes incurred by reason of joining in the filing of any consolidated, combined or unitary Tax Returns, in each case including any interest, penalties or additions attributable thereto; provided, however, that "Taxes" shall not include sewer rents or charges for water.

"Termination Date" shall have the meaning set forth in Section 11.01(b).

"Third Party Claim" shall have the meaning set forth in Section 10.02(a).

"Title Company" means Commonwealth Land Title Insurance Company or any other reputable title insurance company licensed to do business in New York.

"Transferable Permits" shall have the meaning set forth in Section 2.02(a)(v).

"Transferring Employee Records" shall have the meaning set forth in Section 2.02(a)(viii).

"Transferring Employees" shall have the meaning set forth in Section 2.02(a)(viii).

"Transition Capacity Agreement" means the Transition Capacity Agreement to be entered into between Seller and Buyer substantially in the form of Exhibit G.

"Transmission System" shall have the meaning set forth in Section 2.02(b)(i).

"VISY" means VISY Paper (NY), Inc.

"VISY Option Agreement" means the Option Agreement, executed as of December 28, 1995, between Seller and VISY.

"VISY Option Parcel" means that certain parcel of real property defined in the VISY Option Agreement as the "Option Parcel".

"Zoning Lot Development Agreements" means the Arthur Kill Zoning Lot Development Agreement and the Astoria Zoning Lot Development Agreement.

SECTION 1.02. Accounting Terms. Any accounting terms used in this Agreement or the Ancillary Agreements shall, unless otherwise specifically provided, have the meanings customarily given them in accordance with United States generally accepted accounting principles ("GAAP") and all financial computations hereunder or thereunder shall, unless otherwise specifically provided, be computed in accordance with GAAP consistently applied.

ARTICLE II

Purchase and Sale; Assumption of Certain Liabilities

SECTION 2.01. Purchase and Sale. Upon the terms and subject to the satisfaction of the conditions contained in this Agreement, at the Closing, Seller agrees to sell, assign, convey, transfer and deliver to Buyer, and Buyer agrees to purchase, assume and acquire from Seller all the Auctioned Assets. In the case of any Auctioned Assets not located at the Generating Plants or Gas Turbines (including supplies, materials and spare parts inventory), Buyer agrees that (i) from and after the Closing, except to the extent specifically otherwise provided in the Ancillary Agreements, Buyer will bear all risk of casualty or loss with regard to such Auctioned Assets (regardless of whether they remain on Seller's property or otherwise in Seller's possession) and (ii) Seller shall store such Auctioned Assets in accordance with Section 7.08.

SECTION 2.02. Auctioned Assets and Retained Assets. (a) Auctioned Assets. The term "Auctioned Assets" means all the assets, real and personal property, goodwill and rights of Seller of whatever kind and nature, whether tangible or intangible, in each case, primarily relating to the power generation operations of the Generating Plants or the Gas Turbines, other than the Retained Assets, including:

(i) all real property and leaseholds or other interests in real property of Seller relating primarily to the power generation operations of the Generating Plants or the Gas Turbines described (A) as Parcel A, Parcel C and Parcel D as shown on the Arthur Kill Generating Station Conveyance Plan dated January 9, 1999 and (B) Parcel C as shown on the Astoria Generating Station Conveyance Plan dated January 9, 1999, in each case, as may hereafter be amended in immaterial respects (collectively, the "Conveyance Plans"), together with all buildings, improvements, structures and fixtures thereon, subject to Permitted Exceptions or Encumbrances otherwise disclosed to Buyer in this Agreement or the Ancillary Agreements with respect thereto (the "Buyer Real Estate"); provided, however, that "Buyer Real Estate" shall not include the VISY Option Parcel if the sale thereof by Seller to VISY pursuant to the VISY Option Agreement is consummated prior to the Closing;

(ii) subject to Section 2.04, all inventories of fuels, supplies, materials and spare parts relating primarily to the power generation operations of the Generating Plants or the Gas Turbines, together with and subject to (A) all Permitted Exceptions or Encumbrances otherwise disclosed to Buyer in this Agreement or the Ancillary Agreements with respect thereto and (B) all warranties against manufacturers and vendors relating thereto, including the spare parts listed on Schedule 2.02(a)(ii), in each case, other than assets that become obsolete or that are used, consumed, replaced or disposed in the ordinary course of business consistent with past practice or as permitted by this Agreement;

(iii) subject to Section 2.04, (A) the machinery, equipment, facilities, furniture and other personal property (other than vehicles) relating primarily to the power generation operations of the Generating Plants or the Gas Turbines, including a stand-alone local area network, coal handling equipment and other items of personal property located on Buyer Real Estate or temporarily removed from Buyer Real Estate for repairs, servicing or maintenance and listed on Schedule 2.02(a)(iii)(A) and (B) machinery, equipment, facilities, furniture and other personal property located on Seller Real Estate or temporarily removed from Seller Real Estate for repairs, servicing or maintenance and listed on Schedule 2.02(a)(iii)(B), in each case, (1) together with and subject to (x) all Permitted Exceptions or Encumbrances otherwise disclosed to Buyer in this Agreement or the Ancillary Agreements with respect thereto and (y) all warranties against manufacturers or vendors relating thereto and (2) other than assets that become obsolete or that are used, consumed, replaced or disposed in the ordinary course of business consistent with past practice or as permitted by this Agreement;

(iv) subject to Section 2.04, all right, title and interest of Seller in, to and under all contracts, agreements, personal property leases (whether Seller is lessor or lessee thereunder), commitments and all other legally binding arrangements (other than Seller Consent Orders), whether oral or written (A) set forth on Schedule 2.02(a)(iv) or (B) otherwise relating primarily to the power generation operations of the Generating Plants or the Gas Turbines and entered into by Seller in accordance with Section 7.01 (the "Contracts"), in each case, to the extent in full force and effect on the Closing Date;

(v) subject to Section 7.03(c), the Permits and Environmental Permits that are transferred or transferable by Seller to Buyer (collectively, the "Transferable Permits"), including the Transferable Permits set forth on Schedule 2.02(a)(v), in each case, to the extent in full force and effect on the Closing Date;

(vi) the SO2 Allowances listed on Schedule 2.02(a)(vi);

(vii) all nitrogen oxide allowances allocated to the Generating Plants or the Gas Turbines by NYSDEC under the New York State Nitrogen Oxides Budget Program that have not been used on or prior to the Closing Date (it being understood that, for purposes of this Agreement, one nitrogen oxide allowance shall be deemed "used" for each ton of actual nitrogen oxide emitted from the Generating Plants or Gas Turbines between May 1 of any year and September 30 of such year, inclusive);

(viii) (A) all data, information, books, operating records, operating, safety and maintenance manuals, engineering design plans, blueprints and as-built plans, specifications, procedures, facility compliance plans, environmental procedures and similar records of Seller relating primarily to the power generation operations of the Generating Plants or the Gas Turbines, to the extent in Seller's possession or readily available (collectively, "Operating Records"), and (B) all personnel files relating to employees of Seller to be employed by Buyer after the Closing Date in accordance with Article IX (the "Transferring Employees"), to the extent in Seller's possession and readily available and to the extent such files pertain to (1) skill and development training and resumes, (2) seniority histories, (3) salary and benefit information, (4) Occupational Safety and Health Act medical reports, (5) active medical restriction forms and (6) any other matters, disclosure of which by Seller to Buyer is permitted under applicable law without the consent of the Transferring Employee, but not including any performance evaluations or disciplinary records (collectively, the "Transferring Employee Records"); provided, however, that Seller shall be permitted to retain copies, or originals to the extent it provides Buyer with copies of same, of all Operating Records and Transferring Employee Records; and

(ix) (A) except as provided in Section 2.02(b)(iv), the software relating primarily to the power generation operations of the Generating Plants or the Gas Turbines (provided, however, that Buyer acknowledges that it will require licenses from third parties in order to be legally entitled to use such software), and (B) a non-exclusive, royalty-free license to use solely in connection with the Auctioned Assets the software or other copyrighted material owned by Seller located at Buyer Real Estate.

(b) Retained Assets. The term "Retained Assets" means:

(i) the transmission and distribution facilities owned, controlled or operated by Seller for purposes of providing point-to-point transmission service, network integration service and distribution service and other related purposes, including the real property and equipment located at the Fresh Kills Substations, the Astoria East Substation, the Astoria West Substation and the North Queens Substation (collectively, the "Substations"), used in controlling continuity between the Generating Plants and Gas Turbines and the transmission and distribution facilities and for other purposes (the "Transmission System");

(ii) (A) except as set forth in Section 2.02(a)(iii), all Interconnection Facilities and other transmission, distribution and substation machinery, equipment and facilities and related support equipment located on Buyer Real Estate or Seller Real Estate or temporarily removed from Buyer Real Estate or Seller Real Estate for repairs, servicing or maintenance, including items listed on Schedule 2.02(b)(ii)(A); (B) all Revenue Meters installed by Seller; (C) Communications Equipment and related support equipment (1) located on Buyer Real Estate or temporarily removed from Buyer Real Estate for repairs, servicing or maintenance and listed on Schedule 2.02(b)(ii)(C) or acquired by Seller after the date of this Agreement and designated by Seller as a Retained Asset or (2) located on Seller Real Estate or temporarily removed from Seller Real Estate for repairs, servicing or maintenance; and (D) all Protective Relaying Systems not located on Buyer Real Estate;

(iii) all cash, cash equivalents, bank deposits and accounts receivable held or owned by Seller;

(iv) (A) all mainframe computer systems of Seller, (B) the code to all software described in Section 2.02(a)(ix)(B), and (C) all software, copyrights, know-how or other proprietary information relating primarily to any other Retained Assets or any Retained Liabilities, including software, copyrights, know-how or other proprietary information licensed to Buyer pursuant to Section 2.02(a)(ix)(B);

(v) the names "Consolidated Edison", "Con Edison", "Con Ed", "Consolidated Edison Company", "Consolidated Edison Company of New York, Inc.", "Consolidated Edison, Inc.", "New York Edison", "Brooklyn Edison", "Staten Island Edison" and "Edison" and any related or similar trade names, trademarks, service marks or logos (and any rights to and in the same, including any right to use the same);

(vi) subject to Section 7.06(d), any refund or credit related to Taxes attributable to taxable periods (or portions thereof) prior to the Closing Date, and sewer rents or water charges or any other liabilities or obligations paid prior to the Closing Date in respect of the Auctioned Assets;

(vii) all personnel records (other than Transferring Employee Records) and all other records (other than Operating Records);

(viii) (A) all Emission Reduction Credits held or possessed by Seller and (B) SO2 Allowances held or possessed by Seller and not listed on Schedule 2.02(a)(vi); and

(ix) any other asset that is not described in this Agreement as an Auctioned Asset.

SECTION 2.03. Assumed Obligations and Retained Liabilities. (a) Assumed Obligations. At the Closing, Buyer shall assume, and from and after the Closing, shall discharge, all of the liabilities and obligations, direct or indirect, known or unknown, absolute or contingent, which relate to the Auctioned Assets or are otherwise specified below, other than the Retained Liabilities (collectively, the "Assumed Obligations"), including:

(i) except as set forth in Section 2.03(b)(ii), any liabilities and obligations under the Contracts;

(ii) any liabilities and obligations for goods delivered or services rendered on or after the Closing Date relating to the Auctioned Assets;

(iii) except as set forth in Sections 2.03(b)(iii) or (iv), any Environmental Liability arising out of or in connection with (A) any violation or alleged violation of, or noncompliance or alleged noncompliance with, any Environmental Laws, prior to, on or after the Closing Date, with respect to the ownership or operation of the Auctioned Assets, notwithstanding that, as contemplated by Section 7.03(c), Seller may remain the "holder of record" with respect to certain Transferable Permits, (B) the condition of any Auctioned Assets prior to, on or after the Closing Date, including any actual or alleged presence, Release or threatened Release of any Hazardous Substance at, on, in, under or migrating onto or from, the Auctioned Assets, prior to, on or after the Closing Date (except for any such Release from equipment or property owned or operated by Seller and located on, or constituting, Seller Real Estate adjacent to Buyer Real Estate that occurs on or after the Closing Date), (C) any Release or threatened Release of any Hazardous Substance on or after the Closing Date from the Buyer Facilities or otherwise originating from, or relating to, any equipment owned or used by Buyer that is located on Seller Real Estate or (D) the transportation, storage, Release, threatened Release or recycling of, or arrangement for such activities with respect to, Hazardous Substances generated in respect of the Auctioned Assets at or to any location, on or after the Closing Date;

(iv) any liabilities and obligations relating to the Auctioned Assets under the consent orders listed on Schedule 2.03(a)(iv) (the "Seller Consent Orders") and identified thereon as "Assumed Consent Order Obligations" (the "Assumed Consent Order Obligations");

(v) except as set forth in Section 2.03(b)(iv), any liabilities and obligations with respect to the Permits to the extent arising or accruing on or after the Closing Date;

(vi) (A) all wages, overtime, employment taxes, severance pay, transition payments, workers compensation benefits, occupational safety and health liabilities or other similar liabilities and obligations in respect of Transferring Employees to the extent arising or accruing on or after the Closing Date, and (B) all other liabilities and obligations with respect to the Transferring Employees for which Buyer is responsible pursuant to Article IX;

(vii) (A) any liabilities and obligations (other than any Environmental Liabilities which are Retained Liabilities) in respect of any personal injury or property damage claim relating to, resulting from or arising out of the Generating Plants or Gas Turbines or (B) any liabilities and obligations in respect of any discrimination, wrongful discharge or unfair labor practice claim by any Transferring Employee, in the case of each of the foregoing clauses (A) and (B), to the extent arising or accruing on or after the Closing Date;

(viii) any liabilities and obligations, with respect to the periods that include the Closing Date, with respect to real or personal property rent, taxes based on the ownership or use of property, utilities charges and similar charges that primarily relate to the Generating Plants or the Gas Turbines (collectively, the "Prorated Items"), to the extent such Prorated Items relate to the period from and after the Closing Date, including (A) personal property taxes, real estate and occupancy taxes, assessments and other charges (which shall be apportioned as provided in the Zoning Lot Development Agreements), (B) rent and all other items payable by

Seller under any Contract, (C) any fees with respect to any Transferable Permit and (D) sewer rents and charges for water, telephone, electricity and other utilities, in each case calculated by multiplying the amount of any such Prorated Item by a fraction the numerator of which is the number of days in such period from and after the Closing Date and the denominator of which is the number of days in such period;

(ix) any liabilities and obligations in respect of Taxes (other than Prorated Items) attributable to the Auctioned Assets arising or accruing during taxable periods (or portions thereof) beginning on or after the Closing Date;

(x) any liabilities and obligations in respect of damage to property or personal injury or death relating to, resulting from or arising out of any property, machinery, equipment, facilities or systems from time to time owned by Buyer or its Affiliates subject to the Ancillary Agreements or employed by Buyer in connection with the performance of the Ancillary Agreements ("Buyer Assets"), or any Protective Relaying System owned by Seller as contemplated by the Continuing Site Agreement, regardless of whether the property damage or personal injury is caused by a Seller Indemnitee or a Buyer Indemnitee; and

(xi) any liabilities and obligations under the Ancillary Agreements in respect of the Auctioned Assets to the extent arising on or after the Closing Date.

(b) Retained Liabilities. Buyer shall not assume or be obligated to pay, perform or otherwise discharge the following liabilities or obligations (the "Retained Liabilities"):

(i) any liabilities and obligations of Seller primarily relating to any Retained Assets (other than as contemplated by Section 2.03(a)(x));

(ii) any payment obligations of Seller, including under Contracts, for goods delivered or services rendered prior to the Closing Date;

(iii) (A) any Environmental Liability of Seller arising out of or in connection with the transportation, storage, Release, threatened Release or recycling of, or arrangement for such activities with respect to, Hazardous Substances at or to any Off-Site location, prior to the Closing Date, (B) any Environmental Liability of Seller arising out of or in connection with any Release or threatened Release of any Hazardous Substance on or after the Closing Date from the Seller Facilities or otherwise originating from, or relating to, any equipment owned or used by Seller that is located on Buyer Real Estate, (C) all liabilities and obligations of Seller arising out of or in connection with matters set forth on Schedule 2.03(b)(iii)(C) and (D) any liabilities and obligations relating to Auctioned Assets under the Seller Consent Orders, except Assumed Consent Order Obligations;

(iv) any monetary fines (excluding (A) natural resource damages, (B) cleanup or remediation costs and (C) other costs of a similar nature) imposed by a Governmental Authority to the extent arising out of or relating to acts or omissions of Seller in respect of the Auctioned Assets prior to the Closing Date;

(v) (A) all wages, overtime, employment taxes, severance pay, transition payments, workers compensation benefits, occupational safety and health liabilities or other similar liabilities and obligations in respect of Transferring Employees to the extent arising or accruing prior to the Closing Date and (B) all other liabilities and obligations with respect to the Transferring Employees for which Seller is responsible pursuant to Article IX;

(vi) (A) any liabilities and obligations (other than any Environmental Liabilities which are Assumed Obligations) in respect of any personal injury or property damage claim relating to the Generating Plants or Gas Turbines or (B) any liabilities and obligations in respect of any discrimination, wrongful discharge or unfair labor practice claim by any Transferring Employee, in the case of each of the foregoing clauses (A) and (B), to the extent arising out of or relating to acts or omissions of Seller prior to the Closing Date;

(vii) any liabilities and obligations, with respect to the period prior to the Closing Date, for the Prorated Items, calculated as set forth in Section 2.03(a)(viii);

(viii) any liabilities and obligations in respect of Taxes (other than Prorated Items) attributable to the Auctioned Assets arising or accruing during taxable periods (or portions thereof) ending before the Closing Date, including Income Taxes attributable to income realized by Seller pursuant to the transactions contemplated by this Agreement;

(ix) any liabilities and obligations arising after the date of this Agreement in respect of which Seller has provided pursuant to Section 7.01(d)(ii) that such liabilities and obligations shall not be assumed or retained by Buyer;

(x) any liabilities and obligations in respect of damage to property or personal injury or death relating to, resulting from or arising out of any property, machinery, equipment, facilities or systems from time to time owned by Seller or its Affiliates subject to the Ancillary Agreements or employed by Seller in connection with

the performance of the Ancillary Agreements ("Seller Assets"), regardless of whether the property damage or personal injury is caused by a Seller Indemnitee or a Buyer Indemnitee; and

(xi) any liabilities and obligations under the Ancillary Agreements in respect of the Retained Assets.

SECTION 2.04. Third Party Consents. (a) Not withstanding Section 2.02(a)(ii), (iii) or (iv), to the extent that Seller's rights under any Contract or warranty may not be assigned without the consent of another person which consent has not been obtained, this Agreement shall not constitute an agreement to assign the same if an attempted assignment would constitute a breach thereof or be unlawful, and Seller, at its expense, shall use its reasonable best efforts to obtain prior to the Closing any such required consents.

(b) Seller and Buyer agree that if any consent to an assignment of any such Contract or warranty shall not be obtained or if any attempted assignment would in Seller's reasonable opinion be ineffective or would impair any material rights and obligations of Buyer under such Contract or warranty, as applicable, so that Buyer would not acquire the benefit of all such rights and obligations, Seller, to the maximum extent permitted by law and such Contract or warranty, as applicable, shall after the Closing appoint Buyer to be Seller's representative and agent with respect to such Contract or warranty, as applicable, and Seller shall, to the maximum extent permitted by law and such Contract or warranty, as applicable, enter into such reasonable arrangements with Buyer as are necessary to provide Buyer with the benefits and obligations of such Contract or warranty, as applicable. Seller and Buyer shall cooperate and shall each use their reasonable best efforts after the Closing to obtain an assignment of each such Contract or warranty, as applicable, to Buyer.

ARTICLE III

Purchase Price

SECTION 3.01. Purchase Price. The purchase price for the Auctioned Assets shall be $505,000,000 minus the net proceeds received by Seller pursuant to the sale of the VISY Option Parcel by Seller to VISY if the sale thereof is consummated prior to the Closing (the "Purchase Price").

SECTION 3.02. Post-Closing Adjustment. (a) Within 20 Business Days after the Closing, Seller shall prepare and deliver to Buyer a statement (an "Adjustment Statement") which reflects the book cost, as reflected on the books of Seller as of the Closing Date, of all fuel inventory and supplies, materials and spare parts inventory included in the Auctioned Assets (the "Adjustment Amount") and, upon request of Buyer, related accounting material used by Seller to prepare the Adjustment Statement. The Adjustment Amount will be based, in respect of fuel, on the actual fuel inventory on the Closing Date and, in respect of supplies, materials and spare parts, on an inventory survey conducted within ten Business Days prior to the Closing Date, in each case, consistent with the inventory procedures of Seller in effect as of the date of this Agreement (the "Inventory Survey"). Seller will permit an employee, or representative, of Buyer to observe the Inventory Survey. The Adjustment Statement shall be prepared using (i) GAAP and (ii) the same rolling average unit costs that Seller has historically used to calculate the book cost of its fuel and supplies, materials and spare parts inventory. Buyer agrees to cooperate with Seller in connection with the preparation of the Adjustment Statement and related information, and shall provide to Seller such access, books, records and information as may be reasonably requested from time to time.

(b) Buyer may dispute the quantity delivered or quality of any inventory item shown on the Adjustment Statement, or the mathematical calculations reflected therein, by notifying Seller in writing of the disputed amount, and the basis of such dispute, within 20 Business Days of Buyer's receipt of the Adjustment Statement; provided, however, that in respect of the quality of any inventory item, Buyer may not dispute Seller's normal and customary methods for accounting for excess inventory. Buyer shall have no right to dispute any other matter in respect of the Adjustment Statement, including historical rolling average unit costs used to calculate the book cost of the inventory or the appropriateness, under GAAP or otherwise, of using such historical rolling average unit cost to determine the book cost of any particular item of inventory. In the event of a dispute with respect to the quantity or quality of any inventory item shown on the Adjustment Statement, or the mathematical calculations reflected therein, Buyer and Seller shall attempt to reconcile their differences and any resolution by them as to any disputed amounts shall be final, binding and conclusive on the Parties. If Buyer and Seller are unable to reach a resolution of such differences within 20 Business Days of receipt of Buyer's written notice of dispute to Seller, Buyer and Seller shall submit the amounts remaining in dispute for determination and resolution to PricewaterhouseCoopers LLP or any other accounting firm of recognized national standing reasonably acceptable to Seller and Buyer (the "Accountants"), which shall be instructed to determine and report to the Parties, within 20 Business Days after such submission, upon such remaining disputed amounts, and such report shall be final, binding and conclusive on the Parties with respect to the amounts disputed. Buyer and Seller shall each pay one-half of the fees and disbursements of the Accountants in connection with the resolution of such disputed amounts.

(c) If the Adjustment Amount is greater or less than the Estimated Adjustment Amount, then on the Adjustment Date (as defined below), (i) to the extent that the Adjustment Amount exceeds the Estimated Adjustment Amount, Buyer shall pay to Seller the amount of such excess and (ii) to the extent that the Adjustment Amount is less than the Estimated

Adjustment Amount, Seller shall pay to Buyer the amount of such deficiency. "Adjustment Date" means (1) if Buyer does not disagree in any respect with the Adjustment Statement, the twenty-third Business Day following Buyer's receipt of the Adjustment Statement or (2) if Buyer shall disagree in any respect with the Adjustment Statement, the third Business Day following either the resolution of such disagreement by the Parties or a final determination by the Accountants in accordance with Section 3.02(b). Any amount paid under this Section 3.02(c) shall be paid with interest for the period commencing on the Closing Date through the date of payment, calculated at the prime rate of the Chase Manhattan Bank in effect on the Closing Date, and in cash by wire transfer of immediately available funds.

SECTION 3.03. Allocation of Purchase Price. Buyer shall deliver to Seller at Closing a preliminary allocation among the Auctioned Assets of the Purchase Price and among such other consideration paid to Seller pursuant to this Agreement that is properly includible in Buyer's tax basis for the Auctioned Assets for Federal income tax purposes, and, as soon as practicable following the Closing (but in any event within 10 Business Days following the final determination of the Adjustment Amount), Buyer shall prepare and deliver to Seller a final allocation of the Purchase Price and additional consideration described in the preceding clause, and the post-closing adjustment pursuant to Section 3.02, among the Auctioned Assets (the "Allocation"). The Allocation shall be consistent with Section 1060 of the Code and the Treasury Regulations thereunder. Seller hereby agrees to accept Buyer's Allocation unless Seller determines that such Allocation was not prepared in accordance with Section 1060 of the Code and the regulations thereunder ("Applicable Law"). If Seller so determines, Seller shall within 20 Business Days thereafter propose any changes necessary to cause the Allocation to be prepared in accordance with Applicable Law. Within 10 Business Days following delivery of such proposed changes, Buyer shall provide Seller with a statement of any objections to such proposed changes, together with a reasonably detailed explanation of the reasons therefor. If Buyer and Seller are unable to resolve any disputed objections within 10 Business Days thereafter, such objections shall be referred to the Accountants, whose review will be limited to whether Buyer's Allocation of such disputed items regarding the Allocation was prepared in accordance with Applicable Law. The Accountants shall be instructed to deliver to Seller and Buyer a written determination of the proper allocation of such disputed items within 20 Business Days. Such determination shall be conclusive and binding upon the parties hereto for all purposes, and the Allocation shall be so adjusted (the Allocation, including the adjustment, if any, to be referred to as the "Final Allocation"). The fees and disbursements of the Accountants attributable to the Allocation shall be shared equally by Buyer and Seller. Each of Buyer and Seller agrees to timely file Internal Revenue Service Form 8594, and all Federal, state, local and foreign Tax Returns, in accordance with such Final Allocation and to report the transactions contemplated by this Agreement for Federal Income Tax and all other tax purposes in a manner consistent with the Final Allocation. Each of Buyer and Seller agrees to promptly provide the other party with any additional information and reasonable assistance required to complete Form 8594, or compute Taxes arising in connection with (or otherwise affected by) the transactions contemplated hereunder. Each of Buyer and Seller shall timely notify the other Party and each shall timely provide the other Party with reasonable assistance in the event of an examination, audit or other proceeding regarding the Final Allocation.

ARTICLE IV

The Closing

SECTION 4.01. Time and Place of Closing. Upon the terms and subject to the satisfaction of the conditions contained in Article VIII, the closing of the sale of the Auctioned Assets contemplated by this Agreement (the "Closing") will take place on such date as the Parties may agree, which date shall be as soon as practicable, but no later than ten Business Days, following the date on which all of the conditions set forth in Article VIII have been satisfied or waived, at the offices of Cravath, Swaine & Moore in New York City or at such other place or time as the Parties may agree. The date and time at which the Closing actually occurs is hereinafter referred to as the "Closing Date".

SECTION 4.02. Payment of Purchase Price and Estimated Adjustment Amount. At the Closing, Buyer will pay or cause to be paid to Seller by wire transfer of immediately available funds to an account previously designated in writing by Seller an amount in United States dollars equal to (a) the Purchase Price plus or minus (b) Seller's good faith estimate of the Adjustment Amount (the "Estimated Adjustment Amount"), which estimate shall be provided to Buyer no later than five Business Days prior to the Closing.

ARTICLE V

Representations and Warranties of Seller

Seller represents and warrants to Buyer as follows:

SECTION 5.01. Organization; Qualification. Seller is a corporation duly incorporated, validly existing and in good standing under the laws of the State of New York and has all requisite corporate power and authority to own, lease and operate the Auctioned Assets and to carry on the business of the Auctioned Assets as currently conducted.

SECTION 5.02. Authority Relative to This Agreement. Seller has all necessary corporate power and authority to execute and deliver this Agreement and the Ancillary Agreements and to consummate the transactions

contemplated hereby and thereby. The execution and delivery by Seller of this Agreement and the Ancillary Agreements and the consummation by Seller of the transactions contemplated hereby and thereby have been duly and validly authorized by the Board of Trustees of Seller or by a committee thereof to whom such authority has been delegated and no other corporate proceedings on the part of Seller are necessary to authorize this Agreement or the Ancillary Agreements or the consummation of the transactions contemplated hereby or thereby. This Agreement and the Ancillary Agreements have been duly and validly executed and delivered by Seller and, assuming that this Agreement and the Ancillary Agreements constitute valid and binding agreements of Buyer and each other party thereto, subject to the receipt of the Seller Required Regulatory Approvals and the Buyer Required Regulatory Approvals, constitute valid and binding agreements of Seller, enforceable against Seller in accordance with their respective terms.

SECTION 5.03. Consents and Approvals; No Violation. (a) Subject to obtaining the Seller Required Regulatory Approvals and the Buyer Required Regulatory Approvals, neither the execution and delivery of this Agreement or the Ancillary Agreements by Seller nor the sale by Seller of the Auctioned Assets pursuant to this Agreement will (i) conflict with or result in any breach of any provision of the Certificate of Incorporation or By-laws of Seller, (ii) except as set forth on Schedule 5.03(a), result in a default (or give rise to any right of termination, cancelation or acceleration) under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, license, agreement, lease or other instrument or obligation to which Seller is a party or by which Seller, or any of the Auctioned Assets, may be bound, except for such defaults (or rights of termination, cancelation or acceleration) as to which requisite waivers or consents have been obtained or which would not, individually or in the aggregate, create a Material Adverse Effect or (iii) violate any order, writ, injunction, decree, statute, rule or regulation applicable to Seller, or the Auctioned Assets, except for such violations which would not, individually or in the aggregate, create a Material Adverse Effect.

(b) Except for (i) application by Seller to, and the approval of, the PSC, pursuant to ss. 70 of the Public Service Law of the State of New York, of the transfer to Buyer of the Auctioned Assets, (ii) the filings by Seller and Buyer required by the HSR Act and the expiration or earlier termination of all waiting periods under the HSR Act, (iii) application by Seller to, and the approval of, FERC under (A) Section 203 of the Federal Power Act of 1935 (the "Federal Power Act") with respect to the transfer of Auctioned Assets constituting jurisdictional assets under the Federal Power Act and (B) Section 205 of the Federal Power Act with respect to each Continuing Site Agreement and any wholesale power sales agreement to be entered into by Seller and Buyer, including the Transition Capacity Agreement, (iv) the issuance of approval by the New York City Department of Buildings and, to the extent required, the New York City Department of Business Services of the tax lot subdivision contemplated by this Agreement in a form suitable for submission to the New York City Department of Finance for the issuance of tax lot numbers and (v) declarations, filings or registrations with, or notices to, or authorizations, consents or approvals of, any Governmental Authority which become applicable to Seller or the transactions contemplated hereby or by the Ancillary Agreements as a result of the specific regulatory status or jurisdiction of incorporation or organization of Buyer (or any of its Affiliates) or as a result of any other facts that specifically relate to the business or activities in which Buyer (or any of its Affiliates) is or proposes to be engaged (collectively, the "Seller Required Regulatory Approvals"), no declaration, filing or registration with, or notice to, or authorization, consent or approval of any Governmental Authority is necessary for the consummation by Seller of the transactions contemplated hereby or by the Ancillary Agreements, other than such declarations, filings, registrations, notices, authorizations, consents or approvals (A) which, if not obtained or made, would not, individually or in the aggregate, create a Material Adverse Effect or (B) which relate to the Transferable Permits.

(c) To the knowledge of Seller, there is no reason that it should fail to obtain the Seller Required Regulatory Approvals.

SECTION 5.04. Year 2000. Seller has informed Buyer of the status, as of the date of this Agreement, of measures to prevent computer software, hardware and embedded systems used in connection with the Auctioned Assets from experiencing malfunctions or other usage problems in connection with years beginning with "20", except for such malfunctions or other usage problems which would not, individually or in the aggregate, create a Material Adverse Effect.

SECTION 5.05. Personal Property. Except for Permitted Exceptions, Seller has good and marketable title, free and clear of all Encumbrances, to all personal property included in the Auctioned Assets.

SECTION 5.06. Real Estate. The Conveyance Plans contain descriptions of the Buyer Real Estate. Copies of the most recent real property surveys and title insurance information in the possession of Seller with respect to the Buyer Real Estate or any portion thereof have heretofore been delivered by Seller to Buyer or made available for inspection by Buyer, receipt of which is hereby acknowledged by Buyer.

SECTION 5.07. Leases. As of the date of this Agreement, Seller is neither a tenant nor a licensee under any real property leases which (a) are to be transferred and assigned to Buyer on the Closing Date and (b) (i) provide for annual payments of more than $100,000 or (ii) are material to the Auctioned Assets.

SECTION 5.08. Certain Contracts and Arrangements. (a) Except for (i) any contract or agreement listed on Schedule 2.02(a)(iv) or Schedule 5.08(a) and (ii) Contracts which will expire prior to the Closing

Date or that are permitted to be entered into under this Agreement, Seller is not a party to any contract which is material to the business or operations of the Auctioned Assets.

(b) Each Contract (i) constitutes a valid and binding obligation of Seller, and, to the knowledge of Seller, constitutes a valid and binding obligation of the other parties thereto, (ii) to the knowledge of Seller, is in full force and effect and (iii) other than Contracts covered by Section 2.04, to the knowledge of Seller, may be transferred to Buyer pursuant to this Agreement and will continue in full force and effect thereafter, in each case, without breaching the terms thereof or resulting in the forfeiture or impairment of any rights thereunder, except for such breaches, forfeitures or impairments which would not, individually or in the aggregate, create a Material Adverse Effect.

(c) There is not, under any of the Contracts, any default or event which, with notice or lapse of time or both, would constitute a default by Seller, except for such events of default and other events as to which requisite waivers or consents have been obtained or which would not, individually or in the aggregate, create a Material Adverse Effect.

SECTION 5.09. Legal Proceedings. Except as set forth on Schedule 5.09 or in the Filed Seller SEC Documents, as of the date of this Agreement, there are no claims, actions, proceedings or investigations pending or, to the knowledge of Seller, threatened against or relating to Seller which would, individually or in the aggregate, be reasonably expected to create a Material Adverse Effect. With respect to the business or operations of the Auctioned Assets, Seller is not, as of the date of this Agreement, subject to any outstanding judgment, rule, order, writ, injunction or decree of any court, governmental or regulatory authority which would create a Material Adverse Effect. The representations and warranties of Seller set forth in this Section 5.09 shall not apply to, and do not cover, any environmental matters which, with respect to any representations and warranties of Seller, are exclusively governed by Section 5.11.

SECTION 5.10. Permits; Compliance with Law. (a) Except as set forth on Schedule 5.10(a)(i), Seller holds, and is in compliance with, all Permits necessary to conduct the business and operations of the Auctioned Assets as currently conducted, and, to the knowledge of Seller, Seller is otherwise in compliance with all laws, statutes, orders, rules, regulations, ordinances or judgments of any Governmental Authority applicable to the business and operations of the Auctioned Assets, except for such failures to hold or comply with such Permits, or such failures to be in compliance with such laws, statutes, orders, rules, regulations, ordinances or judgments, which would not, individually or in the aggregate, create a Material Adverse Effect. Except as set forth on Schedule 5.10(a)(ii), Seller has not received any written notification that it is in violation of any of such Permits or laws, statutes, orders, rules, regulations, ordinances or judgments, except for notifications of violations which would not, individually or in the aggregate, create a Material Adverse Effect. The representations and warranties of Seller set forth in this Section 5.10 shall not apply to, and do not cover, any environmental matters which, with respect to any representations and warranties of Seller, are exclusively governed by Section 5.11.

(b) Notwithstanding the last sentence of Section 5.10(a), except as set forth on Schedule 5.10(b), there are no material Permits or material Environmental Permits that, in each case, are not Transferable Permits and are required for Buyer to conduct the business and operations of the Auctioned Assets as currently conducted.

SECTION 5.11. Environmental Matters. (a) Except as set forth in Schedule 5.11 or disclosed in the Filed Seller SEC Documents, Seller holds, and is in compliance with, the Environmental Permits required for Seller to conduct the business and operations of the Auctioned Assets as currently conducted under applicable Environmental Laws, and, to the knowledge of Seller, Seller is otherwise in compliance with applicable Environmental Laws with respect to the business and operations of the Auctioned Assets, except for such failures to hold or comply with such Environmental Permits, or such failures to be in compliance with such Environmental Laws, which would not, individually or in the aggregate, create a Material Adverse Effect.

(b) Except as set forth in Schedule 5.11 or disclosed in the Filed Seller SEC Documents, Seller has not received any written notice of violation of any Environmental Law or any written request for information with respect thereto, or been notified that it is a potentially responsible party under the Federal Comprehensive Environmental Response, Compensation, and Liability Act or any similar state law with respect to any real property included in the Buyer Real Estate or in any lease forming part of the Auctioned Assets, except for such matters under such laws as would not, individually or in the aggregate, create a Material Adverse Effect.

(c) Except as set forth in Schedule 5.11 or disclosed in the Filed Seller SEC Documents, with respect to the business and operations of the Auctioned Assets, Seller is not subject to any outstanding judgment, decree or judicial order relating to compliance with any Environmental Law or to investigation or cleanup of Hazardous Substances under any applicable Environmental Law, except for (i) the Seller Consent Orders and (ii) such judgments, decrees or judicial orders that would not, individually or in the aggregate, create a Material Adverse Effect.

(d) Except as set forth in Schedule 5.11 or disclosed in the Filed Seller SEC Documents, as of the date of this Agreement, there are no claims, actions, proceedings or investigations pending, or to the knowledge of Seller, threatened against or relating to Seller, with respect to the exposure at the Auctioned Assets of any person to Hazardous Substances, which, if adversely determined, would, individually or in the

aggregate, create a Material Adverse Effect.

SECTION 5.12. Labor Matters. Seller has previously made available to Buyer copies of all collective bargaining agreements to which Seller is a party or is subject and which relate to the business or operations of the Auctioned Assets. With respect to the business and operations of the Auctioned Assets, as of the date of this Agreement, (a) Seller is in compliance with all applicable laws regarding employment and employment practices, terms and conditions of employment and wages and hours, (b) Seller has not received written notice of any unfair labor practice complaint against Seller pending before the National Labor Relations Board, (c) there is no labor strike, slowdown or stoppage actually pending or, to the knowledge of Seller, threatened against or affecting Seller, (d) Seller has not received notice that any representation petition respecting the employees of Seller has been filed with the National Labor Relations Board, (e) no arbitration proceeding arising out of or under collective bargaining agreements is pending against Seller and (f) Seller has not experienced any primary work stoppage since at least December 31, 1996, except, in the case of each of the foregoing clauses (a) through (f), for such matters as would not, individually or in the aggregate, create a Material Adverse Effect.

SECTION 5.13. ERISA; Benefit Plans. Schedule 5.13 sets forth a list of all material deferred compensation, profit-sharing, retirement and pension plans and all material bonus and other material employee benefit or fringe benefit plans maintained, or with respect to which contributions have been made, by Seller with respect to current or former employees employed in connection with the power generation operations of the Generating Plants and the Gas Turbines (collectively, "Benefit Plans"). Seller and each trade or business (whether or not incorporated) which are or have ever been under common control, or which are or have ever been treated as a single employer, with Seller under Section 414(b), (c), (m) or (o) of the Code (an "ERISA Affiliate") have fulfilled their respective obligations under the minimum funding requirements of Section 302 of ERISA, and Section 412 of the Code, with respect to each Benefit Plan which is an "employee pension benefit plan" as defined in Section 3(2) of ERISA and each such plan is in compliance in all material respects with the presently applicable provisions of ERISA and the Code, except for such failures to fulfill such obligations or comply with such provisions which would not, individually or in the aggregate, create a Material Adverse Effect. Neither Seller nor any ERISA Affiliate has incurred any liability under Section 4062(b) of ERISA, or any withdrawal liability under Section 4201 of ERISA, to the Pension Benefit Guaranty Corporation in connection with any Benefit Plan which is subject to Title IV of ERISA which liability remains outstanding, and there has not been any reportable event (as defined in Section 4043 of ERISA) with respect to any such Benefit Plan (other than a reportable event with respect to which the 30-day notice requirement has been waived by the PBGC). Neither Seller nor any ERISA Affiliate or parent corporation, within the meaning of Section 4069(b) or Section 4212(c) of ERISA, has engaged in any transaction, within the meaning of Section 4069(b) or Section 4212(c) of ERISA. No Benefit Plan and no "employee pension benefit plan" (as defined in Section 3(2) of ERISA) maintained by Seller or any ERISA Affiliate or to which Seller or any ERISA Affiliate has contributed is a multiemployer plan.

SECTION 5.14. Taxes. With respect to the Auctioned Assets and trades or businesses associated with the Auctioned Assets, (a) all Tax Returns required to be filed have been filed and (b) all Taxes shown to be due on such Tax Returns, and all Taxes otherwise owed, have been paid in full, except to the extent that any failure to file or any failure to pay any Taxes would not, individually or in the aggregate, create a Material Adverse Effect. No written notice of deficiency or assessment has been received from any taxing authority with respect to liabilities for Taxes of Seller in respect of the Auctioned Assets which has not been fully paid or finally settled or which is not being contested in good faith through appropriate proceedings, except for any such notices regarding Taxes which would not, individually or in the aggregate, create a Material Adverse Effect. There are no outstanding agreements or waivers extending the applicable statutory periods of limitation for Taxes associated with the Auctioned Assets for any period, except for any such agreements or waivers which would not, individually or in the aggregate, create a Material Adverse Effect.

SECTION 5.15. Independent Engineering Assessments; Condition of Auctioned Assets. (a) Seller has reviewed the 1998 assessments prepared by Stone & Webster with respect to the Generating Plants and the Gas Turbines (the "Independent Engineering Assessments"), and, except as set forth on Schedule 5.15(a), to the knowledge of Seller, as of the date of the Independent Engineering Assessments, there was no untrue statement of a material fact or omission of any material fact therein that would reasonably suggest that the condition of the Generating Plants and the Gas Turbines, taken as a whole, as of such date was materially and adversely different from that described in such Independent Engineering Assessments.

(b) Except as set forth on Schedule 5.15(b), since the date of the Independent Engineering Assessments, there has not been, subject to ordinary wear and tear and to routine maintenance, any casualty, physical damage, destruction or physical loss with respect to, or any adverse change in the physical condition of, any Generating Plant or Gas Turbine, except for such casualty, physical damage, destruction, physical loss or adverse change which would not, individually or in the aggregate, create a Material Adverse Effect.

(c) The condition of the Auctioned Assets is sufficient to permit compliance in all material respects with the Ancillary Agreements, assuming the Ancillary Agreements are in full force and effect.

SECTION 5.16. Undisclosed Liabilities. With respect to the Auctioned Assets, there are no liabilities or obligations of any nature or kind (absolute, accrued, contingent or otherwise) that would have been

required to be set forth on a balance sheet in respect of the Auctioned Assets or in the notes thereto prepared in accordance with GAAP, as applied by Seller in connection with its December 31, 1997 balance sheet, except for any such liabilities or obligations which (a) are disclosed in or contemplated or permitted by this Agreement or the Ancillary Agreements (including the Assumed Obligations), (b) are disclosed in the Offering Memorandum, (c) are disclosed in the Filed Seller SEC Documents, (d) have been incurred in the ordinary course of business, (e) are disclosed on Schedule 5.16 or (f) which would not, individually or in the aggregate, create a Material Adverse Effect.

SECTION 5.17. Brokers. No broker, finder or other person is entitled to any brokerage fees, commissions or finder's fees in connection with the transaction contemplated hereby by reason of any action taken by Seller, except Morgan Stanley & Co. Incorporated, which is acting for and at the expense of Seller.

SECTION 5.18. Insurance. Seller carries policies of insurance covering fire, workers' compensation, property all-risk, comprehensive bodily injury, property damage liability, automobile liability, product liability, completed operations, explosion, collapse, contractual liability, personal injury liability and other forms of insurance relating to the Auctioned Assets, or otherwise self-insures in accordance with all statutory and regulatory criteria against any such liabilities, which insurance is in such amounts, has such deductibles and retentions and is underwritten by such companies as would be obtained by a reasonably prudent electric power business.

EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES EXPRESSLY SET FORTH IN THIS ARTICLE V, THE AUCTIONED ASSETS ARE BEING SOLD AND TRANSFERRED "AS IS, WHERE IS", AND SELLER IS NOT MAKING ANY OTHER REPRESENTATIONS OR WARRANTIES WRITTEN OR ORAL, STATUTORY, EXPRESS OR IMPLIED, CONCERNING SUCH AUCTIONED ASSETS OR WITH RESPECT TO THIS AGREEMENT OR THE ANCILLARY AGREEMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY, INCLUDING, IN PARTICULAR WITH RESPECT TO THE AUCTIONED ASSETS, ANY WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, ALL OF WHICH ARE HEREBY EXPRESSLY EXCLUDED AND DISCLAIMED BY SELLER AND WAIVED BY BUYER. WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, SELLER MAKES NO REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION SET FORTH IN, OR CONTEMPLATED BY, THE OFFERING MEMORANDUM (EXCEPT TO THE EXTENT EXPRESSLY INCORPORATED BY REFERENCE INTO THIS AGREEMENT).

ARTICLE VI

Representations and Warranties of Buyer

Buyer represents and warrants to Seller as follows:

SECTION 6.01. Organization. Buyer is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to own, lease and operate its properties and to carry on its business as is now being conducted. Buyer is duly qualified and licensed to do business as a foreign corporation and is in good standing in the State of New York.

SECTION 6.02. Authority Relative to This Agreement. Buyer has all necessary corporate power and authority to execute and deliver this Agreement and the Ancillary Agreements to which it is party and to consummate the transactions contemplated hereby and thereby. The execution and delivery by Buyer of this Agreement and such Ancillary Agreements and the consummation by Buyer of the transactions contemplated hereby and thereby have been duly and validly authorized by the Board of Directors of Buyer and no other corporate proceedings on the part of Buyer are necessary to authorize this Agreement or such Ancillary Agreements or the consummation of the transactions contemplated hereby or thereby. This Agreement and such Ancillary Agreements have been duly and validly executed and delivered by Buyer and, assuming that this Agreement and the Ancillary Agreements constitute valid and binding agreements of Seller and each other party thereto, subject to the receipt of the Buyer Required Regulatory Approvals and the Seller Required Regulatory Approvals, this Agreement and the Ancillary Agreements constitute valid and binding agreements of Buyer, enforceable against Buyer in accordance with their respective terms.

SECTION 6.03. Consents and Approvals; No Violation. (a) Subject to obtaining the Buyer Required Regulatory Approvals and the Seller Required Regulatory Approvals, neither the execution and delivery of this Agreement or the Ancillary Agreements to which it is party by Buyer nor the purchase by Buyer of the Auctioned Assets pursuant to this Agreement will (i) conflict with or result in any breach of any provision of the Certificate of Incorporation or By-laws (or other similar governing documents) of Buyer, (ii) result in a default (or give rise to any right of termination, cancelation or acceleration) under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, license, agreement, lease or other instrument or obligation to which Buyer or any of its subsidiaries is a party or by which any of their respective assets may be bound or (iii) violate any order, writ, injunction, decree, statute, rule or regulation applicable to Buyer, or any of its assets, except in the case of clauses (ii) and (iii) for such failures to obtain a necessary consent, defaults and violations which would not, individually or in the aggregate, have a material adverse effect on the ability of Buyer to consummate the transactions contemplated by, and discharge its obligations under, this Agreement and the Ancillary Agreements (a "Buyer Material Adverse Effect").

(b) Except for (i) approval of the PSC pursuant to ss. 70 of the Public Service Law of the State of New York, of the transfer to Buyer of the Auctioned Assets, (ii) the filings by Buyer and Seller required by

the HSR Act and the expiration or earlier termination of all waiting periods under the HSR Act, (iii) application by Buyer to, and the approval of, FERC under (A) Section 203 of the Federal Power Act with respect to the transfer of Auctioned Assets constituting jurisdictional assets under the Federal Power Act and (B) Section 205 of the Federal Power Act with respect to (1) each Continuing Site Agreement and any wholesale power sales agreement to be entered into by Seller and Buyer, including the Transition Capacity Agreement, and (2) authorization to sell capacity and energy from Generating Plants and Gas Turbines at market-based rates (provided, however, that Buyer acknowledges that "market- based rates" for the purpose of this Agreement means rates that are subject to any bid cap, price limitation or other market power mitigation measure imposed by FERC or PSC in respect of the New York State or New York City wholesale and retail energy and capacity electric power markets or any other restriction imposed by FERC or PSC with respect to the power generation operations and assets of Buyer, including the FERC Order Accepting Market Power Mitigation Measures dated September 22, 1998, as modified (Docket No. ER98-3169-000) (the "Mitigation Measures")), (iv) qualification of Buyer, with respect to the Auctioned Assets, as an exempt wholesale generator under the Energy Policy Act of 1992 and (v) the issuance of approval by the New York City Department of Buildings and, to the extent required, the New York City Department of Business Services of the tax lot subdivision contemplated by this Agreement in a form suitable for submission to the New York City Department of Finance for the issuance of tax lot numbers (collectively, the "Buyer Required Regulatory Approvals"), no declaration, filing or registration with, or notice to, or authorization, consent or approval of any Governmental Authority is necessary for the consummation by Buyer of the transactions contemplated hereby or by the Ancillary Agreements, other than such declarations, filings, registrations, notices, authorizations, consents or approvals (A) which, if not obtained or made would not, individually or in the aggregate, have a Buyer Material Adverse Effect or (B) which relate to the Transferable Permits.

(c) To the knowledge of Buyer, there is no reason that it should fail to obtain the Buyer Required Regulatory Approvals.

SECTION 6.04. Brokers. No broker, finder or other person is entitled to any brokerage fees, commissions or finder's fees in connection with the transaction contemplated hereby by reason of any action taken by Buyer, except Salomon Smith Barney Inc., which is acting for and at the expense of Buyer.

ARTICLE VII

Covenants of the Parties

SECTION 7.01. Conduct of Business Relating to the Auctioned Assets. (a) Except with the prior written consent of Buyer (such consent not to be unreasonably withheld) or as required to effect the purchase and sale of the Auctioned Assets and related transactions contemplated by this Agreement, during the period from the date of this Agreement to the Closing Date, Seller will operate the Auctioned Assets in the usual, regular and ordinary course and in accordance with good industry practice and applicable legal requirements, and continue to pay accounts payable which relate to the Auctioned Assets in a timely manner, consistent with past practice.

(b) Notwithstanding the foregoing, except as contemplated in this Agreement or the Ancillary Agreements, prior to the Closing Date, without the prior written consent of Buyer (such consent not to be unreasonably withheld), Seller will not:

(i) except for Permitted Exceptions, grant any Encumbrance on the Auctioned Assets securing any indebtedness for borrowed money or guarantee or other liability for the obligations of any person;

(ii) make any material change in the levels of fuel inventory and supplies, materials and spare parts inventory customarily maintained by Seller with respect to the Auctioned Assets, other than consistent with past practice (including the use of spare parts in connection with certain power generation assets of Seller described in the Offering Memorandum other than the Generating Plants or Gas Turbines);

(iii) sell, lease (as lessor), transfer or otherwise dispose of, any of the Auctioned Assets, other than assets (except coal handling equipment) that become obsolete or assets used, consumed or replaced in the ordinary course of business consistent with past practice (including the use of spare parts in connection with certain power generation assets of Seller described in the Offering Memorandum other than the Generating Plants or Gas Turbines); provided, however, that notwithstanding any other provision of this Agreement to the contrary, Seller may sell the VISY Option Parcel to VISY pursuant to the exercise by VISY of the option under the VISY Option Agreement;

(iv) terminate, materially extend or otherwise materially amend any of the Contracts (other than in accordance with their respective terms) or waive any default by, or release, settle or compromise any material claim against, any other party thereto;

(v) amend any of the Transferable Permits, other than (A) Transferable Permits not material to the operations of the Auctioned Assets as currently conducted, (B) as reasonably necessary to complete the transfer of Permits as contemplated hereby, (C) routine renewals or non-material modifications or amendments and (D) modifications, alterations and amendments contemplated by Section 7.03(b);

(vi) enter into any Contract for the purchase, sale or storage of fuel with respect to the Auctioned Assets (whether commodity or transportation) with a term in excess of 12 months, if the aggregate future liability or receivable outstanding on the date for measurement for the purpose of this covenant for all such Contracts would be in excess of $2 million, not including any such Contract terminable by notice of not more than 30 days without penalty or cost (other than de minimis administrative costs); provided, however, that Seller may enter into Contracts for the storage of fuel with respect to the Auctioned Assets with a term ending not later than December 31, 2000 and otherwise on terms consistent with Seller's past practice;

(vii) (A) establish, adopt, enter into or amend any Collective Bargaining Agreement or Benefits Plans, except (1) if such action would not create a Material Adverse Effect or (2) as required under applicable law or under the terms of any Collective Bargaining Agreement or (B) grant to any Affected Employee any increase in compensation, except (1) in the ordinary course of business consistent with past practice or (2) to the extent required by the terms of any Collective Bargaining Agreement, employment agreement in effect as of the date of this Agreement or applicable law;

(viii) enter into any Contract with respect to the Auctioned Assets for goods or services not addressed in clauses (i) through (vii) with a term in excess of 12 months, if the aggregate future liability or receivable outstanding on the date for measurement for the purpose of this covenant for all such Contracts would be in excess of $2 million, not including any such Contract terminable by notice of not more than 30 days without penalty or cost (other than de minimis administrative costs); provided, however, that notwithstanding any other provision of this Agreement to the contrary, Seller may (A) enter into any Contract reasonably necessary to effect the physical, legal or operational separation of the sites on which the Auctioned Assets are located or to otherwise implement the change of ownership contemplated hereby, or subdivision, of such sites or implement the provisions of the Ancillary Agreements and (B) enter into and record the Declarations of Subdivision Easements; or

(ix) enter into any Contract with respect to the Auctioned Assets relating to any of the transactions set forth in the foregoing clauses (i) through (viii).

(c) Without limiting the generality of Sections 7.01(a) and (b), to the extent Section 7.01(a) or (b) prohibits Seller from entering into any Contract for goods and services in connection with maintenance or capital expenditures, Buyer agrees that Seller may request Buyer's consent to enter into such Contract, such consent not to be unreasonably withheld, and to the extent Buyer so consents, all liabilities and obligations under such Contract shall constitute Assumed Obligations and Buyer shall otherwise reimburse Seller for all its expenditures thereunder.

(d) Notwithstanding anything in this Section 7.01 to the contrary, Seller may take any action, incur any expense or enter into any obligation with respect to the Auctioned Assets to the extent that (i) all obligations and liabilities arising with respect thereto do not constitute Assumed Obligations or (ii) Seller otherwise provides that such obligations and liabilities shall not be assumed or retained by Buyer.

SECTION 7.02. Access to Information. (a) Between the date of this Agreement and the Closing Date, Seller will, subject to the Confidentiality Agreement, during ordinary business hours and upon reasonable notice (i) give Buyer and its representatives reasonable access to all books, records, plants, offices and other facilities and properties constituting the Auctioned Assets, including for the purpose of observing the operation by Seller of the Auctioned Assets, (ii) permit Buyer to make such reasonable inspections thereof as Buyer may reasonably request, (iii) furnish Buyer with such financial and operating data and other information with respect to the Auctioned Assets as Buyer may from time to time reasonably request, (iv) furnish Buyer upon request a copy of each material report, schedule or other document with respect to the Auctioned Assets filed by Seller with, or received by Seller from, the PSC or FERC; provided, however, that (A) any such activities shall be conducted in such a manner as not to interfere unreasonably with the operation of the Auctioned Assets, (B) Seller shall not be required to take any action which would constitute a waiver of the attorney-client privilege and (C) Seller need not supply Buyer with (1) any information or access which Seller is under a legal obligation not to supply or (2) any information which Seller has previously supplied to Buyer. Notwithstanding anything in this Section 7.02 to the contrary, (I) Seller will not be required to provide such information or access to any employee records other than Transferring Employee Records, (II) Buyer shall not have the right to perform or conduct any environmental sampling or testing at, in, on, around or underneath the Auctioned Assets and (III) Seller shall not be required to provide such access or information with respect to any Retained Asset or Retained Liabilities.

(b) Unless otherwise agreed to in writing by Buyer, Seller shall, for a period commencing on the Closing Date and terminating three years after the Closing Date, keep confidential and shall cause its representatives to keep confidential all Confidential Information (as defined in the Confidentiality Agreement) on the terms set forth in the Confidentiality Agreement. Except as contemplated by the following sentence, Seller shall not release any person from any confidentiality agreement now existing with respect solely to the Auctioned Assets or waive or amend any provision thereof. After the Closing Date, upon reasonable request of Buyer, Seller shall, to the maximum extent permitted by law and the applicable Bidder Confidentiality Agreement (as defined below), appoint Buyer to be Seller's representative and agent in respect

of confidential information relating to the Auctioned Assets under the confidentiality agreements ("Bidder Confidentiality Agreements") between Seller and prospective purchasers of certain generation assets of Seller of which the Auctioned Assets form part.

(c) From and after the Closing Date, Buyer shall retain all Operating Records (whether in electronic form or otherwise) relating to the Auctioned Assets on or prior to the Closing Date. Buyer also agrees that, from and after the Closing Date, Seller shall have the right, upon reasonable request to Buyer, to receive from Buyer copies of any Operating Records or other information in Buyer's possession relating to the Auctioned Assets on or prior to the Closing Date and required by Seller in order to comply with applicable law. Seller shall reimburse Buyer for its reasonable costs and expenses incurred in connection with the foregoing sentence.

SECTION 7.03. Consents and Approvals; Transferable Permits. (a) Seller and Buyer shall cooperate with each other and (i) prepare and file (or otherwise effect) as soon as practicable all applications, notices, petitions and filings with respect to and (ii) use their reasonable best efforts (including negotiating in good faith modifications and amendments to this Agreement and the Ancillary Agreements) to obtain (A) the Seller Required Regulatory Approvals and the Buyer Required Regulatory Approvals and (B) any other consents, approvals or authorizations of any other Governmental Authorities or third parties that are necessary to consummate the transactions contemplated by this Agreement or the Ancillary Agreements. Without limiting the generality of the foregoing, (1) each Party agrees to, upon the other Party's request, support such other Party's applications for regulatory approvals of the purchase and sale of the Auctioned Assets contemplated by this Agreement, (2) Buyer agrees not to seek any relief from, or modifications or amendments in respect of, any bid cap, price limitation or other market power mitigation measure or other restriction with respect to any power generation operations and assets described in or contemplated by Section 6.03(b)(iii)(B)(2) until after the Closing Date and (3) Buyer and Seller agree to defend any lawsuits or other legal proceedings, whether judicial or administrative, challenging this Agreement or the Ancillary Agreements, or the consummation of the transactions contemplated hereby or thereby, including seeking to have any stay or temporary restraining order entered by any Governmental Authority vacated or reversed.

(b) Upon execution of this Agreement, Seller shall commence the process of transferring to Buyer the Transferable Permits, including completing and filing applications and related documents with the appropriate Governmental Authorities. Seller hereby reserves the right to modify, alter or amend any Transferable Permit or to refuse to correct violations or deficiencies in respect of any Transferable Permit as long as such modification, alteration, amendment or refusal would not, individually or in the aggregate, create a Material Adverse Effect. Seller shall use its reasonable best efforts to give notice to Buyer of any modification, alteration or amendment to any Transferable Permit.

(c) Seller shall use its reasonable best efforts to cooperate with Buyer in the transfer of Transferable Permits to Buyer by Closing. If the transfer of any Transferable Permit cannot be completed by Closing, Buyer is hereby authorized, but not required, to act as Seller's representative and agent in respect of such Transferable Permit and to do all things necessary for effecting transfer of such Transferable Permit as soon after the Closing as is practicable, with Seller remaining the Transferable Permit "holder of record" in such case until such transfer is completed. In the case of each such Transferable Permit, Seller shall, to the maximum extent permitted by law and such Transferable Permit, enter into such reasonable arrangements with Buyer as are necessary to provide Buyer with the benefits and obligations of such Transferable Permit. If Buyer is able to complete the transfer of any Transferable Permit after Closing without the occurrence of any event that, if such event had occurred between the execution of this Agreement and the Closing, would have created, individually or in the aggregate, a Material Adverse Effect, Seller may substitute Buyer in its place and stead as the Party responsible for completing the transfer of such Transferable Permit.

SECTION 7.04. Further Assurances. (a) Subject to the terms and conditions of this Agreement, each of the Parties will use its reasonable best efforts to take, or cause to be taken, as soon as possible, all action, and to do, or cause to be done, as soon as possible, all things necessary, proper or advisable under applicable laws and regulations to consummate the sale of the Auctioned Assets pursuant to this Agreement as soon as possible, including using its reasonable best efforts to ensure satisfaction of the conditions precedent to each Party's obligations hereunder. Prior to Buyer's submission of any application with a Governmental Authority for a regulatory approval, Buyer shall submit such application to Seller for review and comment and Buyer shall incorporate into such application any revisions reasonably requested by Seller. Neither of the Parties will, without prior written consent of the other Party, take or fail to take, or permit their respective Affiliates to take or fail to take, any action, which would reasonably be expected to prevent or materially impede, interfere with or delay the consummation, as soon as possible, of the transactions contemplated by this Agreement or the Ancillary Agreements. Without limiting the generality of the foregoing, each of the Parties shall use its reasonable best efforts to negotiate in good faith as soon as possible after the date of this Agreement, and enter into (i) the A-11 License, the terms of which shall be substantially as set forth in Exhibit F, (ii) the NYPA Assignment, the terms of which shall be reasonably satisfactory to Buyer and Seller, (iii) to the extent required to achieve subdivision of the Astoria site, one or more contracts, agreements or other arrangements satisfactory to the New York City Fire Department regarding fire prevention at the Astoria site and (iv) any other agreement reasonably necessary to consummate the sale of the Auctioned Assets pursuant to this Agreement as soon as possible.

(b) From time to time after the date hereof, without further

consideration and at its own expense, (i) Seller will execute and deliver such instruments of assignment or conveyance as Buyer may reasonably request to more effectively vest in Buyer Seller's title to the Auctioned Assets (subject to Permitted Exceptions and the other terms of this Agreement) and (ii) Buyer will execute and deliver such instruments of assumption as Seller may reasonably request in order to more effectively consummate the sale of the Auctioned Assets and the assumption of the Assumed Obligations pursuant to this Agreement.

(c) Seller shall not sponsor or support any recommendation or application to effect prior to April 1, 2002 (i) a reduction in the locational generation capacity requirement that 80% of New York City peak electric loads must be met with in-City generation capacity, as in effect as of the date of this Agreement, unless such reduction is justified by a significant change in the transmission import capability into New York City whether as a result of actions by Seller or others, (ii) a reduction in the $105/kW-year bid and price cap in respect of capacity under the Mitigation Measures, as in effect as of the date of this Agreement, or (iii) a change in the method of determining required system capability set forth in NYPP Billing Procedure 4-11 (Installed Reserve Requirements), as in effect as of the date of this Agreement that would reduce the installed reserve requirements for the winter capability period applicable to summer peaking systems if such reduction would also reduce the annual price for installed capacity that Buyer could otherwise obtain.

(d) Seller shall join or support Buyer's application to the PSC for the certification required under Section 32(c) of the Public Utility Holding Company Act of 1935 in order for Buyer to obtain qualification, with respect to the Auctioned Assets, as an exempt wholesale generator under the Energy Policy Act of 1992.

(e) Seller and Buyer shall cooperate in good faith to establish a transition committee to consider operational and business issues related to the purchase and sale of the Auctioned Assets.

(f) Prior to the Closing Date, Seller shall cooperate in good faith with Buyer to enable Buyer to obtain insurance in respect of the Auctioned Assets comparable to that maintained by Seller as of the date of this Agreement.

(g) Seller and Buyer shall cooperate in good faith to enable Buyer to obtain fuel storage capacity with respect to the Auctioned Assets.

SECTION 7.05. Public Statements. The Parties shall consult with each other prior to issuing any public announcement, statement or other disclosure with respect to this Agreement, the Ancillary Agreements or the transactions contemplated hereby or thereby, including any statement appearing in any filing contemplated hereby or thereby, and shall not issue any such public announcement, statement or other disclosure prior to such consultation, except as may be required by law.

SECTION 7.06. Tax Matters. (a) All transfer and sales taxes (including any petroleum business taxes and similar excise taxes on sales of petroleum based products) incurred in connection with this Agreement and the transactions contemplated hereby shall be borne by Buyer. Buyer shall prepare and file in a timely manner any and all Tax Returns or other documentation relating to such taxes; provided, however, that, to the extent required by applicable law, Seller will join in the execution of any such Tax Returns or other documentation relating to any such taxes. Buyer shall provide to Seller copies of each Tax Return described in the proviso in the preceding sentence at least 30 days prior to the date such Tax Return is required to be filed.

(b) At Seller's election, but on no less than 10 Business Days' notice to Buyer, the transfer of the Auctioned Assets and the receipt of the Purchase Price shall be made through a qualified intermediary in a manner satisfying the requirements of Treasury Regulation Section 1.1031(k)-1(g), so long as such election by Seller does not create a Material Adverse Effect and Seller indemnifies Buyer for its additional costs and expenses incurred by reason of such election.

(c) Each Party shall provide the other Party with such assistance as may reasonably be requested by the other Party in connection with the preparation of any Tax Return, any audit or other examination by any taxing authority, or any judicial or administrative proceedings relating to liability for Taxes, and each Party shall retain and provide the other Party with any records or information which may be relevant to such return, audit, examination or proceedings. Any information obtained pursuant to this Section 7.06(c) or pursuant to any other Section hereof providing for the sharing of information or review of any Tax Return or other instrument relating to Taxes shall be kept confidential by the parties hereto.

(d) If either Buyer or Seller receives a refund of Taxes in respect of the Auctioned Assets for a taxable period including the Closing Date, Buyer shall pay to Seller the portion of any such refund attributable to the portion of such taxable period prior to the Closing Date, and Seller shall pay to Buyer the portion of any such refund attributable to the portion of such taxable period on and after the Closing Date.

SECTION 7.07. Bulk Sales or Transfer Laws. Buyer acknowledges that Seller will not comply with the provisions of any bulk sales or transfer laws of any jurisdiction in connection with the transactions contemplated by this Agreement. Buyer hereby waives compliance by Seller with the provisions of the bulk sales or transfer laws of all applicable jurisdictions.

SECTION 7.08. Storage. Seller shall store for Buyer the

Auctioned Assets described in the second sentence of Section 2.01 until the date that is six months after the Closing Date or, in respect of all or a portion of such Auctioned Assets, until one or more earlier dates proposed by Buyer with reasonable advance notice, which schedule shall be reasonably acceptable to Seller. Buyer agrees to reimburse Seller for its reasonable costs and expenses in connection with such storage. Buyer agrees that Seller shall have no responsibility or liability for the actual removal of such Auctioned Assets from the actual storage location, and that Buyer shall have sole responsibility therefor. Notwithstanding the provisions of Section 10.01, Buyer agrees that Seller shall have no liability for loss or damage with respect to the matters contemplated by this Section 7.08 or such Auctioned Assets, and Buyer agrees to hold each Seller Indemnitee harmless from and against all loss or damage or Indemnifiable Losses, and to indemnify each Seller Indemnitee from and against all loss or damage or Indemnifiable Losses incurred, asserted against or suffered as a result of any storage or other services provided by Seller pursuant to this Section 7.08, in each case, except to the extent any such loss or damage or Indemnifiable Loss results in whole or in part from the gross negligence or wilful or wanton acts or omissions to act of any Seller Indemnitee (or any contractor or subcontractor of Seller).

SECTION 7.09. Information Resources. From the Closing Date until the date that is three months thereafter, Seller shall provide Buyer with access to Seller's mainframe computer only to the extent reasonably necessary to enable Buyer to use the PPMIS and MMS (in read only mode) systems and applications solely in connection with the Auctioned Assets. Buyer agrees that it will not use any such access for any purpose other than for the use of the PPMIS and MMS systems and applications solely in connection with the Auctioned Assets. Buyer acknowledges that, as long as it retains access to Seller's mainframe computer, Seller, its employees and third parties may have access to Buyer's information resources systems and applications (including the PPMIS and MMS systems and applications served by Seller's mainframe computer). Notwithstanding the provisions of Section 10.01, Buyer agrees that Seller shall have no liability or obligation whatsoever with respect to the matters contemplated by this Section 7.09, and Buyer agrees to hold each Seller Indemnitee harmless from and against all loss or damage or Indemnifiable Losses, and to indemnify each Seller Indemnitee from and against all loss or damage or Indemnifiable Losses incurred, asserted against or suffered as a result of Buyer's access to Seller's mainframe computer pursuant to this Section 7.09, in each case, except to the extent any such loss or damage or Indemnifiable Loss results in whole or in part from the gross negligence or wilful or wanton acts or omissions to act of any Seller Indemnitee (or any contractor or subcontractor of Seller).

SECTION 7.10. Witness Services. At all times from and after the Closing Date, each Party shall use reasonable best efforts to make available to the other Party, upon reasonable written request, its and its subsidiaries' then current or former officers, directors, employees (including former employees of Seller) and agents as witnesses to the extent that (i) such persons may reasonably be required by such requesting Party in connection with any claim, action, proceeding or investigation in which such requesting Party may be involved and (ii) there is no conflict between Buyer and Seller in such claim, action, proceeding or investigation. Such other Party shall be entitled to receive from such requesting Party, upon the presentation of invoices for such witness services, payments for such amounts, relating to supplies, disbursements and other out-of-pocket expenses and direct and indirect costs of employees who are witnesses, as may be reasonably incurred in providing such witness services.

SECTION 7.11. Consent Orders. Buyer and Seller agree to cooperate with each other and NYSDEC to facilitate the entry of a consent order between NYSDEC and Buyer, wherein Buyer will agree to assume and perform the Assumed Consent Order Obligations.

SECTION 7.12. Nitrogen Oxide Allowances. Seller agrees to negotiate in good faith with NYSDEC for nitrogen oxide allowances to be allocated to the Auctioned Assets for any period subsequent to the year 2002.

SECTION 7.13. Trade Names. Seller shall not object to the use by Buyer of any trade names, trademarks, service marks or logos (and any rights to and in the same, including any right to use the same) primarily relating to the Generating Facilities that contain the words "Arthur Kill", "Astoria Gas Turbine" or "Astoria Gas Turbines"; provided, however, that Buyer shall not use any trade names, trademarks, service marks or logos containing the word "Astoria" unless in each case immediately followed by the words "Gas Turbine" or "Gas Turbines".

ARTICLE VIII

Conditions

SECTION 8.01. Conditions Precedent to Each Party's Obligation To Effect the Purchase and Sale. The respective obligations of each Party to effect the purchase and sale of the Auctioned Assets shall be subject to the satisfaction or waiver by such Party on or prior to the Closing Date of the following conditions, unless, in the case of Section 8.01(c) below, the PSC determines that such condition need not be included or complied with:

(a) the Seller Required Regulatory Approvals and Buyer Required Regulatory Approvals shall have been obtained and all conditions to effectiveness prescribed therein or otherwise by law, regulation or order shall have been satisfied; provided, however, that if at the time any Seller Required Regulatory Approval or Buyer Required Regulatory Approval is obtained, a Party reasonably expects

a request for rehearing or a challenge thereto to be filed or if a request for rehearing or a challenge thereto has been filed, in each case, which, if successful, would cause such Seller Required Regulatory Approval or Buyer Required Regulatory Approval, as the case may be, to be reversed, stayed, enjoined, set aside, annulled, suspended or substantially modified, then such Party may by notice to the other Party within five Business Days after receipt of such Seller Required Regulatory Approval or Buyer Required Regulatory Approval, as the case may be, delay the Closing until the time for requesting rehearing has expired or until such challenge is decided, in each case, whether or not any appeal thereof is pending; provided further, however, that if the Closing is delayed pursuant to the foregoing provision, the Termination Date shall be automatically extended for a period of time equal to the period of such delay;

(b) no preliminary or permanent injunction or other order or decree by any Federal or state court of competent jurisdiction and no statute or regulation enacted by any Governmental Authority prohibiting the consummation of the purchase and sale of the Auctioned Assets (collectively, "Restraints") shall be in effect;

(c) the ISO shall have become operational to the extent reasonably necessary to monitor market power in respect of the Auctioned Assets;

(d) delivery of each Continuing Site Agreement, each Declaration of Easements Agreement, each Declaration of Subdivision Easements and each Zoning Lot Development Agreement to the Title Company for recording; and

(e) execution and delivery by NYPA of the NYPA Assignment.

SECTION 8.02. Conditions Precedent to Obligation of Buyer To Effect the Purchase and Sale. The obligation of Buyer to effect the purchase and sale of the Auctioned Assets contemplated by this Agreement shall be subject to the satisfaction or waiver by Buyer on or prior to the Closing Date of the following additional conditions:

(a) Seller shall have performed in all material respects its covenants and agreements contained in this Agreement which are required to be performed on or prior to the Closing Date;

(b) the representations and warranties of Seller which are set forth in this Agreement shall be true and correct as of the date of this Agreement and as of the Closing Date, as if made at and as of such time (except to the extent expressly made as of an earlier date, in which case as of such date), except where the failure of such representations and warranties to be so true and correct (without giving effect to any limitation as to "materiality" or "Material Adverse Effect" set forth therein) would not, individually or in the aggregate, create a Material Adverse Effect;

(c) Buyer shall have received a certificate from an authorized officer of Seller, dated the Closing Date, to the effect that, to the best of such officer's knowledge, the conditions set forth in Sections 8.02(a) and (b) have been satisfied;

(d) all material Permits and Environmental Permits required for Buyer to conduct the business and operations of the Auctioned Assets as currently conducted shall have been transferred or will be transferable to Buyer, or shall have been obtained or will be obtainable by Buyer, or shall have been made available to Buyer in accordance with Section 7.03(c), on, prior to or within a reasonable period of time after the Closing Date;

(e) Buyer shall have received (i) the deeds of conveyance substantially in the form of Exhibits B-1 and B-2, respectively, (ii) a Foreign Investment in Real Property Tax Act Certification and Affidavit substantially in the form of Exhibit C and (iii) an opinion from John D. McMahon, Esq., General Counsel of Seller or other counsel reasonably acceptable to Buyer, dated the Closing Date, substantially in the form set forth in Exhibit D;

(f) execution and delivery by Seller of each of (i) the Transition Capacity Agreement and the Zoning Lot Development Agreements, (ii) the A-11 License in a form reasonably satisfactory to Buyer and (iii) the NYPA Assignment, in a form and on terms reasonably satisfactory to Buyer;

(g) the Title Company shall be willing to issue to Buyer a New York form of ALTA (1992) Owner's Title Insurance Policy insuring fee title to the Buyer Real Estate in an amount equal to that portion of the Purchase Price properly allocable to Buyer Real Estate, subject only to the Permitted Exceptions; and

(h) Buyer shall have received originals of the ALTA/ ACSM Land Title Surveys which include the Buyer Real Estate in addition to other property, signed by the surveyor with Buyer's name and the name of not more than one other Party designated by Buyer added to the certification set forth thereon.

SECTION 8.03. Conditions Precedent to Obligation of Seller To Effect the Purchase and Sale. The obligation of Seller to effect the purchase and the sale of the Auctioned Assets contemplated by this Agreement shall be subject to the satisfaction or waiver by Seller on or prior to the Closing Date of the following additional conditions:

(a) Buyer shall have performed in all material respects its covenants and agreements contained in this Agreement which are required to be performed on or prior to the Closing Date;

(b) the representations and warranties of Buyer which are set forth in this Agreement shall be true and correct as of the date of this Agreement and as of the Closing Date, as if made at and as of such time (except to the extent expressly made as of an earlier date, in which case as of such date), except where the failure of such representations and warranties to be so true and correct (without giving effect to any limitation as to "materiality" or "Buyer Material Adverse Effect" set forth therein) would not, individually or in the aggregate, create a Buyer Material Adverse Effect;

(c) Seller shall have received a certificate from an authorized officer of Buyer, dated the Closing Date, to the effect that, to the best of such officer's knowledge, the conditions set forth in Sections 8.03(a) and (b) have been satisfied;

(d) Seller shall have received an opinion substantially in the form of Exhibit E dated as of the Closing Date and from counsel reasonably acceptable to Seller;

(e) execution and delivery by Buyer of each of (i) the Transition Capacity Agreement, the Arthur Kill Zoning Lot Development Agreement and, unless executed and delivered prior to the Closing Date, the Astoria Zoning Lot Development Agreement, (ii) the A-11 License in a form reasonably satisfactory to Seller and (iii) the NYPA Assignment, in a form and on terms reasonably satisfactory to Seller;

(f) Buyer shall have provided evidence in form and substance reasonably satisfactory to Seller of compliance by Buyer with its obligations under Article IX; and

(g) if Buyer has assigned its rights, interests and obligations under this Agreement in accordance with the terms hereof,

(i) Buyer and Seller shall have executed and delivered the Guarantee Agreement;

(ii) Guarantor shall have performed in all material respects its covenants and agreements contained in the Guarantee Agreement which are required to be performed on or prior to the Closing Date;

(iii) the representations and warranties of Guarantor which are set forth in the Guarantee Agreement shall be true and correct as of the date of the Guarantee Agreement and as of the Closing Date, as if made at and as of such time (except to the extent expressly made as of an earlier date, in which case as of such date), except where the failure of such representations and warranties to be so true and correct (without giving effect to any limitation as to "materiality" or "Guarantor Material Adverse Effect" set forth therein) would not, individually or in the aggregate, create a Guarantor Material Adverse Effect (as defined therein);

(iv) Seller shall have received a certificate from an authorized officer of Guarantor, dated the Closing Date, to the effect that, to the best of such officer's knowledge, the conditions set forth in Sections 8.03(g)(ii) and (iii) have been satisfied; and

(v) Seller shall have received an opinion substantially in the form of Exhibit K dated the Closing Date and from counsel reasonably acceptable to Seller.

ARTICLE IX

Employee Matters

SECTION 9.01. Employee Matters. (a) Buyer shall offer equivalent employment at the Auctioned Assets to those employees of Seller regularly assigned by Seller to work at the Auctioned Assets on the Closing Date in the job titles and facilities listed in Schedule 9.01(a)(all such employees described above and those individuals described in the following sentence being hereinafter referred to as "Affected Employees"). Affected Employees include each such employee of Seller who is not actively at work on the Closing Date due solely to a temporary short-term absence, whether paid or unpaid, in accordance with applicable policies of Seller, including as a result of vacation, holiday, personal time, leave of absence, union leave, short- or long-term disability leave, military leave or jury duty. Affected Employees shall cease to be employees of Seller on the Closing Date and their period of employment by Buyer shall begin on the Closing Date. Seller shall be responsible for any obligation to provide employee benefits to an Affected Employee prior to such employee's period of employment by Buyer.

All such offers of employment will be made (i) in accordance with all applicable laws and regulations, and (ii) for employees represented by Utility Workers' Union of America AFL-CIO and its Local Union 1-2 ("Local 1-2"), in accordance with the Local 1-2 Collective Bargaining Agreement (as defined in Schedule 9.01(b)) and (iii) for employees represented by Local Union No. 3 of the International Brotherhood of Electrical Workers, AFL-CIO ("Local 3"), in accordance with the Local 3 Collective Bargaining Agreement (as defined in Schedule 9.01(b)). Each Affected Employee who becomes employed by Buyer pursuant to this Section 9.01(a) shall be referred to herein as a "Continued

Employee".

Buyer may commence discussions concerning offers for employment beginning on the Closing Date to Affected Employees at any time following the date of this Agreement.

(b) Schedule 9.01(b) sets forth the collective bargaining agreements, and amendments thereto, to which Seller is a party in connection with the Auctioned Assets (the "Collective Bargaining Agreements"). Affected Employees who are included in the collective bargaining units covered by the Collective Bargaining Agreements are referred to herein as "Affected Union Employees". Each Continued Employee who is an Affected Union Employee shall be referred to herein as a "Continued Union Employee". On the Closing Date, Buyer will assume the terms and conditions of the Collective Bargaining Agreements, except as set forth in Section 9.02(b) below, as they relate to Affected Union Employees until the respective expiration dates of the Collective Bargaining Agreements. Buyer will comply with its legal obligations with respect to collective bargaining under Federal labor law for the employees at the Auctioned Assets in the job titles or related work responsibilities of the Affected Union Employees, and Buyer will comply with all applicable obligations thereunder as the new owner of the Auctioned Assets. Buyer shall recognize Local 1-2 and Local 3 as the exclusive collective bargaining representatives of the employees at the Auctioned Assets in the job titles or related work responsibilities of the Affected Union Employees and Buyer agrees that, should any other business entity (regardless of its relationship to Buyer) acquire all or a portion of the Auctioned Assets from Buyer prior to the expiration date of the respective Collective Bargaining Agreements, Buyer will require such business entity to (i) offer employment to Affected Union Employees employed by Buyer at the Auctioned Assets immediately prior to the change in ownership, (ii) recognize Local 1-2 and Local 3 as the exclusive collective bargaining representatives of Buyer's employees at the Auctioned Assets in the job titles and work responsibilities of the Affected Union Employees, and (iii) assume the terms and conditions of the Collective Bargaining Agreements as they relate to Affected Union Employees from the date of such acquisition through the expiration date of the Collective Bargaining Agreements.

SECTION 9.02. Continuation of Equivalent Benefit Plans/Credited Service. (a) For not less than three years following the Closing Date, Buyer shall maintain compensation (including base pay and bonus compensation) and employee benefits and employee benefit plans and arrangements for each Continued Employee who is not a Continued Union Employee (a "Continued Non-Union Employee") which are at least equivalent to those provided pursuant to the compensation, employee benefits and employee benefit plans and arrangements in effect on the Closing Date for the Affected Employees who are not Affected Union Employees. Such total compensation shall be based upon (x) such employee's existing individual base pay, (y) such employee's authorized overtime, if applicable, and (z) the average bonus and benefit component for such employee's salary plan level, as consistently applied by Seller, apportioned according to such employee's base pay. No provision of this Agreement shall affect any Continued Non-Union Employee's status as an employee-at-will.

(b) From the Closing Date until the expiration date of the applicable Collective Bargaining Agreement, Buyer shall provide to each Continued Union Employee benefits and employee benefit plans and arrangements which are equivalent to those provided under such Collective Bargaining Agreement or any other collective bargaining agreement entered into between Buyer and the applicable collective bargaining representatives for the employees at the Auctioned Assets in effect from time to time after the Closing Date. Such benefits, plans and arrangements include the following: (i) hospital, medical, dental, vision care and prescription drug benefits (including employee contributions to be made on a pre-tax basis), (ii) health care and dependent care flexible spending accounts; (iii) employer-provided basic group term life and accidental death and dismemberment insurance; (iv) employee-paid group universal life and spousal and dependent child life insurance; (v) sick allowance (short term disability) and long term disability benefits; (vi) business travel accident insurance and crime protection insurance; (vii) occupational accidental death insurance; (viii) adoption benefits and child care and elder care referral benefits; (ix) tuition aid benefits; (x) vacation and holidays; (xi) employee stock purchase plan (including employer matching contributions) and (xii) defined benefit pension and 401(k) plan benefits. In providing such benefits, Buyer shall have the right, subject to any applicable laws, to use different providers from those used by Seller and to establish Buyer's own benefit plans or use Buyer's existing benefit plans. For purposes hereof, except as provided in Section 9.04(b), Buyer shall have no obligation to maintain a fund holding or measured by common stock of Seller's parent under any of Buyer's plans or arrangements, notwithstanding any such fund maintained by Seller under its plans and arrangements.

(c) Continued Employees shall be given credit by Buyer for all service with Seller and its Affiliates under all existing or future employee benefit and fringe benefit plans, programs and arrangements of the Buyer ("Buyer Benefit Plans") in which they become participants. The service credit given by Buyer shall be for purposes of eligibility, vesting, eligibility for early retirement and early retirement subsidies, benefit accrual and service-related level of benefits. Buyer shall assume and honor all vacation, sick and personal days accrued and unused by Continued Employees through the Closing Date in accordance with Seller's applicable policies and arrangements.

SECTION 9.03. Pension Plan. (a) Effective as of the Closing Date, Buyer shall have in effect defined benefit pension plans ("Buyer's Pension Plans") intended to be (i) qualified pursuant to Section 401(a) of the Code and (ii) nonqualified, in order to provide for benefits which would otherwise be payable under the applicable qualified plan but for the application of Sections 401(a)(17) and 415 of the Code, providing benefits

as of the Closing Date identical in all material respects (except for such changes as may be required by law) to the benefits provided to them under Seller's Pension Plans (as defined below), in particular (x) for Continued Non-Union Employees, such Buyer's Pension Plans to provide benefits identical in all material respects to those benefits provided under Seller's Retirement Plan for Management Employees and Seller's Supplemental Retirement Income Plan, and (y) for Continued Union Employees, such Buyer's Pension Plans to provide benefits identical in all material respects to those provided under Seller's Pension and Benefits Plan (collectively, "Seller's Pension Plans"), in each case, as of the Closing Date. Buyer acknowledges and agrees that one such material respect is to count age after termination of employment for purposes of satisfying requirements for early retirement eligibility and early retirement subsidies.

(b) Continued Employees participating in Seller's Pension Plans immediately prior to the Closing Date shall become participants in Buyer's Pension Plans as of the Closing Date. Without limiting the generality of Section 9.02(c), Continued Employees shall receive credit for all compensation and service with Seller (subject to the terms of Seller's Pension Plans) for purposes of eligibility for participation, vesting, eligibility for early retirement and early retirement subsidies and benefit accrual under Buyer's Pension Plans. Seller shall be responsible for Continued Employees' pension benefits accrued up to the Closing Date, and Buyer shall be responsible for pension benefits accrued by such Continued Employees on and after the Closing Date as provided herein. Buyer may offset against the accrued benefits determined under Buyer's Pension Plans the accrued benefits determined under Seller's Pension Plans. For the purpose of this Section 9.03(b), "accrued benefit" means the amount that would be paid as a life annuity at normal retirement age irrespective of the date of actual distribution from either Seller's or Buyer's Pension Plans. Seller shall make pension distributions to Continued Employees of the vested portion of their accrued benefits in accordance with the terms of Seller's Pension Plans as in effect from time to time. As soon as reasonably practicable following the Closing Date, Seller shall provide Buyer a list showing, as of the Closing Date, the accrued benefit of each Continued Employee under Seller's Pension Plans.

(c) In the event that any other business entity (regardless of its relationship to Buyer) acquires all or a portion of the Auctioned Assets from Buyer at any time prior to the third anniversary of the Closing Date in the case of Continued Non-Union Employees and prior to the expiration date of the applicable Collective Bargaining Agreement in the case of Continued Union Employees, Buyer will require such entity to maintain the defined benefit plans, provide the benefits and recognize compensation and service with Seller and Buyer to the same extent as Buyer is required under Sections 9.03(a) and (b) above.

SECTION 9.04. 401(k) Plan. (a) Effective as of the Closing Date, Buyer shall have in effect tax-qualified defined contribution plans that include a qualified cash or deferred arrangement within the meaning of Section 401(k) of the Code ("Buyer's 401(k) Plans") that will provide benefits that are identical in all material respects (except for such changes as may be required by law) to those provided by (i) Seller's Thrift Savings Plan for Management Employees, in the case of Continued Non-Union Employees, and (ii) Seller's Retirement Income Savings Plan for Weekly Employees, in the case of Continued Union Employees (such Seller plans herein referred to collectively as "Seller's 401(k) Plans"), in each case, as of the Closing Date. Each Continued Employee participating in Seller's 401(k) Plans immediately prior to the Closing Date shall become a participant in Buyer's 401(k) Plans as of the Closing Date. Continued Employees shall receive credit for all service with Seller for purposes of eligibility and vesting under Buyer's 401(k) Plans.

(b) At such time after the Closing Date as Seller is reasonably satisfied that Buyer's 401(k) Plans meet the requirements for qualification under Section 401(a) of the Code, Seller shall cause to be transferred to Buyer's 401(k) Plans in a trust-to-trust transfer in common stock of Seller's parent (as provided in the following sentence) and cash (or other property reasonably acceptable to Buyer) an amount equal to the value of the assets held in the accounts of all Continued Employees (including any outstanding loan balances of Continued Employees in Seller's 401(k) Plans), subject to any qualified domestic relations orders. In connection therewith, Buyer shall establish an investment fund under Buyer's 401(k) Plans to which shall be transferred the shares of common stock of Seller's parent (or any successor thereto) which, as of the date of transfer, are credited to the accounts of the Continued Employees under Seller's 401(k) Plans. After the Closing Date and prior to any such transfer, Buyer shall cooperate with Seller in the administration of distributions to and loan repayments by Continued Employees. Prior to such transfer of assets, Seller shall vest any unvested benefits of Continued Employees under Seller's 401(k) Plans. Following any such transfer of assets, Buyer shall assume all obligations and liabilities of Seller under Seller's 401(k) Plans with respect to such Continued Employees, and Seller shall have no further liability to Buyer or any Continued Employee with respect thereto.

SECTION 9.05. Welfare Plans. (a) Continued Employees and their dependents who are eligible to participate in Seller's current welfare benefits plans, programs or arrangements shall be eligible to participate in the welfare benefits plans, programs or arrangements maintained or established by Buyer ("Buyer's Welfare Plans"), effective as of the Closing Date. Effective as of the Closing Date, any and all limitations as to pre-existing conditions and actively-at-work exclusions and waiting periods under Buyer's Welfare Plans shall be waived by Buyer with respect to Continued Employees and their eligible dependents to the extent satisfied under Seller's applicable Welfare Plans. In addition, effective as of the Closing Date, Buyer shall cause Buyer's Welfare Plans to recognize any out-of-pocket health care expenses incurred by Continued Employees and their eligible dependents prior to the Closing Date and

during the calendar year in which such Closing Date occurs for purposes of determining their deductibles and out-of-pocket maximums under Buyer's Welfare Plans. Seller shall retain responsibility under Seller's welfare plans for claims relating to expenses incurred by Continued Employees and their eligible dependents prior to the Closing Date. Buyer shall have responsibility under Buyer's Welfare Plans for claims relating to expenses incurred by Continued Employees and their eligible dependents on and after the Closing Date.

(b) Effective as of the Closing Date, Buyer shall have in effect health care and dependent care reimbursement account plans for the benefit of each Continued Employee, the terms of which shall (i) be identical in all material respects to the Flexible Reimbursement Account Plans for Management and Weekly Employees of Seller ("Seller's Reimbursement Account Plans") as in effect on the Closing Date and (ii) give full effect to, and continue in effect, salary reduction elections made under Seller's Reimbursement Account Plans. Prior to the Closing Date, Seller shall cause the accounts of Continued Employees under Seller's Reimbursement Account Plans to be segregated into separate health care and dependent care reimbursement accounts (the "Segregated Reimbursement Accounts"), and such Segregated Reimbursement Accounts shall be transferred to and assumed by Buyer as of the Closing Date.

(c) Buyer shall, subject to any applicable laws, provide a retiree health program identical in all material respects to Seller's retiree health program as in effect on the Closing Date to each Continued Employee who terminates his employment with Buyer within three years after the Closing Date, in the case of a Continued Non-Union Employee, and on or prior to the expiration date of the applicable Collective Bargaining Agreement, in the case of a Continued Union Employee, and, in each case, who at the time of such termination of employment satisfies the eligibility requirements for such retiree health program provided by Buyer; provided, however, that Seller shall remain liable, pursuant to Seller's retiree health program, for all Continued Employees who satisfy, as of the Closing Date, the eligibility requirements then in effect for Seller's retiree health program.

SECTION 9.06. Short- and Long-Term Disability. Effective as of the Closing Date, Buyer shall have in effect short- and long-term disability plans for the benefit of Continued Employees, the cost of which to Continued Employees shall be the same as under, and the terms of which are identical in all material respects to, Seller's applicable plans as in effect as of the Closing Date. Any and all waiting periods and pre-existing condition clauses shall be waived under Buyer's short- and long-term disability plans with respect to Continued Employees.

SECTION 9.07. Life Insurance and Accidental Death and Dismemberment Insurance. Effective as of the Closing Date, Buyer shall have in effect group term life insurance, group universal life insurance, accidental death and dismemberment insurance, occupational accidental death insurance, business travel accident insurance and crime protection insurance plans for the benefit of Continued Employees, the cost of which to Continued Employees shall be the same as under, and terms of which are identical in all material respects to, Seller's applicable plans that provide such benefits to Continued Employees immediately prior to the Closing Date.

SECTION 9.08. Severance. (a) Effective as of the Closing Date, Buyer shall have in effect a severance plan covering Continued Non-Union Employees that contains terms identical in all material respects to those under Seller's Severance Pay Plan for Management Employees as of the Closing Date.

(b) Buyer shall, subject to any applicable laws, provide a special separation allowance for any Continued Employee whose employment with Buyer is terminated involuntarily by Buyer other than for cause on or prior to, in the case of Continued Non-Union Employees, three years after the Closing Date and, in the case of Continued Union Employees, the expiration date of the applicable Collective Bargaining Agreement. Such allowance shall be not less than the sum of four weeks pay plus one week pay for each completed year of service (as determined by aggregating each affected individual's respective service with Seller and Buyer) and shall be payable by Buyer in a lump sum within 30 days after termination of employment. In addition, in the case of each Continued Non-Union Employee described in the first sentence of this Section 9.08(b), Buyer shall pay the Continued Non-Union Employee a lump sum equal to the excess of (i) the actuarial equivalent of the Employee's "potential benefit" under the applicable Buyer's Pension Plans, which such Employee would receive if such Employee's employment continued until three years after the Closing Date and such Employee's base and incentive compensation for such deemed additional period was the same as in effect on the date of such Employee's termination of employment with Buyer, over (ii) the actuarial equivalent of such Employee's "actual benefit" under the applicable Buyer's Pension Plans, as of the date of such Employee's termination of employment from Buyer. For the purpose of the foregoing sentence, (i) the term "potential benefit" shall refer to the monthly pension that would have been payable to the applicable Employee commencing on the first day of the month following the latest of (A) the last day of the deemed additional period, (B) Employee's attainment of age 55, or (C) the earlier of (1) the first date as of which the sum of such Employee's age and years of service, as taken into account in determining the actuarial reduction for commencement prior to normal retirement age that is to be applied to his accrued benefit under the applicable Buyer's Pension Plans, equals 75 or (2) such Employee's attainment of age 65, (ii) the term "actual benefit" shall refer to the monthly pension payable to such Employee under the applicable Buyer's Pension Plans commencing as of the date determined in accordance with clause (i) of this sentence, and (iii) the actuarial equivalent of the "potential benefit" and the "actual benefit" shall each be a lump sum payable as of the date of such Employee's termination of employment from Buyer, determined on the basis of the interest rate used to determine the

amount of lump sum distributions and, to the extent applicable, other actuarial assumptions then in effect under the applicable Buyer's Pension Plans. Buyer shall also provide outplacement services to such terminated Continued Non-Union Employee appropriate to the level of the Employee's position and job responsibilities. Buyer shall also continue to provide or cause to be provided to any such terminated Continued Employee health insurance coverage and group term and universal life insurance coverage at the same rates as for active Continued Employees for a period equal to the number of weeks of separation allowance which any such terminated Continued Employee is entitled to from Buyer. Buyer shall have the right to require a release in form reasonably satisfactory to Buyer as a condition for eligibility to receive such separation allowance. The allowance shall not apply to Continued Employees whose employment is terminated due to death or expiration of sick allowance or other authorized leave of absence or who terminate employment voluntarily. If at any time during the three-year period following the Closing Date, Buyer shall assign a Continued Non-Union Employee to work on a regular basis at a location that is more than fifty miles from the location to which such Employee is assigned as of the Closing Date, Buyer shall offer such Employee the option to terminate employment and receive the severance benefits set forth in this Section 9.08(b) in lieu of the reassignment.

SECTION 9.09. Workers Compensation. Effective as of the Closing Date, Buyer shall have in effect a workers compensation program for Continued Employees that shall provide coverage identical in all material respects to Seller's workers compensation program as of the Closing Date.

ARTICLE X

Indemnification and Dispute Resolution

SECTION 10.01. Indemnification. (a) Seller will indemnify and hold harmless Buyer and its Affiliates and their respective directors, officers, employees and agents (collectively with Buyer and its Affiliates, the "Buyer Indemnitees") from and against any and all claims, demands or suits by any person, and all losses, liabilities, damages, obligations, payments, costs and expenses (including reasonable legal fees and expenses and including costs and expenses incurred in connection with investigations and settlement proceedings) (each, an "Indemnifiable Loss"), as incurred, asserted against or suffered by any Buyer Indemnitee relating to, resulting from or arising out of:

(i) any breach by Seller of any covenant or agreement of Seller contained in this Agreement or, prior to their expiration in accordance with Section 12.03, the representations and warranties contained in Sections 5.01, 5.02, 5.03 and 5.17;

(ii) the Retained Liabilities;

(iii) noncompliance by Seller with any bulk sales or transfer laws as provided in Section 7.07; or

(iv) any breach by Seller of any Ancillary Agreement.

(b) Buyer will indemnify and hold harmless Seller and its Affiliates and their respective directors, officers, trustees, employees and agents (collectively with Seller and its Affiliates, the "Seller Indemnitees") from and against any and all Indemnifiable Losses, as incurred, asserted against or suffered by any Seller Indemnitee relating to, resulting from or arising out of:

(i) any breach by Buyer of any covenant or agreement of Buyer contained in this Agreement or, prior to their expiration in accordance with Section 12.03, the representations and warranties contained in Sections 6.01, 6.02, 6.03 and 6.04;

(ii) the Assumed Obligations;

(iii) any obligation resulting from any action or inaction of Buyer (A) under any Contract or warranty pursuant to Section 2.04(b) (whether acting as principal or representative and agent for Seller pursuant to Section 2.04(b) or otherwise) or (B) pursuant to any Transferable Permit in respect of which Seller remains the holder of record after the Closing Date pursuant to Section 7.03(c); or

(iv) any breach by Buyer of any Ancillary Agreement.

(c) The amount of any Indemnifiable Loss shall be reduced to the extent that the relevant Buyer Indemnitee or Seller Indemnitee (each, an "Indemnitee") receives any insurance proceeds with respect to an Indemnifiable Loss and shall be (i) increased to take account of any Tax Cost incurred by the Indemnitee arising from the receipt of indemnity payments hereunder (grossed up for such increase) and (ii) reduced to take account of any Tax Benefit realized by the Indemnitee arising from the incurrence or payment of any such Indemnifiable Loss. If the amount of any Indemnifiable Loss, at any time subsequent to the making of an indemnity payment in respect thereof, is reduced by recovery, settlement or otherwise under or pursuant to any insurance coverage, or pursuant to any claim, recovery, settlement or payment by or against any other person, the amount of such reduction, less any costs, expenses or premiums incurred in connection therewith, will promptly be repaid by the Indemnitee to the Party required to provide indemnification hereunder (the "Indemnifying Party") with respect to such Indemnifiable Loss.

(d) To the fullest extent permitted by law, neither Party nor any Buyer Indemnitee or any Seller Indemnitee shall be liable to the other Party or any other Buyer Indemnitee or Seller Indemnitee for any claims, demands or suits for consequential, incidental, special, exemplary,

punitive, indirect or multiple damages connected with or resulting from any breach after the Closing Date of this Agreement or the Ancillary Agreements (other than breach of this Article X), or any actions undertaken in connection with or related hereto or thereto, including any such damages which are based upon breach of contract, tort (including negligence and misrepresentation), breach of warranty, strict liability, statute, operation of law or any other theory of recovery.

(e) The rights and remedies of Seller and Buyer under this Article X are, solely as between Seller and Buyer, exclusive and in lieu of any and all other rights and remedies which Seller and Buyer may have under this Agreement, the Ancillary Agreements (except as expressly provided in either Continuing Site Agreement or either Declaration of Easements Agreement) or otherwise for monetary relief with respect to (i) any breach of, or failure to perform, any covenant or agreement set forth in this Agreement or the Ancillary Agreements by Seller or Buyer, (ii) any breach of any representation or warranty by Seller or Buyer, (iii) the Assumed Obligations or the Retained Liabilities, (iv) noncompliance by Seller with any bulk sales or transfer laws and (v) any obligation in respect of Section 2.04 or Section 7.03. Each Party agrees that the previous sentence shall not limit or otherwise affect any non-monetary right or remedy which either Party may have under this Agreement or the Ancillary Agreements or otherwise limit or affect either Party's right to seek equitable relief, including the remedy of specific performance.

(f) Buyer and Seller agree that, notwithstanding Section 10.01(e), each Party shall retain, subject to the other provisions of this Agreement, including Sections 10.01(d) and 12.03, all remedies at law or in equity with respect to (i) fraud or wilful or intentional breaches of this Agreement or the Ancillary Agreements and (ii) gross negligence or wilful or wanton acts or omissions to act of any Indemnitee (or any contractor or subcontractor thereof) on or after the Closing Date.

SECTION 10.02. Third Party Claims Procedures. (a) If any Indemnitee receives notice of the assertion of any claim or of the commencement of any claim, action, or proceeding made or brought by any person who is not a Party or an Affiliate of a Party (a "Third Party Claim") with respect to which indemnification is to be sought from an Indemnifying Party, the Indemnitee will give such Indemnifying Party reasonably prompt written notice thereof, but in any event not later than 20 Business Days after the Indemnitee's receipt of notice of such Third Party Claim; provided, however, that a failure to give timely notice will not affect the rights or obligations of any Indemnitee except if, and only to the extent that, as a result of such failure, the Indemnifying Party was actually prejudiced. Such notice shall describe the nature of the Third Party Claim in reasonable detail and will indicate the estimated amount, if practicable, of the Indemnifiable Loss that has been or may be sustained by the Indemnitee.

(b) If a Third Party Claim is made against an Indemnitee, the Indemnifying Party will be entitled to participate in the defense thereof and, if it so chooses, to assume the defense thereof with counsel selected by the Indemnifying Party; provided, however, that such counsel is not reasonably objected to by the Indemnitee; and provided further that the Indemnifying Party first admits in writing its liability to the Indemnitee with respect to all material elements of such claim. Should the Indemnifying Party so elect to assume the defense of a Third Party Claim, the Indemnifying Party will not be liable to the Indemnitee for any legal expenses subsequently incurred by the Indemnitee in connection with the defense thereof. If the Indemnifying Party elects to assume the defense of a Third Party Claim, the Indemnitee will (i) cooperate in all reasonable respects with the Indemnifying Party in connection with such defense, (ii) not admit any liability with respect to, or settle, compromise or discharge, any Third Party Claim without the Indemnifying Party's prior written consent and (iii) agree to any settlement, compromise or discharge of a Third Party Claim which the Indemnifying Party may recommend and which by its terms obligates the Indemnifying Party to pay the full amount of the liability in connection with such Third Party Claim and releases the Indemnitee completely in connection with such Third Party Claim. In the event the Indemnifying Party shall assume the defense of any Third Party Claim, the Indemnitee shall be entitled to participate in (but not control) such defense with its own counsel at its own expense. If the Indemnifying Party does not assume the defense of any such Third Party Claim, the Indemnitee may defend the same in such manner as it may deem appropriate, including settling such claim or litigation after giving notice to the Indemnifying Party of the terms of the proposed settlement and the Indemnifying Party will promptly reimburse the Indemnitee upon written request. Anything contained in this Agreement to the contrary notwithstanding, no Indemnifying Party shall be entitled to assume the defense of any Third Party Claim if such Third Party Claim seeks an order, injunction or other equitable relief or relief for other than monetary damages against the Indemnitee which, if successful, would materially adversely affect the business of the Indemnitee.

ARTICLE XI

Termination

SECTION 11.01. Termination. (a) This Agreement may be terminated at any time prior to the Closing by an instrument in writing signed on behalf of each of the Parties.

(b) This Agreement may be terminated by Seller or Buyer if the Closing shall not have occurred on or before the date that is 12 months from the date of this Agreement (the "Termination Date"); provided, however, that the right to terminate this Agreement pursuant to this Section 11.01(b) shall not be available to any Party whose failure to fulfill any obligation under this Agreement has been the cause of, or resulted in, the failure of the Closing to occur on or before such date.

(c) This Agreement may be terminated by either Seller or Buyer if any Restraint having any of the effects set forth in Section 8.01(b) shall be in effect and shall have become final and nonappealable; provided, however, that the Party seeking to terminate this Agreement pursuant to this Section 11.01(c) shall have used its reasonable best efforts to prevent the entry of and to remove such Restraint.

ARTICLE XII

Miscellaneous Provisions

SECTION 12.01. Expenses. Except to the extent specifically provided herein, all costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be borne by the Party incurring such costs and expenses, whether or not the transactions contemplated hereby are consummated.

SECTION 12.02. Amendment and Modification; Extension; Waiver. This Agreement may be amended, modified or supplemented only by an instrument in writing signed on behalf of each of the Parties. Either Party may (i) extend the time for the performance of any of the obligations or other acts of the other Party, (ii) waive any inaccuracies in the representations and warranties of the other Party contained in this Agreement or (iii) waive compliance by the other Party with any of the agreements or conditions contained in this Agreement. Any agreement on the part of a Party to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such Party. The failure of a Party to this Agreement to assert any of its rights under this Agreement or otherwise shall not constitute a waiver of such rights.

SECTION 12.03. No Survival of Representations or Warranties. Each and every representation and warranty contained in this Agreement, other than the representations and warranties contained in Sections 5.01, 5.02, 5.03 and 5.17 and 6.01, 6.02, 6.03 and 6.04 (which representations and warranties shall survive for 18 months from the Closing Date), shall expire with, and be terminated and extinguished by the Closing and no such representation or warranty shall survive the Closing Date. From and after the Closing Date, none of Seller, Buyer or any officer, director, trustee or Affiliate of any of them shall have any liability whatsoever with respect to any such representation or warranty. The expiration of the representations and warranties contained in Sections 5.01, 5.02, 5.03 and 5.17 and 6.01, 6.02, 6.03 and 6.04 shall not affect the Parties' obligations under Article X if the Indemnitee provided the Indemnifying Party with proper notice of the claim or event for which indemnification is sought prior to such expiration.

SECTION 12.04. Notices. All notices and other communications hereunder shall be in writing and shall be deemed given (as of the time of delivery or, in the case of a telecopied communication, of confirmation) if delivered personally, telecopied (which is confirmed) or sent by overnight courier (providing proof of delivery) to the Parties at the following addresses (or at such other address for a Party as shall be specified by like notice):

if to Seller, to:

Consolidated Edison Company of New York, Inc.
4 Irving Place
New York, NY 10003
Telecopy No.: (212) 677-0601
Attention: General Counsel

with a copy on or prior to the Closing Date to:

Cravath, Swaine & Moore
825 Eighth Avenue
New York, NY 10019
Telecopy No.: (212) 474-3700
Attention: George W. Bilicic, Jr., Esq.

if to Buyer, to:

NRG Energy, Inc.
1221 Nicollet Mall, Suite 700
Minneapolis, MN 55403-2445
Telecopy No.: (612) 373-5392
Attention: General Counsel

with a copy to:

NRG North America
1221 Nicollet Mall, Suite 700
Minneapolis, MN 55403-2445
Telecopy No.: (612) 373-5430
Attention: President & CEO

with a copy to:

Dorsey & Whitney LLP
Pillsbury Center South
220 South Sixth Street
Minneapolis, MN 55402-1498
Telecopy No.: (612) 340-8738
Attention: Frank H. Voigt

SECTION 12.05. Assignment; No Third Party Beneficiaries. (a) This Agreement and all of the provisions hereof shall be binding upon and

inure to the benefit of the Parties and their respective successors and permitted assigns, but neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any Party, including by operation of law, without the prior written consent of the other Party, except (i) in the case of Seller (A) to an Affiliate of Seller or a third party in connection with the transfer of the Transmission System to such Affiliate or third party or (B) to a lending institution or trustee in connection with a pledge or granting of a security interest in all or any part of the Transmission System and this Agreement and (ii) in the case of Buyer (A) to an Affiliate of Buyer in connection with the transfer of the Auctioned Assets to such Affiliate and (B) to a lending institution or trustee in connection with a pledge or granting of a security interest in the Auctioned Assets and this Agreement; provided, however, that no assignment or transfer of rights or obligations by either Party shall relieve it from the full liabilities and the full financial responsibility, as provided for under this Agreement, unless and until the transferee or assignee shall agree in writing to assume such obligations and duties and the other Party has consented in writing to such assumption.

(b) Nothing in this Agreement is intended to confer upon any other person except the Parties any rights or remedies hereunder or shall create any third party beneficiary rights in any person, including, with respect to continued or resumed employment, any employee or former employee of Seller (including any beneficiary or dependent thereof). No provision of this Agreement shall create any rights in any such persons in respect of any benefits that may be provided, directly or indirectly, under any employee benefit plan or arrangement except as expressly provided for thereunder.

SECTION 12.06. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York (regardless of the laws that might otherwise govern under applicable principles of conflicts of law).

SECTION 12.07. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

SECTION 12.08. Interpretation. When a reference is made in this Agreement to an Article, Section, Schedule or Exhibit, such reference shall be to an Article or Section of, or Schedule or Exhibit to, this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words "include", "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation" or equivalent words. The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. All terms defined in this Agreement shall have the defined meanings when used in the Ancillary Agreements and any certificate or other document made or delivered pursuant hereto or thereto unless otherwise defined therein. The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms and to the masculine as well as to the feminine and neuter genders of such term. Any agreement, instrument, statute, regulation, rule or order defined or referred to herein or in any agreement or instrument that is referred to herein means such agreement, instrument, statute, regulation, rule or order as from time to time amended, modified or supplemented, including (in the case of agreements or instruments) by waiver or consent and (in the case of statutes, regulations, rules or orders) by succession of comparable successor statutes, regulations, rules or orders and references to all attachments thereto and instruments incorporated therein. References to a person are also to its permitted successors and assigns.

SECTION 12.09. Jurisdiction and Enforcement. (a) Each of the Parties irrevocably submits to the exclusive jurisdiction of (i) the Supreme Court of the State of New York, New York County and (ii) the United States District Court for the Southern District of New York, for the purposes of any suit, action or other proceeding arising out of this Agreement or any transaction contemplated hereby. Each of the Parties agrees to commence any action, suit or proceeding relating hereto either in the United States District Court for the Southern District of New York or, if such suit, action or proceeding may not be brought in such court for jurisdictional reasons, in the Supreme Court of the State of New York, New York County. Each of the Parties further agrees that service of process, summons, notice or document by hand delivery or U.S. registered mail at the address specified for such Party in Section 12.04 (or such other address specified by such Party from time to time pursuant to Section 12.04) shall be effective service of process for any action, suit or proceeding brought against such Party in any such court. Each of the Parties irrevocably and unconditionally waives any objection to the laying of venue of any action, suit or proceeding arising out of this Agreement or the transactions contemplated hereby in (i) the Supreme Court of the State of New York, New York County, or (ii) the United States District Court for the Southern District of New York, and hereby further irrevocably and unconditionally waives and agrees not to plead or claim in any such court that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum.

(b) The Parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement or any Ancillary Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the Parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement or any Ancillary Agreement and to enforce specifically the terms and provisions of this Agreement or any Ancillary Agreement, this being in addition to any other remedy to which they are entitled at law or in

equity.

SECTION 12.10. Entire Agreement. This Agreement, the Confidentiality Agreement and the Ancillary Agreements including the Exhibits, Schedules, documents, certificates and instruments referred to herein or therein and other contracts, agreements and instruments contemplated hereby or thereby, embody the entire agreement and understanding of the Parties in respect of the transactions contemplated by this Agreement. There are no restrictions, promises, representations, warranties, covenants or undertakings other than those expressly set forth or referred to herein or therein. This Agreement and the Ancillary Agreements supersede all prior agreements and understandings between the Parties with respect to the transactions contemplated by this Agreement other than the Confidentiality Agreement.

SECTION 12.11. Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the Parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible to the fullest extent permitted by applicable law in an acceptable manner to the end that the transactions contemplated hereby are fulfilled to the extent possible.

SECTION 12.12. Conflicts. Except as expressly otherwise provided herein or therein, in the event of any conflict or inconsistency between the terms of this Agreement and the terms of any Ancillary Agreement, the terms of this Agreement shall prevail.

IN WITNESS WHEREOF, Seller and Buyer have caused this Agreement to be signed by their respective duly authorized officers as of the date first above written.

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.,

by /s/ Joan S. Freilich
Name: Joan S. Freilich
Title: Executive Vice Presient and CFO

NRG ENERGY, INC.,

by /s/ Craig A. Mataczynski
Name: Craig A. Mataczynski
Title: Senior Vice President

GENERATING PLANT
AND GAS TURBINE
ASSET PURCHASE AND SALE AGREEMENT

FOR

ASTORIA GENERATING PLANTS
LOCATED AT ASTORIA, QUEENS COUNTY, NEW YORK,
GOWANUS GAS TURBINES
LOCATED AT BROOKLYN, KINGS COUNTY, NEW YORK
AND
NARROWS GAS TURBINES
LOCATED AT BROOKLYN, KINGS COUNTY, NEW YORK

By and Between

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.
and

ASTORIA GENERATING COMPANY, L.P.

Dated as of March 2, 1999

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Schedule 2.02(a)(iii)(A)	Buyer Personal Property Located on Buyer Real Estate
Schedule 2.02(a)(iii)(B)	Buyer Personal Property Located on Seller Real Estate
Schedule 2.02(a)(iii)(C)	Buyer Personal Property Located on NYPA Real Estate
Schedule 2.02(a)(iii)(D)	NYPA Personal Property
Schedule 2.02(a)(iv)	Assigned Contracts
Schedule 2.02(a)(v)	Transferable Permits
Schedule 2.02(a)(vi)	SO2 Allowances
Schedule 2.02(b)(ii)(A)	Seller Personal Property Located on Buyer Real Estate
Schedule 2.02(b)(ii)(C)	Communications Equipment
Schedule 2.03(a)(iv)	Seller Consent Orders
Schedule 2.03(a)(xii)	Assumed Seller Obligations under NYPA Agreements
Schedule 2.05(a)	Franchise Property
Schedule 5.03(a)	Contracts Requiring Third Party Consents
Schedule 5.08(a)	Material Contracts
Schedule 5.09	Legal Proceedings
Schedule 5.10(a)(i)	Exceptions Under Permits
Schedule 5.10(a)(ii)	Non-Environmental Violations
Schedule 5.10(b)	Nontransferable Permits and Environmental Permits
Schedule 5.11	Environmental Matters
Schedule 5.13	Benefit Plans
Schedule 5.15(a)	Exceptions to Independent Engineering Assessment
Schedule 5.15(b)	Changes to Auctioned Assets
Schedule 5.16	Other Undisclosed Liabilities
Schedule 7.14	Rights and Interests under NYPA Agreements
Schedule 7.15	Narrows
Schedule 9.01(a)	Job Titles
Schedule 9.01(b)	Collective Bargaining Agreements

Exhibit A-1	Form of Astoria Zoning Lot Development Agreement between Seller and Arthur Kill Acquiror
Exhibit A-2	Form of Astoria Zoning Lot Development Agreement between Seller and Buyer
Exhibit A-3	Form of Gowanus Zoning Lot Development Agreement between Seller and Buyer
Exhibit B-1	Form of Deed of Conveyance for Queens County
Exhibit B-2	Form of Deed of Conveyance for Kings County
Exhibit C	Form of FIRPTA Affidavit
Exhibit D	Form of Opinion of John D. McMahon, Esq., General Counsel of Seller
Exhibit E	Form of Opinion of Counsel to Buyer
Exhibit F	Summary of Terms and Conditions for License for A-10 Dock between Seller and Buyer
Exhibit G	Form of Transition Capacity Agreement between Seller and Buyer
Exhibit H	Summary of Terms and Conditions for License for A-0 Dock between Seller and Buyer
Exhibit I	Form of Astoria Declaration of Subdivision Easements
Exhibit J	Form of Gowanus Declaration of Subdivision Easements
Exhibit K	Form of Guarantee Agreement
Exhibit L	Form of Opinion of Counsel to Guarantor

GENERATING PLANT AND GAS TURBINE ASSET PURCHASE AND SALE AGREEMENT (including the Schedules hereto, this "Agreement"), dated as of March 2, 1999, by and between CONSOLIDATED EDISON COMPANY OF NEW YORK, INC., a New York corporation ("Seller"), and ASTORIA GENERATING COMPANY, L.P., a Delaware limited partnership ("Buyer", collectively with Seller, the "Parties").

WHEREAS Seller has offered the Auctioned Assets (as defined herein) for sale at auction pursuant to the Order Authorizing the Process for Auctioning of Generation Plant issued by the PSC (as defined herein) and effective as of July 21, 1998; and

WHEREAS Buyer desires to purchase, and Seller desires to sell, the Auctioned Assets upon the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual covenants, representations, warranties and agreements hereinafter set forth, and intending to be legally bound hereby, the Parties agree as follows:

ARTICLE I

Definitions

SECTION 1.01. Definitions. (a) As used in this Agreement, the following terms have the following meanings:

"A-0 License" means the license from Buyer to Seller in respect of the A-0 dock at Astoria, the material terms of which shall be substantially as set forth in Exhibit H.

"A-10 License" means the license from Seller to Buyer in respect of the A-10 dock at Astoria, the material terms of which shall be substantially as set forth in Exhibit F.

"Accountants" shall have the meaning set forth in Section 3.02(b).

"Adjustment Amount" shall have the meaning set forth in Section 3.02(a).

"Adjustment Date" shall have the meaning set forth in Section 3.02(c).

"Adjustment Statement" shall have the meaning set forth in Section 3.02(a).

"Affected Employees" shall have the meaning set forth in Section 9.01(a).

"Affected Union Employees" shall have the meaning set forth in Section 9.01(b).

"Affiliate" shall have the meaning set forth in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended.

"Agreement" shall have the meaning set forth in the Preamble.

"Allocation" shall have the meaning set forth in Section 3.03.

"Ancillary Agreements" means the Continuing Site Agreements, the Declaration of Easements Agreements, the Declarations of Subdivision Easements, the Zoning Lot Development Agreements, the Transition Capacity Agreement, the deeds contemplated by Section 8.02(e)(i) and any other agreement to which Buyer and Seller are party and which is expressly identified by its terms as an Ancillary Agreement hereunder.

"Applicable Law" shall have the meaning set forth in Section 3.03.

"Arthur Kill Acquiror" means the person referred to as "Buyer" in the Generating Plant and Gas Turbine Asset Purchase and Sale Agreement for Arthur Kill Generating Plants and Astoria Gas Turbines between Seller and such person.

"Assumed Consent Order Obligations" shall have the meaning set forth in Section 2.03(a)(iv).

"Assumed Obligations" shall have the meaning set forth in Section 2.03(a).

"Assumed Seller Obligations Under NYPA Agreements" shall have the meaning set forth in Section 2.03(a)(xii). "Astoria Continuing Site Agreement" means the Astoria Continuing Site Agreement dated as of even date herewith between Seller and Buyer.

"Astoria Declaration of Easements" means the Astoria Declaration of Easements by Seller dated as of January 27, 1999, as amended.

"Astoria Declaration of Subdivision Easements" means the Astoria Declaration of Subdivision Easements to be made by Seller substantially in the form of Exhibit I, except for changes required by any Governmental Authority to the extent that no such change materially and adversely impairs the continued use and operation of the Auctioned Assets as currently conducted.

"Astoria Zoning Lot Development Agreement" means (a) the Astoria Zoning Lot Development Agreement between Seller and Arthur Kill Acquiror, in the form of Exhibit A-1, if executed and delivered prior to the Closing Date or (b) the Astoria Zoning Lot Development Agreement between Seller and Buyer, in the form of Exhibit A-2.

"Auctioned Assets" shall have the meaning set forth in Section 2.02(a).

"Benefit Plans" shall have the meaning set forth in Section 5.13.

"Bidder Confidentiality Agreements" shall have the meaning set forth in Section 7.02(b).

"Business Day" means any day other than Saturday, Sunday and any day which is a legal holiday or a day on which banking institutions in New York are authorized or required by law or other action of a Governmental Authority to close.

"Buyer" shall have the meaning set forth in the Preamble.

"Buyer Assets" shall have the meaning set forth in Section 2.03(a)(x).

"Buyer Benefit Plans" shall have the meaning set forth in Section 9.02(c).

"Buyer Facilities" shall mean the "Parcel B Facilities" and "Parcel D Facilities" under the Astoria Declaration of Easements, together with the respective "Buyer Facilities" under each of the Gowanus and Narrows Declaration of Easements Agreements.

"Buyer Indemnitees" shall have the meaning set forth in Section 10.01(a).

"Buyer Material Adverse Effect" shall have the meaning set forth in Section 6.03(a).

"Buyer Real Estate" shall have the meaning set forth in Section 2.02(a)(i).

"Buyer Required Regulatory Approvals" shall have the meaning set forth in Section 6.03(b).

"Buyer's 401(k) Plans" shall have the meaning set forth in Section 9.04(a).

"Buyer's Pension Plans" shall have the meaning set forth in Section 9.03(a).

"Buyer's Welfare Plans" shall have the meaning set forth in Section 9.05(a).

"Closing" shall have the meaning set forth in Section 4.01.

"Closing Date" shall have the meaning set forth in Section 4.01.

"Code" means the Internal Revenue Code of 1986, as amended.

"Collective Bargaining Agreement" shall have the meaning set forth in Section 9.01(b).

"Communications Equipment" means the equipment, systems, switches and lines used in connection with voice, data and other communications activities.

"Confidentiality Agreement" means the Confidentiality Agreement dated September 22, 1998 between Seller and Orion Power Holdings, Inc.

"Continued Employee" shall have the meaning set forth in Section 9.01(a).

"Continued Non-Union Employee" shall have the meaning set forth in Section 9.02(a).

"Continued Union Employee" shall have the meaning set forth

in Section 9.01(b).

"Continuing Site Agreements" means the Astoria Continuing Site Agreement, the Gowanus Continuing Site Agreement and the Narrows Continuing Site Agreement.

"Contracts" shall have the meaning set forth in Section 2.02(a)(iv).

"Conveyance Plans" shall have the meaning set forth in Section 2.02(a)(i).

"Declaration of Easements Agreements" means the Astoria Declaration of Easements, the Gowanus Declaration of Easements Agreement and Narrows Declaration of Easements Agreement.

"Declarations of Subdivision Easements" means the Astoria Declaration of Subdivision Easements and the Gowanus Declaration of Subdivision Easements.

"Emission Reduction Credits" means credits, in units that are established by the environmental regulatory agency with jurisdiction over the source or facility that has obtained the credits, resulting from a reduction in the emissions of air pollutants from an emitting source or facility (including, and to the extent allowable under applicable law, reductions from retirements, control of emissions beyond that required by applicable law and fuel switching), that: (i) have been certified by NYSDEC as complying with the law and regulations of the State of New York governing the establishment of such credits (including that such emissions reductions are real, enforceable, permanent and quantifiable); or (ii) have been certified by any other applicable regulatory authority as complying with the law and regulations governing the establishment of such credits (including that such emissions reductions are real, enforceable, permanent and quantifiable). Emission Reduction Credits include certified air emissions reductions, as described above, regardless of whether the regulatory agency certifying such reductions designates such certified air emissions reductions by a name other than "emissions reduction credits".

"Encumbrances" means any mortgages, pledges, liens, security interests, conditional and installment sale agreements, activity and use limitations, exceptions, conservation easements, rights-of-way, deed restrictions, encumbrances and charges of any kind.

"Environmental Laws" means all former, current and future Federal, state, local and foreign laws (including common law), treaties, regulations, rules, ordinances, codes, decrees, judgments, directives or orders (including consent orders) and Environmental Permits, in each case, relating to pollution or protection of the environment or natural resources, including laws relating to Releases or threatened Releases, or otherwise relating to the generation, manufacture, processing, distribution, use, treatment, storage, arrangement for disposal, transport, recycling or handling, of Hazardous Substances.

"Environmental Liability" means all liabilities, obligations, damages, losses, claims, actions, suits, judgments, orders, fines, penalties, fees, expenses and costs, including: (i) remediation costs, engineering costs, environmental consultant fees, laboratory fees, permitting fees, investigation costs and defense costs and reasonable attorneys' fees and expenses; (ii) any claims, demands and causes of action relating to or resulting from any personal injury (including wrongful death), property damage (real or personal) or natural resource damage; and (iii) any penalties, fines or costs associated with the failure to comply with any Environmental Law.

"Environmental Permits" means the permits, licenses, consents, approvals and other governmental authorizations with respect to Environmental Laws relating primarily to the power generation operations of the Generating Plants or the Gas Turbines.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"ERISA Affiliate" shall have the meaning set forth in Section 5.13.

"Estimated Adjustment Amount" shall have the meaning set forth in Section 4.02.

"FERC" means the Federal Energy Regulatory Commission.

"Federal Power Act" shall have the meaning set forth in Section 5.03(b).

"Filed Seller SEC Documents" means the reports, schedules, forms, statements and other documents filed by Seller with the Securities and Exchange Commission since January 1, 1997, and publicly available prior to the date of this Agreement. "Final Allocation" shall have the meaning set forth in Section 3.03.

"Franchise Property" shall have the meaning set forth in

Section 2.05(a).

"GAAP" shall have the meaning set forth in Section 1.02.

"Gas Turbines" means the gas turbine units comprised of the Astoria GT1, Gowanus GT1 through GT4 and Narrows GT1 and GT2.

"Generating Facilities" means the Generating Plants, the Gas Turbines and any additional generating plants, gas turbines or other generating facilities constructed by Buyer after the Closing Date at the site of any Auctioned Assets.

"Generating Plants" means the two retired steam turbine generating units designated as Astoria units 1 and 2 and the three operating steam turbine generating units designated as Astoria units 3, 4 and 5.

"Governmental Authority" means any court, administrative or regulatory agency or commission or other governmental entity or instrumentality, domestic, foreign or supranational or any department thereof.

"Gowanus Continuing Site Agreement" means the Gowanus Continuing Site Agreement dated as of even date herewith between Seller and Buyer.

"Gowanus Declaration of Easements Agreement" means the Gowanus Declaration of Easements Agreement dated as of even date herewith between Seller and Buyer.

"Gowanus Declaration of Subdivision Easements" means the Gowanus Declaration of Subdivision Easements to be made by Seller substantially in the form of Exhibit J, except for changes required by any Governmental Authority to the extent that no such change materially and adversely impairs the continued use and operation of the Auctioned Assets as currently conducted.

"Gowanus Zoning Lot Development Agreement" means the Gowanus Zoning Lot Development Agreement between Seller and Buyer in the form of Exhibit A-3.

"Guarantee Agreement" means the Guarantee Agreement dated as of even date herewith between Guarantor and Seller substantially in the form of Exhibit K.

"Guarantor" means Orion Power Holdings, Inc.

"Hazardous Substances" means (i) any petrochemical or petroleum products, crude oil or any fraction thereof, ash, radioactive materials, radon gas, asbestos in any form, urea formaldehyde foam insulation or polychlorinated biphenyls, (ii) any chemicals, materials, substances or wastes defined as or included in the definition of "hazardous substances," "hazardous wastes," "hazardous materials," "restricted hazardous materials," "extremely hazardous substances," "toxic substances," "contaminants" or "pollutants" or words of similar meaning and regulatory effect contained in any Environmental Law or (iii) any other chemical, material, substance or waste which is prohibited, limited or regulated by any Environmental Law.

"HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

"Income Tax" means any Federal, state, local or foreign Tax or surtax (i) based upon, measured by or calculated with respect to net income, profits or receipts (including the New York State Gross Receipts Tax (including the excess dividends tax), the New York City Public Utilities Excise Tax, any and all municipal gross receipts Taxes, capital gains Taxes and minimum Taxes) or (ii) based upon, measured by or calculated with respect to multiple bases (including corporate franchise taxes) if one or more of the bases on which such Tax may be based, measured by or calculated with respect to, is described in clause (i), in each case, together with any interest, penalties, or additions to such Tax.

"Indemnifiable Loss" shall have the meaning set forth in Section 10.01(a).

"Indemnifying Party" shall have the meaning set forth in Section 10.01(c).

"Indemnitee" shall have the meaning set forth in Section 10.01(c).

"Independent Engineering Assessments" shall have the meaning set forth in Section 5.15.

"Interconnection Facilities" means those items of switching equipment, switchyard controls, protective relays and related facilities of Seller that are used by Seller in connection with the provision of Interconnection Services.

"Interconnection Services" means the service provided by Seller to Buyer to interconnect the Generating Facilities to the Transmission System.

"Inventory Survey" shall have the meaning set forth in Section 3.02(a).

"ISO" means the New York Independent System Operator.

"Local 1-2" shall have the meaning set forth in Section 9.01(a).

"Local 1-2 Collective Bargaining Agreement" shall have the meaning set forth in Section 9.01(a).

"Material Adverse Effect" means any change, or effect on the Auctioned Assets, that is materially adverse to the business, operations or condition (financial or otherwise) of the Auctioned Assets, taken as a whole, other than (i) any change or effect resulting from changes in the international, national, regional or local wholesale or retail energy, capacity or ancillary services electric power markets, (ii) any change or effect resulting from changes in the international, national, regional or local markets for fuel, (iii) any change or effect resulting from changes in the national, regional or local electric transmission systems, (iv) any change or effect resulting from any bid cap, price limitation, market power mitigation measure, including the Mitigation Measures, or other regulatory or legislative measure in respect of transmission services or the wholesale or retail energy, capacity or ancillary services markets adopted or approved (or failed to be adopted or approved) by FERC, the PSC or any other Governmental Authority or proposed by any person, (v) any change or effect resulting from any regulation, rule, procedure or order adopted or proposed (or failed to be adopted or proposed) by or with respect to, or related to, the ISO, (vi) any change or effect resulting from any action or measure taken or adopted, or proposed to be taken or adopted, by any local, state, regional, national or international reliability organization and (vii) any materially adverse change in or effect on the Auctioned Assets which is cured by Seller before the Closing Date.

"Mitigation Measures" shall have the meaning set forth in Section 6.03(b).

"MMS" means the Material Management System, which is an information resources system served by Seller's mainframe computer.

"Narrows Continuing Site Agreement" means the Narrows Continuing Site Agreement dated as of even date herewith between Seller and Buyer.

"Narrows Declaration of Easements Agreement" means the Narrows Declaration of Easements Agreement dated as of even date herewith between Seller and Buyer.

"Narrows Turbines" shall have the meaning set forth in Section 7.15.

"NYPA" means the Power Authority of the State of New York.

"NYPA Agreements" means the Indenture, made as of December 13, 1974, between Seller and NYPA, and the NYPA Operating Agreement.

"NYPA Operating Agreement" means the Astoria Operating Agreement dated January 5, 1981, between NYPA and Seller, as amended.

"NYSDEC" means the New York State Department of Environmental Conservation.

"Off-Site" means any location except (i) the Auctioned Assets and (ii) any location to or under which Hazardous Substances present or Released at the Auctioned Assets have migrated.

"Offering Memorandum" means the Offering Memorandum dated August 1998 describing the Generating Plants and the Gas Turbines, and the materials delivered with such Offering Memorandum, as such Offering Memorandum and such materials may have been amended or supplemented.

"Operating Records" shall have the meaning set forth in Section 2.02(a)(viii).

"Party" shall have the meaning set forth in the Preamble.

"Permits" means the permits, licenses, consents, approvals and other governmental authorizations (other than with respect to Environmental Laws) relating primarily to the power generation operations of the Generating Plants or the Gas Turbines. "Permitted Exceptions" means (i) all exceptions, restrictions, easements, charges, rights-of-way and monetary and nonmonetary encumbrances which are set forth in any Permits or Environmental Permits, (ii) statutory liens for current taxes or assessments not yet due or delinquent or the validity of which is being contested in good faith by appropriate proceedings, (iii) mechanics', carriers', workers', repairers' and other similar liens arising or incurred in the ordinary course of business relating to obligations as to which there is no default on the part of Seller or the validity of which are being contested in good faith by appropriate proceedings, (iv) zoning, entitlement, conservation restriction and other land use and environmental regulations by Governmental Authorities, (v) such title matters set forth in the Certificate of Title No. NY981606, as amended, the Certificate of Title No. NY971417, as amended, and the Certificate of Title No. NY971418, as amended, in each case, issued by the Title Company, (vi) all matters disclosed on the Conveyance Plans and any other facts that would be disclosed by an accurate survey and physical inspection of the Buyer Real Estate, (vii) Encumbrances, easements, obligations or other restrictions created pursuant to or provided for in any Ancillary Agreement or any NYPA Agreement, (viii) restrictions and regulations imposed by the ISO, any Governmental Authority or any local, state, regional, national or international reliability council and (ix) such other Encumbrances or imperfections in or failure of title which would not, individually or in the aggregate, reasonably be expected to materially impair the continued use and operation of the Auctioned Assets as currently conducted.

"person" means any individual, partnership, limited liability company, joint venture, corporation, trust, unincorporated organization or Governmental Authority.

"PPMIS" means the Power Plant Maintenance Information System, which is an information resources system served by Seller's mainframe computer.

"Prorated Items" shall have the meaning set forth in Section 2.03(a)(viii).

"Protective Relaying System" means the system relating to the Generating Facilities comprised of components collectively used to detect defective power system elements or other conditions of an abnormal nature, initiate appropriate control circuit action in response thereto and isolate the appropriate system elements in order to minimize damage to equipment and interruption to service.

"PSC" means the New York State Public Service Commission.

"Purchase Price" shall have the meaning set forth in Section 3.01.

"Release" means any release, spill, emission, leaking, dumping, injection, pouring, deposit, disposal, discharge, dispersal, leaching or migration into the environment (including ambient air, surface water, groundwater, land surface or subsurface strata) or within any building, structure, facility or fixture.

"Restraints" shall have the meaning set forth in Section 8.01(b).

"Retained Assets" shall have the meaning set forth in Section 2.02(b).

"Retained Liabilities" shall have the meaning set forth in Section 2.03(b).

"Revenue Meters" means all meters measuring demand, energy and reactive components, and all pulse isolation relays, pulse conversion relays and associated totalizing and remote access pulse recorder equipment, in each case, required to measure the transfer of energy between the Parties.

"Revocable Consent" shall have the meaning set forth in Section 2.05(a).

"Segregated Reimbursement Accounts" shall have the meaning set forth in Section 9.05(b).

"Seller" shall have the meaning set forth in the Preamble.

"Seller Assets" shall have the meaning set forth in Section 2.03(b)(x).

"Seller Consent Orders" shall have the meaning set forth in Section 2.03(a)(iv).

"Seller Facilities" shall mean the "Parcel A Facilities" under the Astoria Declaration of Easements, together with the respective "Seller Facilities" under each of the Gowanus and Narrows Declaration of Easements Agreements.

"Seller Indemnitees" shall have the meaning set forth in Section 10.01(b).

"Seller Real Estate" means all real property and leaseholds or other interests in real property of Seller (including the premises on which the Substations are located), other than Buyer Real Estate.

"Seller Required Regulatory Approvals" shall have the meaning set forth in Section 5.03(b).

"Seller's 401(k) Plans" shall have the meaning set forth in Section 9.04(a).

"Seller's Pension Plans" shall have the meaning set forth in Section 9.03(a).

"Seller's Reimbursement Account Plans" shall have the meaning set forth in Section 9.05(b).

"SO2 Allowances" means allowances that have been allocated to Seller for the Generating Plants or the Gas Turbines by the Administrator of the United States Environmental Protection Agency under Title IV of the Clean Air Act authorizing the emission of one ton of sulfur dioxide per allowance during or after the year 2000.

"Substations" shall have the meaning set forth in Section 2.02(b)(i).

"Tax Benefit" means, with respect to any Indemnifiable Loss for any person, the positive excess, if any, of the Tax liability of such person without regard to such Indemnifiable Loss over the Tax liability of such person taking into account such Indemnifiable Loss, with all other circumstances remaining unchanged.

"Tax Cost" means, with respect to any indemnity payment for any person, the positive excess, if any, of the Tax liability of such person taking such indemnity payment into account over the Tax liability of such person without regard to such payment, with all other circumstances remaining unchanged.

"Tax Return" means any return, report, information return or other document (including any related or supporting information) required to be supplied to any authority with respect to Taxes. "Taxes" means all taxes, surtaxes, charges, fees, levies, penalties or other assessments imposed by any United States Federal, state or local or foreign taxing authority, including Income Tax, excise, property, sales, transfer, franchise, special franchise, payroll, recording, withholding, social security or other taxes, or any liability for taxes incurred by reason of joining in the filing of any consolidated, combined or unitary Tax Returns, in each case

including any interest, penalties or additions attributable thereto; provided, however, that "Taxes" shall not include sewer rents or charges for water.

"Termination Date" shall have the meaning set forth in Section 11.01(b).

"Third Party Claim" shall have the meaning set forth in Section 10.02(a).

"Title Company" means Commonwealth Land Title Insurance Company or any other reputable title insurance company licensed to do business in New York.

"Transferable Permits" shall have the meaning set forth in Section 2.02(a)(v).

"Transferring Employee Records" shall have the meaning set forth in Section 2.02(a)(viii).

"Transferring Employees" shall have the meaning set forth in Section 2.02(a)(viii).

"Transition Capacity Agreement" means the Transition Capacity Agreement to be entered into between Seller and Buyer substantially in the form of Exhibit G.

"Transmission System" shall have the meaning set forth in Section 2.02(b)(i).

"Zoning Lot Development Agreements" means the Astoria Zoning Lot Development Agreement and the Gowanus Zoning Lot Development Agreement.

SECTION 1.02. Accounting Terms. Any accounting terms used in this Agreement or the Ancillary Agreements shall, unless otherwise specifically provided, have the meanings customarily given them in accordance with United States generally accepted accounting principles ("GAAP") and all financial computations hereunder or thereunder shall, unless otherwise specifically provided, be computed in accordance with GAAP consistently applied.

ARTICLE II

Purchase and Sale; Assumption of Certain Liabilities

SECTION 2.01. Purchase and Sale. Upon the terms and subject to the satisfaction of the conditions contained in this Agreement, at the Closing, Seller agrees to sell, assign, convey, transfer and deliver to Buyer, and Buyer agrees to purchase, assume and acquire from Seller all the Auctioned Assets. In the case of any Auctioned Assets not located at the Generating Plants or Gas Turbines (including supplies, materials and spare parts inventory), Buyer agrees that (i) from and after the Closing, except to the extent specifically otherwise provided in the Ancillary Agreements, Buyer will bear all risk of casualty or loss with regard to such Auctioned Assets (regardless of whether they remain on Seller's property or otherwise in Seller's possession) and (ii) Seller shall store such Auctioned Assets in accordance with Section 7.08.

SECTION 2.02. Auctioned Assets and Retained Assets. (a) Auctioned Assets. The term "Auctioned Assets" means all the assets, real and personal property, goodwill and rights of Seller of whatever kind and nature, whether tangible or intangible, in each case, primarily relating to the power generation operations of the Generating Plants or the Gas Turbines, other than the Retained Assets, including:

(i) subject to Section 2.05, all real property and leaseholds or other interests in real property of Seller relating primarily to the power generation operations of the Generating Plants or the Gas Turbines described as (A) Parcels B and D as shown on the Astoria Generating Station ALTA/ACSM Land Title Survey dated February 17, 1999, (B) Parcel A as shown on the Gowanus Gas Turbine Site ALTA/ACSM Land Title Survey Conveyance Plan dated February 23, 1999 and (C) the Narrows Gas Turbine Site as shown on the Narrows Gas Turbine Site ALTA/ACSM Land Title Survey Conveyance Plan dated February 23, 1999, in each case, as may hereafter be amended in immaterial respects (collectively, the "Conveyance Plans"), together with all buildings, improvements, structures and fixtures thereon, subject to Permitted Exceptions or Encumbrances otherwise disclosed to Buyer in this Agreement or the Ancillary Agreements with respect thereto (the "Buyer Real Estate");

(ii) subject to Section 2.04 and Section 2.05, all inventories of fuels, supplies, materials and spare parts relating primarily to the power generation operations of the Generating Plants or the Gas Turbines, together with and subject to (A) all Permitted Exceptions or Encumbrances otherwise disclosed to Buyer in this Agreement or the Ancillary Agreements with respect thereto and (B) all warranties against manufacturers and vendors relating thereto, including the spare parts listed on Schedule 2.02(a)(ii), in each case, other than assets that become obsolete or that are used, consumed, replaced or disposed in the ordinary course of business consistent with past practice or as permitted by this Agreement;

(iii) subject to Section 2.04 and Section 2.05, (A) the

machinery, equipment, facilities, furniture and other personal property (other than vehicles) relating primarily to the power generation operations of the Generating Plants or the Gas Turbines, including a stand-alone local area network and other items of personal property located on Buyer Real Estate or temporarily removed from Buyer Real Estate for repairs, servicing or maintenance and listed on Schedule 2.02(a)(iii)(A), (B) machinery, equipment, facilities, furniture and other personal property located on Seller Real Estate or temporarily removed from Seller Real Estate for repairs, servicing or maintenance and listed on Schedule 2.02(a)(iii)(B), (C) machinery, equipment, facilities, furniture and other personal property located on real property owned by NYPA or temporarily removed from such real property for repairs, servicing or maintenance and listed on Schedule 2.02(a)(iii)(C) and (D) machinery, equipment, facilities, furniture and other personal property listed on Schedule 2.02(a)(iii)(D) to the extent Seller has obtained title thereto from NYPA prior to Closing, in each case, (1) together with and subject to (x) all Permitted Exceptions or Encumbrances otherwise disclosed to Buyer in this Agreement or the Ancillary Agreements with respect thereto and (y) all warranties against manufacturers or vendors relating thereto and (2) other than assets that become obsolete or that are used, consumed, replaced or disposed in the ordinary course of business consistent with past practice or as permitted by this Agreement;

(iv) subject to Section 2.04, all right, title and interest of Seller in, to and under all contracts, agreements, personal property leases (whether Seller is lessor or lessee thereunder), commitments and all other legally binding arrangements (other than Seller Consent Orders), whether oral or written (A) set forth on Schedule 2.02(a)(iv) or (B) otherwise relating primarily to the power generation operations of the Generating Plants or the Gas Turbines and entered into by Seller in accordance with Section 7.01 (the "Contracts"), in each case, to the extent in full force and effect on the Closing Date;

(v) subject to Section 7.03(c), the Permits and Environmental Permits that are transferred or transferable by Seller to Buyer (collectively, the "Transferable Permits"), including the Transferable Permits set forth on Schedule 2.02(a)(v), in each case, to the extent in full force and effect on the Closing Date;

(vi) the SO2 Allowances listed on Schedule 2.02(a)(vi);

(vii) all nitrogen oxide allowances allocated to the Generating Plants or the Gas Turbines by NYSDEC under the New York State Nitrogen Oxides Budget Program that have not been used on or prior to the Closing Date (it being understood that, for purposes of this Agreement, one nitrogen oxide allowance shall be deemed "used" for each ton of actual nitrogen oxide emitted from the Generating Plants or Gas Turbines between May 1 of any year and September 30 of such year, inclusive);

(viii) (A) all data, information, books, operating records, operating, safety and maintenance manuals, engineering design plans, blueprints and as-built plans, specifications, procedures, facility compliance plans, environmental procedures and similar records of Seller relating primarily to the power generation operations of the Generating Plants or the Gas Turbines, to the extent in Seller's possession or readily available (collectively, "Operating Records"), and (B) all personnel files relating to employees of Seller to be employed by Buyer after the Closing Date in accordance with Article IX (the "Transferring Employees"), to the extent in Seller's possession and readily available and to the extent such files pertain to (1) skill and development training and resumes, (2) seniority histories, (3) salary and benefit information, (4) Occupational Safety and Health Act medical reports, (5) active medical restriction forms and (6) any other matters, disclosure of which by Seller to Buyer is permitted under applicable law without the consent of the Transferring Employee, but not including any performance evaluations or disciplinary records (collectively, the "Transferring Employee Records"); provided, however, that Seller shall be permitted to retain copies, or originals to the extent it provides Buyer with copies of same, of all Operating Records and Transferring Employee Records; and

(ix) (A) except as provided in Section 2.02(b)(iv), the software relating primarily to the power generation operations of the Generating Plants or the Gas Turbines (provided, however, that Buyer acknowledges that it will require licenses from third parties in order to be legally entitled to use such software), and (B) a non-exclusive, royalty-free license to use solely in connection with the Auctioned Assets the software or other copyrighted material owned by Seller located at Buyer Real Estate.

(b) Retained Assets. The term "Retained Assets" means:

(i) the transmission and distribution facilities owned, controlled or operated by Seller for purposes of providing point-to-point transmission service, network integration service and distribution service and other related purposes, including the real property and equipment located at the Astoria East Substation, the Astoria West Substation, the North Queens Substation, the Gowanus Substation and the Greenwood Substation (collectively, the "Substations"), used in controlling continuity between the Generating Plants and Gas Turbines and the transmission and distribution facilities and for other purposes (the "Transmission System");

(ii)(A) except as set forth in Section 2.02(a)(iii), all

Interconnection Facilities and other transmission, distribution and substation machinery, equipment and facilities and related support equipment located on Buyer Real Estate or Seller Real Estate or temporarily removed from Buyer Real Estate or Seller Real Estate for repairs, servicing or maintenance, including items listed on Schedule 2.02(b)(ii)(A); (B) all Revenue Meters installed by Seller; (C) Communications Equipment and related support equipment (1) located on Buyer Real Estate or temporarily removed from Buyer Real Estate for repairs, servicing or maintenance and listed on Schedule 2.02(b)(ii)(C) or acquired by Seller after the date of this Agreement and designated by Seller as a Retained Asset or (2) located on Seller Real Estate or temporarily removed from Seller Real Estate for repairs, servicing or maintenance; and (D) all Protective Relaying Systems not located on Buyer Real Estate;

(iii) all cash, cash equivalents, bank deposits and accounts receivable held or owned by Seller;

(iv) (A) all mainframe computer systems of Seller, (B) the code to all software described in Section 2.02(a)(ix)(B), and (C) all software, copyrights, know-how or other proprietary information relating primarily to any other Retained Assets or any Retained Liabilities, including software, copyrights, know-how or other proprietary information licensed to Buyer pursuant to Section 2.02(a)(ix)(B);

(v) the names "Consolidated Edison", "Con Edison", "Con Ed", "Consolidated Edison Company", "Consolidated Edison Company of New York, Inc.", "Consolidated Edison, Inc.", "New York Edison", "Brooklyn Edison", "Staten Island Edison" and "Edison" and any related or similar trade names, trademarks, service marks or logos (and any rights to and in the same, including any right to use the same);

(vi) subject to Section 7.06(d), any refund or credit related to Taxes or sewer rents or water charges or any other liabilities or obligations in respect of the Auctioned Assets, in each case, attributable to periods (or portions thereof) prior to the Closing Date;

(vii) all personnel records (other than Transferring Employee Records) and all other records (other than Operating Records);

(viii) (A) all Emission Reduction Credits held or possessed by Seller and (B) SO2 Allowances held or possessed by Seller and not listed on Schedule 2.02(a)(vi); and

(ix) any other asset that is not described with particularity in this Agreement as an Auctioned Asset.

SECTION 2.03. Assumed Obligations and Retained Liabilities. (a) Assumed Obligations. At the Closing, Buyer shall assume, and from and after the Closing, shall discharge, all of the liabilities and obligations, direct or indirect, known or unknown, absolute or contingent, which relate to the Auctioned Assets or are otherwise specified below, other than the Retained Liabilities (collectively, the "Assumed Obligations"), including:

(i) except as set forth in Section 2.03(b)(ii), any liabilities and obligations under the Contracts;

(ii) any liabilities and obligations for goods delivered or services rendered on or after the Closing Date relating to the Auctioned Assets;

(iii) except as set forth in Sections 2.03(b)(iii) or (iv), any Environmental Liability arising out of or in connection with (A) any violation or alleged violation of, or noncompliance or alleged noncompliance with, any Environmental Laws, prior to, on or after the Closing Date, with respect to the ownership or operation of the Auctioned Assets, notwithstanding that, as contemplated by Section 7.03(c), Seller may remain the "holder of record" with respect to certain Transferable Permits, (B) the condition of any Auctioned Assets prior to, on or after the Closing Date, including any actual or alleged presence, Release or threatened Release of any Hazardous Substance at, on, in, under or migrating onto or from, the Auctioned Assets, prior to, on or after the Closing Date (except for any such Release from equipment or property owned or operated by Seller and located on, or constituting, Seller Real Estate adjacent to Buyer Real Estate that (1) occurs on or after the Closing Date and (2) is caused by Seller or its Affiliates), (C) any Release or threatened Release of any Hazardous Substance on or after the Closing Date from the Buyer Facilities or otherwise originating from, or relating to, any equipment owned or used by Buyer that is located on Seller Real Estate or (D) the transportation, storage, Release, threatened Release or recycling of, or arrangement for such activities with respect to, Hazardous Substances generated in respect of the Auctioned Assets at or to any location, on or after the Closing Date;

(iv) any liabilities and obligations relating to the Auctioned Assets under the consent orders listed on Schedule 2.03(a)(iv) (the "Seller Consent Orders") and identified thereon as "Assumed Consent Order Obligations" (the "Assumed Consent Order Obligations");

(v) except as set forth in Section 2.03(b)(iv), any liabilities and obligations with respect to the Permits to the extent arising or accruing on or after the Closing Date;

(vi) (A) all wages, overtime, employment taxes, severance pay,

transition payments, workers compensation benefits, occupational safety and health liabilities or other similar liabilities and obligations in respect of Transferring Employees to the extent arising or accruing on or after the Closing Date, and (B) all other liabilities and obligations with respect to the Transferring Employees for which Buyer is responsible pursuant to Article IX;

(vii) (A) any liabilities and obligations (other than any Environmental Liabilities which are Retained Liabilities) in respect of any personal injury or property damage claim relating to, resulting from or arising out of the Generating Plants or Gas Turbines or (B) any liabilities and obligations in respect of any discrimination, wrongful discharge or unfair labor practice claim by any Transferring Employee, in the case of each of the foregoing clauses (A) and (B), to the extent arising or accruing on or after the Closing Date;

(viii) any liabilities and obligations, with respect to the periods that include the Closing Date, with respect to real or personal property rent, taxes based on the ownership or use of property, utilities charges and similar charges that primarily relate to the Generating Plants or the Gas Turbines (collectively, the "Prorated Items"), to the extent such Prorated Items relate to the period from and after the Closing Date, including (A) personal property taxes, real estate and occupancy taxes, assessments and other charges (which shall be apportioned or adjusted as provided in the Zoning Lot Development Agreements), (B) rent and all other items payable by Seller under any Contract, (C) any fees with respect to any Transferable Permit and (D) sewer rents and charges for water, telephone, electricity and other utilities, in each case calculated by multiplying the amount of any such Prorated Item by a fraction the numerator of which is the number of days in such period from and after the Closing Date and the denominator of which is the number of days in such period;

(ix) any liabilities and obligations in respect of Taxes (other than Prorated Items) attributable to the Auctioned Assets arising or accruing during taxable periods (or portions thereof) beginning on or after the Closing Date;

(x) any liabilities and obligations in respect of damage to property or personal injury or death relating to, resulting from or arising out of any property, machinery, equipment, facilities or systems from time to time owned by Buyer or its Affiliates subject to the Ancillary Agreements or employed by Buyer in connection with the performance of the Ancillary Agreements ("Buyer Assets"), or any Protective Relaying System owned by Seller as contemplated by the Continuing Site Agreement, regardless of whether the property damage or personal injury is caused by a Seller Indemnitee or a Buyer Indemnitee;

(xi) any liabilities and obligations under the Ancillary Agreements in respect of the Auctioned Assets to the extent arising on or after the Closing Date; and

(xii) any liabilities and obligations relating to the Auctioned Assets under the NYPA Agreements and listed on Schedule 2.03(a)(xii) (the "Assumed Seller Obligations under NYPA Agreements"); provided, however, that to the extent required for qualification of Buyer, with respect to the Auctioned Assets, as an exempt wholesale generator under the Energy Policy Act of 1992, Buyer may delegate and/or assign its obligations to provide electricity and/or steam to NYPA to an Affiliate of Buyer; provided further, however, that no such delegation or assignment shall relieve Buyer of such obligations.

(b) Retained Liabilities. Buyer shall not assume or be obligated to pay, perform or otherwise discharge the following liabilities or obligations (the "Retained Liabilities"):

(i) any liabilities and obligations of Seller primarily relating to any Retained Assets (other than as contemplated by Section 2.03(a)(x));

(ii) any payment obligations of Seller, including under Contracts, for goods delivered or services rendered prior to the Closing Date;

(iii) (A) any Environmental Liability of Seller arising out of or in connection with the transportation, storage, Release, threatened Release or recycling of, or arrangement for such activities with respect to, Hazardous Substances at or to any Off-Site location, prior to the Closing Date, (B) any Environmental Liability of Seller arising out of or in connection with any Release or threatened Release of any Hazardous Substance on or after the Closing Date from the Seller Facilities or otherwise originating from, or relating to, any equipment owned or used by Seller that is located on Buyer Real Estate and (C) any liabilities and obligations relating to Auctioned Assets under the Seller Consent Orders, except Assumed Consent Order Obligations;

(iv) any monetary fines (excluding (A) natural resource damages, (B) cleanup or remediation costs and (C) other costs of a similar nature) imposed by a Governmental Authority to the extent arising out of or relating to acts or omissions of Seller in respect of the Auctioned Assets prior to the Closing Date;

(v) (A) all wages, overtime, employment taxes, severance pay, transition payments, workers compensation benefits, occupational safety and health liabilities or other similar liabilities and

obligations in respect of Transferring Employees to the extent arising or accruing prior to the Closing Date and (B) all other liabilities and obligations with respect to the Transferring Employees for which Seller is responsible pursuant to Article IX;

(vi) (A) any liabilities and obligations (other than any Environmental Liabilities which are Assumed Obligations) in respect of any personal injury or property damage claim relating to the Generating Plants or Gas Turbines or (B) any liabilities and obligations in respect of any discrimination, wrongful discharge or unfair labor practice claim by any Transferring Employee, in the case of each of the foregoing clauses (A) and (B), to the extent arising out of or relating to acts or omissions of Seller prior to the Closing Date;

(vii) any liabilities and obligations, with respect to the period prior to the Closing Date, for the Prorated Items, calculated as set forth in Section 2.03(a)(viii);

(viii) any liabilities and obligations in respect of Taxes (other than Prorated Items) attributable to the Auctioned Assets arising or accruing during taxable periods (or portions thereof) ending before the Closing Date, including Income Taxes attributable to income realized by Seller pursuant to the transactions contemplated by this Agreement;

(ix) any liabilities and obligations arising after the date of this Agreement in respect of which Seller has provided pursuant to Section 7.01(d)(ii) that such liabilities and obligations shall not be assumed or retained by Buyer;

(x) any liabilities and obligations in respect of damage to property or personal injury or death relating to, resulting from or arising out of any property, machinery, equipment, facilities or systems from time to time owned by Seller or its Affiliates subject to the Ancillary Agreements or employed by Seller in connection with the performance of the Ancillary Agreements ("Seller Assets"), regardless of whether the property damage or personal injury is caused by a Seller Indemnitee or a Buyer Indemnitee;

(xi) any liabilities and obligations under the Ancillary Agreements in respect of the Retained Assets; and

(xii) any liabilities and obligations relating to Auctioned Assets under the NYPA Agreements, except Assumed Seller Obligations under NYPA Agreements.

SECTION 2.04. Third Party Consents. (a) Notwithstanding Section 2.02(a)(ii), (iii) or (iv), to the extent that Seller's rights under any Contract or warranty may not be assigned without the consent of another person which consent has not been obtained, this Agreement shall not constitute an agreement to assign the same if an attempted assignment would constitute a breach thereof or be unlawful, and Seller, at its expense, shall use its reasonable best efforts to obtain prior to the Closing any such required consents.

(b) Seller and Buyer agree that if any consent to an assignment of any such Contract or warranty shall not be obtained or if any attempted assignment would in Seller's reasonable opinion be ineffective or would impair any material rights and obligations of Buyer under such Contract or warranty, as applicable, so that Buyer would not acquire the benefit of all such rights and obligations, Seller, to the maximum extent permitted by law and such Contract or warranty, as applicable, shall after the Closing appoint Buyer to be Seller's representative and agent with respect to such Contract or warranty, as applicable, and Seller shall, to the maximum extent permitted by law and such Contract or warranty, as applicable, enter into such reasonable arrangements with Buyer as are necessary to provide Buyer with the benefits and obligations of such Contract or warranty, as applicable. Seller and Buyer shall cooperate and shall each use their reasonable best efforts after the Closing to obtain an assignment of each such Contract or warranty, as applicable, to Buyer.

SECTION 2.05. Franchise Property. (a) Not withstanding Section 2.02(a)(i), (ii) and (iii), to the extent it would be unlawful for Buyer to operate, use or maintain the machinery, equipment and property listed on Schedule 2.05(a) (collectively, the "Franchise Property") to Buyer without Buyer obtaining from the City of New York a revocable consent, franchise agreement or other arrangement permitting Buyer to hold title to the Franchise Property (the "Revocable Consent"), Seller and Buyer agree that (i) Buyer shall use its reasonable best efforts to cause the Revocable Consent to be entered into prior to Closing, including filing a petition with the City of New York in respect of the Revocable Consent not later than 45 days after the date of this Agreement, and Seller shall cooperate in good faith in connection therewith, (ii) if the Revocable Consent has not been obtained by Buyer prior to Closing (A) title to the Franchise Property shall be deemed not to be transferred at Closing, (B) Seller, to the maximum extent permitted by law, shall after Closing appoint Buyer to be Seller's representative with respect to the Franchise Property, (C) Seller shall operate, use and maintain the Franchise Property at Buyer's expense and Buyer shall pay all real and personal property taxes applicable thereto and (D) Buyer shall use its reasonable best efforts after Closing to

cause the Revocable Consent to be entered into, at which time title to the Franchise Property shall be deemed transferred from Seller to Buyer pursuant to this Agreement, and Seller shall cooperate in good faith in connection therewith and (iii) Buyer shall pay all fees, charges and other expenses in connection with the Revocable Consent.

(b) Seller and Buyer further agree that for the purposes of (i) the Ancillary Agreements and Sections 2.03, 10.01 and 10.02 of this Agreement, the terms "Auctioned Assets", "Buyer Assets" and "Buyer Facilities" shall in any event each be deemed to include the Franchise Property and (ii) the Ancillary Agreements, the Franchise Property shall in any event be deemed to be owned by Buyer.

ARTICLE III

Purchase Price

SECTION 3.01. Purchase Price. The purchase price for the Auctioned Assets shall be $550,000,000 (the "Purchase Price").

SECTION 3.02. Post-Closing Adjustment. (a) Within 20 Business Days after the Closing, Seller shall prepare and deliver to Buyer a statement (an "Adjustment Statement") which reflects the book cost, as reflected on the books of Seller as of the Closing Date, of all fuel inventory and supplies, materials and spare parts inventory included in the Auctioned Assets (the "Adjustment Amount") and, upon request of Buyer, related accounting material used by Seller to prepare the Adjustment Statement. The Adjustment Amount will be based, in respect of fuel, on the actual fuel inventory on the Closing Date and, in respect of supplies, materials and spare parts, on an inventory survey conducted within ten Business Days prior to the Closing Date, in each case, consistent with the inventory procedures of Seller in effect as of the date of this Agreement (the "Inventory Survey"). Seller will permit an employee, or representative, of Buyer to observe the Inventory Survey. The Adjustment Statement shall be prepared using (i) GAAP and (ii) the same rolling average unit costs that Seller has historically used to calculate the book cost of its fuel and supplies, materials and spare parts inventory. Buyer agrees to cooperate with Seller in connection with the preparation of the Adjustment Statement and related information, and shall provide to Seller such access, books, records and information as may be reasonably requested from time to time.

(b) Buyer may dispute the quantity delivered or quality of any inventory item shown on the Adjustment Statement, or the mathematical calculations reflected therein, by notifying Seller in writing of the disputed amount, and the basis of such dispute, within 20 Business Days of Buyer's receipt of the Adjustment Statement; provided, however, that in respect of the quality of any inventory item, Buyer may not dispute Seller's normal and customary methods for accounting for excess inventory. Buyer shall have no right to dispute any other matter in respect of the Adjustment Statement, including historical rolling average unit costs used to calculate the book cost of the inventory or the appropriateness, under GAAP or otherwise, of using such historical rolling average unit cost to determine the book cost of any particular item of inventory. In the event of a dispute with respect to the quantity or quality of any inventory item shown on the Adjustment Statement, or the mathematical calculations reflected therein, Buyer and Seller shall attempt to reconcile their differences and any resolution by them as to any disputed amounts shall be final, binding and conclusive on the Parties. If Buyer and Seller are unable to reach a resolution of such differences within 20 Business Days of receipt of Buyer's written notice of dispute to Seller, Buyer and Seller shall submit the amounts remaining in dispute for determination and resolution to PricewaterhouseCoopers LLP or any other accounting firm of recognized national standing reasonably acceptable to Seller and Buyer (the "Accountants"), which shall be instructed to determine and report to the Parties, within 20 Business Days after such submission, upon such remaining disputed amounts, and such report shall be final, binding and conclusive on the Parties with respect to the amounts disputed. Buyer and Seller shall each pay one-half of the fees and disbursements of the Accountants in connection with the resolution of such disputed amounts.

(c) If the Adjustment Amount is greater or less than the Estimated Adjustment Amount, then on the Adjustment Date (as defined below), (i) to the extent that the Adjustment Amount exceeds the Estimated Adjustment Amount, Buyer shall pay to Seller the amount of such excess and (ii) to the extent that the Adjustment Amount is less than the Estimated Adjustment Amount, Seller shall pay to Buyer the amount of such deficiency. "Adjustment Date" means (1) if Buyer does not disagree in any respect with the Adjustment Statement, the twenty-third Business Day following Buyer's receipt of the Adjustment Statement or (2) if Buyer shall disagree in any respect with the Adjustment Statement, the third Business Day following either the resolution of such disagreement by the Parties or a final determination by the Accountants in accordance with Section 3.02(b). Any amount paid under this

Section 3.02(c) shall be paid with interest for the period commencing on the Closing Date through the date of payment, calculated at the prime rate of the Chase Manhattan Bank in effect on the Closing Date, and in cash by wire transfer of immediately available funds.

SECTION 3.03. Allocation of Purchase Price. Buyer shall deliver to Seller at Closing a preliminary allocation among the Auctioned Assets of the Purchase Price and among such other consideration paid to Seller pursuant to this Agreement that is properly includible in Buyer's tax basis for the Auctioned Assets for Federal income tax purposes, and, as soon as practicable following the Closing (but in any event within 10 Business Days following the final determination of the Adjustment Amount), Buyer shall prepare and deliver to Seller a final allocation of the Purchase Price and additional consideration described in the preceding clause, and the post-closing adjustment pursuant to Section 3.02, among the Auctioned Assets (the "Allocation"). The Allocation shall be consistent with Section 1060 of the Code and the Treasury Regulations thereunder. Seller hereby agrees to accept Buyer's Allocation unless Seller determines that such Allocation was not prepared in accordance with Section 1060 of the Code and the regulations thereunder ("Applicable Law"). If Seller so determines, Seller shall within 20 Business Days thereafter propose any changes necessary to cause the Allocation to be prepared in accordance with Applicable Law. Within 10 Business Days following delivery of such proposed changes, Buyer shall provide Seller with a statement of any objections to such proposed changes, together with a reasonably detailed explanation of the reasons therefor. If Buyer and Seller are unable to resolve any disputed objections within 10 Business Days thereafter, such objections shall be referred to the Accountants, whose review will be limited to whether Buyer's Allocation of such disputed items regarding the Allocation was prepared in accordance with Applicable Law. The Accountants shall be instructed to deliver to Seller and Buyer a written determination of the proper allocation of such disputed items within 20 Business Days. Such determination shall be conclusive and binding upon the parties hereto for all purposes, and the Allocation shall be so adjusted (the Allocation, including the adjustment, if any, to be referred to as the "Final Allocation"). The fees and disbursements of the Accountants attributable to the Allocation shall be shared equally by Buyer and Seller. Each of Buyer and Seller agrees to timely file Internal Revenue Service Form 8594, and all Federal, state, local and foreign Tax Returns, in accordance with such Final Allocation and to report the transactions contemplated by this Agreement for Federal Income Tax and all other tax purposes in a manner consistent with the Final Allocation. Each of Buyer and Seller agrees to promptly provide the other party with any additional information and reasonable assistance required to complete Form 8594, or compute Taxes arising in connection with (or otherwise affected by) the transactions contemplated hereunder. Each of Buyer and Seller shall timely notify the other Party and each shall timely provide the other Party with reasonable assistance in the event of an examination, audit or other proceeding regarding the Final Allocation.

ARTICLE IV

The Closing

SECTION 4.01. Time and Place of Closing. Upon the terms and subject to the satisfaction of the conditions contained in Article VIII, the closing of the sale of the Auctioned Assets contemplated by this Agreement (the "Closing") will take place on such date as the Parties may agree, which date shall be as soon as practicable, but no later than ten Business Days, following the date on which all of the conditions set forth in Article VIII have been satisfied or waived, at the offices of Cravath, Swaine & Moore in New York City or at such other place or time as the Parties may agree. The date and time at which the Closing actually occurs is hereinafter referred to as the "Closing Date".

SECTION 4.02. Payment of Purchase Price and Estimated Adjustment Amount. At the Closing, Buyer will pay or cause to be paid to Seller by wire transfer of immediately available funds to an account previously designated in writing by Seller an amount in United States dollars equal to (a) the Purchase Price plus (b) Seller's good faith estimate of the Adjustment Amount (the "Estimated Adjustment Amount"), which estimate shall be provided to Buyer no later than five Business Days prior to the Closing.

ARTICLE V

Representations and Warranties of Seller

Seller represents and warrants to Buyer as follows:

SECTION 5.01. Organization; Qualification. Seller is a corporation duly incorporated, validly existing and in good standing under the laws of the State of New York and has all requisite corporate power and authority to own, lease and operate the Auctioned Assets and to carry on the business of

the Auctioned Assets as currently conducted.

SECTION 5.02. Authority Relative to This Agreement. Seller has all necessary corporate power and authority to execute and deliver this Agreement and the Ancillary Agreements and to consummate the transactions contemplated hereby and thereby. The execution and delivery by Seller of this Agreement and the Ancillary Agreements and the consummation by Seller of the transactions contemplated hereby and thereby have been duly and validly authorized by the Board of Trustees of Seller or by a committee thereof to whom such authority has been delegated and no other corporate proceedings on the part of Seller are necessary to authorize this Agreement or the Ancillary Agreements or the consummation of the transactions contemplated hereby or thereby. This Agreement and the Ancillary Agreements have been duly and validly executed and delivered by Seller and, assuming that this Agreement and the Ancillary Agreements constitute valid and binding agreements of Buyer and each other party thereto, subject to the receipt of the Seller Required Regulatory Approvals and the Buyer Required Regulatory Approvals, constitute valid and binding agreements of Seller, enforceable against Seller in accordance with their respective terms.

SECTION 5.03. Consents and Approvals; No Violation. (a) Subject to obtaining the Seller Required Regulatory Approvals and the Buyer Required Regulatory Approvals, neither the execution and delivery of this Agreement or the Ancillary Agreements by Seller nor the sale by Seller of the Auctioned Assets pursuant to this Agreement will (i) conflict with or result in any breach of any provision of the Certificate of Incorporation or By-laws of Seller, (ii) except as set forth on Schedule 5.03(a), result in a default (or give rise to any right of termination, cancelation or acceleration) under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, license, agreement, lease or other instrument or obligation to which Seller is a party or by which Seller, or any of the Auctioned Assets, may be bound, except for such defaults (or rights of termination, cancelation or acceleration) as to which requisite waivers or consents have been obtained or which would not, individually or in the aggregate, create a Material Adverse Effect or (iii) violate any order, writ, injunction, decree, statute, rule or regulation applicable to Seller, or the Auctioned Assets, except for such violations which would not, individually or in the aggregate, create a Material Adverse Effect.

(b) Except for (i) application by Seller to, and the approval of, the PSC, pursuant to ss. 70 of the Public Service Law of the State of New York, of the transfer to Buyer of the Auctioned Assets, (ii) the filings by Seller and Buyer required by the HSR Act and the expiration or earlier termination of all waiting periods under the HSR Act, (iii) application by Seller to, and the approval of, FERC under (A) Section 203 of the Federal Power Act of 1935 (the "Federal Power Act") with respect to the transfer of Auctioned Assets constituting jurisdictional assets under the Federal Power Act and (B) Section 205 of the Federal Power Act with respect to each Continuing Site Agreement and any wholesale power sales agreement to be entered into by Seller and Buyer, including the Transition Capacity Agreement, (iv) the issuance of approval by the New York City Department of Buildings and, to the extent required, the New York City Department of Business Services of the tax lot subdivision contemplated by this Agreement in a form suitable for submission to the New York City Department of Finance for the issuance of tax lot numbers and (v) declarations, filings or registrations with, or notices to, or authorizations, consents or approvals of, any Governmental Authority which become applicable to Seller or the transactions contemplated hereby or by the Ancillary Agreements as a result of the specific regulatory status or jurisdiction of incorporation or organization of Buyer (or any of its Affiliates) or as a result of any other facts that specifically relate to the business or activities in which Buyer (or any of its Affiliates) is or proposes to be engaged (collectively, the "Seller Required Regulatory Approvals"), no declaration, filing or registration with, or notice to, or authorization, consent or approval of any Governmental Authority is necessary for the consummation by Seller of the transactions contemplated hereby or by the Ancillary Agreements, other than such declarations, filings, registrations, notices, authorizations, consents or approvals (A) which, if not obtained or made, would not, individually or in the aggregate, create a Material Adverse Effect or (B) which relate to the Transferable Permits.

(c) To the knowledge of Seller, there is no reason that it should fail to obtain the Seller Required Regulatory Approvals.

SECTION 5.04. Year 2000. Seller has informed Buyer of the status, as of the date of this Agreement, of measures to prevent computer software, hardware and embedded systems used in connection with the Auctioned Assets from experiencing malfunctions or other usage problems in connection with years beginning with "20", except for such malfunctions or other usage problems which would not, individually or in the aggregate, create a Material Adverse Effect.

SECTION 5.05. Personal Property. Except for Permitted

Exceptions, Seller has good and marketable title, free and clear of all Encumbrances, to all personal property included in the Auctioned Assets.

SECTION 5.06. Real Estate. The Conveyance Plans contain descriptions of the Buyer Real Estate. Copies of the most recent real property surveys and title insurance information in the possession of Seller with respect to the Buyer Real Estate or any portion thereof have heretofore been delivered by Seller to Buyer or made available for inspection by Buyer, receipt of which is hereby acknowledged by Buyer.

SECTION 5.07. Leases. As of the date of this Agreement, Seller is neither a tenant nor a licensee under any real property leases or licenses which (a) are to be transferred and assigned to Buyer on the Closing Date and (b) (i) provide for annual payments of more than $100,000 or (ii) are material to the Auctioned Assets.

SECTION 5.08. Certain Contracts and Arrangements. (a) Except for (i) any contract or agreement listed on Schedule 2.02(a)(iv) or Schedule 5.08(a) and (ii) Contracts which will expire prior to the Closing Date or that are permitted to be entered into under this Agreement, Seller is not a party to any contract which is material to the business or operations of the Auctioned Assets. Seller has made available to Buyer for inspection true and complete copies of all contracts listed on Schedule 2.02(a)(iv) or Schedule 5.08(a) and each of the NYPA Agreements.

(b) Each Contract (i) constitutes a valid and binding obligation of Seller, and, to the knowledge of Seller, constitutes a valid and binding obligation of the other parties thereto, (ii) to the knowledge of Seller, is in full force and effect and (iii) other than Contracts covered by Section 2.04, to the knowledge of Seller, may be transferred to Buyer pursuant to this Agreement and will continue in full force and effect thereafter, in each case, without breaching the terms thereof or resulting in the forfeiture or impairment of any rights thereunder, except for such breaches, forfeitures or impairments which would not, individually or in the aggregate, create a Material Adverse Effect.

(c) There is not, under any of the Contracts or any of the NYPA Agreements, any default or event which, with notice or lapse of time or both, would constitute a default by Seller, except for such events of default and other events as to which requisite waivers or consents have been obtained or which would not, individually or in the aggregate, create a Material Adverse Effect.

SECTION 5.09. Legal Proceedings. Except as set forth on Schedule 5.09 or in the Filed Seller SEC Documents, as of the date of this Agreement, there are no claims, actions, proceedings or investigations pending or, to the knowledge of Seller, threatened against or relating to Seller which would, individually or in the aggregate, be reasonably expected to create a Material Adverse Effect. With respect to the business or operations of the Auctioned Assets, Seller is not, as of the date of this Agreement, subject to any outstanding judgment, rule, order, writ, injunction or decree of any court, governmental or regulatory authority which would create a Material Adverse Effect. The representations and warranties of Seller set forth in this Section 5.09 shall not apply to, and do not cover, any environmental matters which, with respect to any representations and warranties of Seller, are exclusively governed by Section 5.11.

SECTION 5.10. Permits; Compliance with Law. (a) Except as set forth on Schedule 5.10(a)(i), Seller holds, and is in compliance with, all Permits necessary to conduct the business and operations of the Auctioned Assets as currently conducted, and, to the knowledge of Seller, Seller is otherwise in compliance with all laws, statutes, orders, rules, regulations, ordinances or judgments of any Governmental Authority applicable to the business and operations of the Auctioned Assets, except for such failures to hold or comply with such Permits, or such failures to be in compliance with such laws, statutes, orders, rules, regulations, ordinances or judgments, which would not, individually or in the aggregate, create a Material Adverse Effect. Except as set forth on Schedule 5.10(a)(ii), Seller has not received any written notification that it is in violation of any of such Permits or laws, statutes, orders, rules, regulations, ordinances or judgments, except for notifications of violations which would not, individually or in the aggregate, create a Material Adverse Effect. The representations and warranties of Seller set forth in this Section 5.10 shall not apply to, and do not cover, any environmental matters which, with respect to any representations and warranties of Seller, are exclusively governed by Section 5.11.

(b) Notwithstanding the last sentence of Section 5.10(a), except as set forth on Schedule 5.10(b), there are no material Permits or material Environmental Permits that, in each case, are not Transferable Permits and are required for Buyer to conduct the business and operations of the Auctioned Assets as currently conducted.

SECTION 5.11. Environmental Matters. (a) Except as set forth

in Schedule 5.11 or disclosed in the Filed Seller SEC Documents, Seller holds, and is in compliance with, the Environmental Permits required for Seller to conduct the business and operations of the Auctioned Assets as currently conducted under applicable Environmental Laws, and, to the knowledge of Seller, Seller is otherwise in compliance with applicable Environmental Laws with respect to the business and operations of the Auctioned Assets, except for such failures to hold or comply with such Environmental Permits, or such failures to be in compliance with such Environmental Laws, which would not, individually or in the aggregate, create a Material Adverse Effect.

(b) Except as set forth in Schedule 5.11 or disclosed in the Filed Seller SEC Documents, Seller has not received any written notice of violation of any Environmental Law or any written request for information with respect thereto, or been notified that it is a potentially responsible party under the Federal Comprehensive Environmental Response, Compensation, and Liability Act or any similar state law with respect to any real property included in the Buyer Real Estate or in any lease forming part of the Auctioned Assets, except for such matters under such laws as would not, individually or in the aggregate, create a Material Adverse Effect.

(c) Except as set forth in Schedule 5.11 or disclosed in the Filed Seller SEC Documents, with respect to the business and operations of the Auctioned Assets, Seller is not subject to any outstanding judgment, decree or judicial order relating to compliance with any Environmental Law or to investigation or cleanup of Hazardous Substances under any applicable Environmental Law, except for (i) the Seller Consent Orders and (ii) such judgments, decrees or judicial orders that would not, individually or in the aggregate, create a Material Adverse Effect.

(d) Except as set forth in Schedule 5.11 or disclosed in the Filed Seller SEC Documents, as of the date of this Agreement, there are no claims, actions, proceedings or investigations pending, or to the knowledge of Seller, threatened against or relating to Seller, with respect to the exposure at the Auctioned Assets of any person to Hazardous Substances, which, if adversely determined, would, individually or in the aggregate, create a Material Adverse Effect.

SECTION 5.12. Labor Matters. Seller has previously made available to Buyer copies of all collective bargaining agreements to which Seller is a party or is subject and which relate to the business or operations of the Auctioned Assets. With respect to the business and operations of the Auctioned Assets, as of the date of this Agreement, (a) Seller is in compliance with all applicable laws regarding employment and employment practices, terms and conditions of employment and wages and hours, (b) Seller has not received written notice of any unfair labor practice complaint against Seller pending before the National Labor Relations Board, (c) there is no labor strike, slowdown or stoppage actually pending or, to the knowledge of Seller, threatened against or affecting Seller, (d) Seller has not received notice that any representation petition respecting the employees of Seller has been filed with the National Labor Relations Board, (e) no arbitration proceeding arising out of or under collective bargaining agreements is pending against Seller and (f) Seller has not experienced any primary work stoppage since at least December 31, 1996, except, in the case of each of the foregoing clauses (a) through (f), for such matters as would not, individually or in the aggregate, create a Material Adverse Effect.

SECTION 5.13. ERISA; Benefit Plans. Schedule 5.13 sets forth a list of all material deferred compensation, profit-sharing, retirement and pension plans and all material bonus and other material employee benefit or fringe benefit plans maintained, or with respect to which contributions have been made, by Seller with respect to current or former employees employed in connection with the power generation operations of the Generating Plants and the Gas Turbines (collectively, "Benefit Plans"). Seller and each trade or business (whether or not incorporated) which are or have ever been under common control, or which are or have ever been treated as a single employer, with Seller under Section 414(b), (c), (m) or (o) of the Code (an "ERISA Affiliate") have fulfilled their respective obligations under the minimum funding requirements of Section 302 of ERISA, and Section 412 of the Code, with respect to each Benefit Plan which is an "employee pension benefit plan" as defined in Section 3(2) of ERISA and each such plan is in compliance in all material respects with the presently applicable provisions of ERISA and the Code, except for such failures to fulfill such obligations or comply with such provisions which would not, individually or in the aggregate, create a Material Adverse Effect. Neither Seller nor any ERISA Affiliate has incurred any liability under Section 4062(b) of ERISA, or any withdrawal liability under Section 4201 of ERISA, to the Pension Benefit Guaranty Corporation in connection with any Benefit Plan which is subject to Title IV of ERISA which liability remains outstanding, and there has not been any reportable event (as defined in Section 4043 of ERISA) with respect to any such Benefit Plan (other than a reportable event with respect to which the 30-day notice requirement has been waived by the PBGC). Neither Seller nor any ERISA Affiliate or parent

corporation, within the meaning of Section 4069(b) or Section 4212(c) of ERISA, has engaged in any transaction, within the meaning of Section 4069(b) or Section 4212(c) of ERISA. No Benefit Plan and no "employee pension benefit plan" (as defined in Section 3(2) of ERISA) maintained by Seller or any ERISA Affiliate or to which Seller or any ERISA Affiliate has contributed is a multiemployer plan.

SECTION 5.14. Taxes. With respect to the Auctioned Assets and trades or businesses associated with the Auctioned Assets, (a) all Tax Returns required to be filed have been filed and (b) all Taxes shown to be due on such Tax Returns, and all Taxes otherwise owed, have been paid in full, except to the extent that any failure to file or any failure to pay any Taxes would not, individually or in the aggregate, create a Material Adverse Effect. No written notice of deficiency or assessment has been received from any taxing authority with respect to liabilities for Taxes of Seller in respect of the Auctioned Assets which has not been fully paid or finally settled or which is not being contested in good faith through appropriate proceedings, except for any such notices regarding Taxes which would not, individually or in the aggregate, create a Material Adverse Effect. There are no outstanding agreements or waivers extending the applicable statutory periods of limitation for Taxes associated with the Auctioned Assets for any period, except for any such agreements or waivers which would not, individually or in the aggregate, create a Material Adverse Effect.

SECTION 5.15. Independent Engineering Assessments. (a) Seller has reviewed the 1998 assessments prepared by Stone & Webster with respect to the Generating Plants and the Gas Turbines (the "Independent Engineering Assessments"), and, except as set forth on Schedule 5.15(a), to the knowledge of Seller, as of the date of the Independent Engineering Assessments, there was no untrue statement of a material fact or omission of any material fact therein that would reasonably suggest that the condition of the Generating Plants and the Gas Turbines, taken as a whole, as of such date was materially and adversely different from that described in such Independent Engineering Assessments.

(b) Except as set forth on Schedule 5.15(b), since the date of the Independent Engineering Assessments, there has not been, subject to ordinary wear and tear and to routine maintenance, any casualty, physical damage, destruction or physical loss with respect to, or, to the knowledge of Seller, any adverse change in the physical condition of, any Generating Plant or Gas Turbine, except for such casualty, physical damage, destruction, physical loss or adverse change which would not, individually or in the aggregate, create a Material Adverse Effect.

SECTION 5.16. Undisclosed Liabilities. With respect to the Auctioned Assets, there are no liabilities or obligations of any nature or kind (absolute, accrued, contingent or otherwise) that would have been required to be set forth on a balance sheet in respect of the Auctioned Assets or in the notes thereto prepared in accordance with GAAP, as applied by Seller in connection with its December 31, 1997 balance sheet, except for any such liabilities or obligations which (a) are disclosed in or contemplated or permitted by this Agreement or the Ancillary Agreements (including the Assumed Obligations), (b) are disclosed in the Offering Memorandum, (c) are disclosed in the Filed Seller SEC Documents, (d) have been incurred in the ordinary course of business, (e) are disclosed on Schedule 5.16 or (f) which would not, individually or in the aggregate, create a Material Adverse Effect.

SECTION 5.17. Brokers. No broker, finder or other person is entitled to any brokerage fees, commissions or finder's fees in connection with the transaction contemplated hereby by reason of any action taken by Seller, except Morgan Stanley & Co. Incorporated, which is acting for and at the expense of Seller.

SECTION 5.18. Insurance. Seller carries policies of insurance covering fire, workers' compensation, property all-risk, comprehensive bodily injury, property damage liability, automobile liability, product liability, completed operations, explosion, collapse, contractual liability, personal injury liability and other forms of insurance relating to the Auctioned Assets, or otherwise self-insures in accordance with all statutory and regulatory criteria against any such liabilities, which insurance is in such amounts, has such deductibles and retentions and is underwritten by such companies as would be obtained by a reasonably prudent electric power business.

EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES EXPRESSLY SET FORTH IN THIS ARTICLE V, THE AUCTIONED ASSETS ARE BEING SOLD AND TRANSFERRED "AS IS, WHERE IS", AND SELLER IS NOT MAKING ANY OTHER REPRESENTATIONS OR WARRANTIES WRITTEN OR ORAL, STATUTORY, EXPRESS OR IMPLIED, CONCERNING SUCH AUCTIONED ASSETS OR WITH RESPECT TO THIS AGREEMENT OR THE ANCILLARY AGREEMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY, INCLUDING, IN PARTICULAR WITH RESPECT TO THE AUCTIONED ASSETS, ANY WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, ALL OF WHICH ARE HEREBY EXPRESSLY EXCLUDED AND DISCLAIMED BY SELLER AND WAIVED BY BUYER. WITHOUT LIMITING THE

GENERALITY OF THE FOREGOING, SELLER MAKES NO REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION SET FORTH IN, OR CONTEMPLATED BY, THE OFFERING MEMORANDUM (EXCEPT TO THE EXTENT EXPRESSLY INCORPORATED BY REFERENCE INTO THIS AGREEMENT).

ARTICLE VI

Representations and Warranties of Buyer

Buyer represents and warrants to Seller as follows:

SECTION 6.01. Organization. Buyer is a limited partnership duly formed, validly existing and in good standing under the laws of the State of Delaware and has all requisite power and authority to own, lease and operate its properties and to carry on its business as is now being conducted. Buyer shall be duly qualified and licensed to do business as a foreign corporation and is in good standing in the State of New York on or prior to the Closing Date.

SECTION 6.02. Authority Relative to This Agreement. Buyer has all necessary power and authority to execute and deliver this Agreement and the Ancillary Agreements to which it is party and to consummate the transactions contemplated hereby and thereby. The execution and delivery by Buyer of this Agreement and such Ancillary Agreements and the consummation by Buyer of the transactions contemplated hereby and thereby have been duly and validly authorized by the Board of Directors of the general partner of Buyer and no other proceedings on the part of Buyer are necessary to authorize this Agreement or such Ancillary Agreements or the consummation of the transactions contemplated hereby or thereby. This Agreement and such Ancillary Agreements have been duly and validly executed and delivered by Buyer and, assuming that this Agreement and the Ancillary Agreements constitute valid and binding agreements of Seller and each other party thereto, subject to the receipt of the Buyer Required Regulatory Approvals and the Seller Required Regulatory Approvals, this Agreement and the Ancillary Agreements constitute valid and binding agreements of Buyer, enforceable against Buyer in accordance with their respective terms.

SECTION 6.03. Consents and Approvals; No Violation. (a) Subject to obtaining the Buyer Required Regulatory Approvals and the Seller Required Regulatory Approvals, neither the execution and delivery of this Agreement or the Ancillary Agreements to which it is party by Buyer nor the purchase by Buyer of the Auctioned Assets pursuant to this Agreement will (i) conflict with or result in any breach of any provision of the limited partnership agreement (or other similar governing documents) of Buyer, (ii) result in a default (or give rise to any right of termination, cancelation or acceleration) under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, license, agreement, lease or other instrument or obligation to which Buyer or any of its subsidiaries is a party or by which any of their respective assets may be bound or (iii) violate any order, writ, injunction, decree, statute, rule or regulation applicable to Buyer, or any of its assets, except in the case of clauses (ii) and (iii) for such failures to obtain a necessary consent, defaults and violations which would not, individually or in the aggregate, have a material adverse effect on the ability of Buyer to consummate the transactions contemplated by, and discharge its obligations under, this Agreement and the Ancillary Agreements (a "Buyer Material Adverse Effect").

(b) Except for (i) approval of the PSC pursuant to ss. 70 of the Public Service Law of the State of New York, of the transfer to Buyer of the Auctioned Assets, (ii) the filings by Buyer and Seller required by the HSR Act and the expiration or earlier termination of all waiting periods under the HSR Act, (iii) application by Buyer to, and the approval of, FERC under (A) Section 203 of the Federal Power Act with respect to the transfer of Auctioned Assets constituting jurisdictional assets under the Federal Power Act and (B) Section 205 of the Federal Power Act with respect to (1) each Continuing Site Agreement and any wholesale power sales agreement to be entered into by Seller and Buyer, including the Transition Capacity Agreement, and (2) authorization to sell capacity and energy from Generating Plants and Gas Turbines at market-based rates (provided, however, that Buyer acknowledges that "market- based rates" for the purpose of this Agreement means rates that are subject to any bid cap, price limitation or other market power mitigation measure imposed by FERC or PSC in respect of the New York State or New York City wholesale and retail energy and capacity electric power markets or any other restriction imposed by FERC or PSC with respect to the power generation operations and assets of Buyer, including the FERC Order Accepting Market Power Mitigation Measures dated September 22, 1998, as modified (Docket No. ER98-3169-000) (the "Mitigation Measures")), (iv) qualification of Buyer, with respect to the Auctioned Assets, as an exempt wholesale generator under the Energy Policy Act of 1992, (v) the issuance of approval by the New York City Department of Buildings and, to the extent required, the New York City Department of Business Services of the tax lot subdivision contemplated by this Agreement in a form suitable for submission to the New York City Department of Finance for the issuance of tax lot numbers and (vi) obtaining the Revocable

Consent from the City of New York (collectively, the "Buyer Required Regulatory Approvals"), no declaration, filing or registration with, or notice to, or authorization, consent or approval of any Governmental Authority is necessary for the consummation by Buyer of the transactions contemplated hereby or by the Ancillary Agreements, other than such declarations, filings, registrations, notices, authorizations, consents or approvals (A) which, if not obtained or made would not, individually or in the aggregate, have a Buyer Material Adverse Effect or (B) which relate to the Transferable Permits.

(c) To the knowledge of Buyer, there is no reason that it should fail to obtain the Buyer Required Regulatory Approvals.

SECTION 6.04. Availability of Funds. Buyer will have sufficient funds available to it or will have received binding written commitments (copies of which will be delivered to Seller when available) from one or more nationally recognized financial institutions to provide sufficient funds on the Closing Date to pay the Purchase Price and Estimated Adjustment Amount.

SECTION 6.05. Brokers. No broker, finder or other person is entitled to any brokerage fees, commissions or finder's fees in connection with the transaction contemplated hereby by reason of any action taken by Buyer.

ARTICLE VII

Covenants of the Parties

SECTION 7.01. Conduct of Business Relating to the Auctioned Assets. (a) Except with the prior written consent of Buyer (such consent not to be unreasonably withheld) or as required to effect the purchase and sale of the Auctioned Assets and related transactions contemplated by this Agreement, during the period from the date of this Agreement to the Closing Date, Seller will operate the Auctioned Assets in the usual, regular and ordinary course and in accordance with good industry practice and applicable legal requirements, and continue to pay accounts payable which relate to the Auctioned Assets in a timely manner, consistent with past practice.

(b) Notwithstanding the foregoing, except as contemplated in this Agreement or the Ancillary Agreements, prior to the Closing Date, without the prior written consent of Buyer (such consent not to be unreasonably withheld), Seller will not:

(i) except for Permitted Exceptions, grant any Encumbrance on the Auctioned Assets securing any indebtedness for borrowed money or guarantee or other liability for the obligations of any person;

(ii) make any material change in the levels of fuel inventory and supplies, materials and spare parts inventory customarily maintained by Seller with respect to the Auctioned Assets, other than consistent with past practice (including the use of spare parts in connection with certain power generation assets of Seller described in the Offering Memorandum other than the Generating Plants or Gas Turbines);

(iii) sell, lease (as lessor), transfer or otherwise dispose of, any of the Auctioned Assets, other than assets that become obsolete or assets used, consumed or replaced in the ordinary course of business consistent with past practice (including the use of spare parts in connection with certain power generation assets of Seller described in the Offering Memorandum other than the Generating Plants or Gas Turbines);

(iv) terminate, materially extend or otherwise materially amend any of the Contracts (other than in accordance with their respective terms) or waive any default by, or release, settle or compromise any material claim against, any other party thereto;

(v) amend any of the Transferable Permits, other than (A) Transferable Permits not material to the operations of the Auctioned Assets as currently conducted, (B) as reasonably necessary to complete the transfer of Permits as contemplated hereby, (C) routine renewals or non-material modifications or amendments and (D) modifications, alterations and amendments contemplated by Section 7.03(b);

(vi) enter into any Contract for the purchase, sale or storage of fuel with respect to the Auctioned Assets (whether commodity or transportation) with a term in excess of 12 months, if the aggregate future liability or receivable outstanding on the date for measurement for the purpose of this covenant for all such Contracts would be in excess of $2 million, not including any such Contract terminable by notice of not more than 30 days without penalty or cost (other than de minimis administrative costs); provided, however, that Seller may enter into Contracts for the storage of fuel with respect to the Auctioned Assets with a term ending not later than December 31, 2000 and otherwise on terms consistent with Seller's past practice;

(vii) (A) establish, adopt, enter into or amend any Collective Bargaining Agreement or Benefits Plans, except (1) if such action would not create a Material Adverse Effect or (2) as required under applicable law or under the terms of any Collective Bargaining

Agreement or (B) grant to any Affected Employee any increase in compensation, except (1) in the ordinary course of business consistent with past practice or (2) to the extent required by the terms of any Collective Bargaining Agreement, employment agreement in effect as of the date of this Agreement or applicable law;

(viii) enter into any Contract with respect to the Auctioned Assets for goods or services not addressed in clauses (i) through (vii) with a term in excess of 12 months, if the aggregate future liability or receivable outstanding on the date for measurement for the purpose of this covenant for all such Contracts would be in excess of $2 million, not including any such Contract terminable by notice of not more than 30 days without penalty or cost (other than de minimis administrative costs); provided, however, that notwithstanding any other provision of this Agreement to the contrary, Seller may (A) enter into any Contract reasonably necessary to effect the physical, legal or operational separation of the sites on which the Auctioned Assets are located or to otherwise implement the change of ownership contemplated hereby, or subdivision, of such sites or implement the provisions of the Ancillary Agreements and (B) enter into and record the Declarations of Subdivision Easements; or

(ix) enter into any Contract with respect to the Auctioned Assets relating to any of the transactions set forth in the foregoing clauses (i) through (viii).

(c) Without limiting the generality of Sections 7.01(a) and (b), to the extent Section 7.01(a) or (b) prohibits Seller from entering into any Contract for goods and services in connection with maintenance or capital expenditures, Buyer agrees that Seller may request Buyer's consent to enter into such Contract, such consent not to be unreasonably withheld, and to the extent Buyer so consents, all liabilities and obligations under such Contract shall constitute Assumed Obligations and Buyer shall otherwise reimburse Seller for all its expenditures thereunder.

(d) Notwithstanding anything in this Section 7.01 to the contrary, Seller may take any action, incur any expense or enter into any obligation with respect to the Auctioned Assets to the extent that (i) all obligations and liabilities arising with respect thereto do not constitute Assumed Obligations or (ii) Seller otherwise provides that such obligations and liabilities shall not be assumed or retained by Buyer.

(e) Notwithstanding anything in this Section 7.01 to the contrary, Seller may (i) amend the NYPA Operating Agreement in order to (A) provide NYPA with the use of the fuel handling facilities related to the A-10 dock at Astoria for fuel oil deliveries in accordance with historic fuel deliveries to NYPA at such dock, (B) establish procedures for scheduling such fuel oil deliveries to provide a fair allocation of the right to use such fuel handling facilities, (C) provide for reimbursement of NYPA for incremental, reasonable fuel costs incurred by NYPA to obtain replacement fuel when Buyer fails to satisfy its obligations under the NYPA Agreements assumed pursuant to Section 2.03(a)(xii) and relating to the obligations described in clause (A) or clause (B) above and (D) provide for the installation by NYPA of water meters and the allocation of charges for water as between NYPA and Buyer based on readings therefrom and (ii) obtain title to the machinery, equipment, facilities, furniture and other personal property listed on Schedule 2.02(a)(iii)(D), and Buyer agrees that the Assumed Seller Obligations under NYPA Agreements shall be deemed amended accordingly.

SECTION 7.02. Access to Information. (a) Between the date of this Agreement and the Closing Date, Seller will, subject to the Confidentiality Agreement, during ordinary business hours and upon reasonable notice (i) give Buyer and its representatives reasonable access (A) to all books, records, plants, offices and other facilities and properties constituting the Auctioned Assets, including for the purpose of observing the operation by Seller of the Auctioned Assets and (B) to the Auctioned Assets that are not located at the Generating Plants or Gas Turbines for the purpose of preparing to store spare parts after the Closing, (ii) permit Buyer to make such reasonable inspections thereof as Buyer may reasonably request, (iii) furnish Buyer with such financial and operating data and other information with respect to the Auctioned Assets as Buyer may from time to time reasonably request, (iv) furnish Buyer upon request a copy of each material report, schedule or other document with respect to the Auctioned Assets filed by Seller with, or received by Seller from, the PSC or FERC; provided, however, that (A) any such activities shall be conducted in such a manner as not to interfere unreasonably with the operation of the Auctioned Assets, (B) Seller shall not be required to take any action which would constitute a waiver of the attorney-client privilege and (C) Seller need not supply Buyer with (1) any information or access which Seller is under a legal obligation not to supply or (2) any information which Seller has previously supplied to Buyer. Notwithstanding anything in this Section 7.02 to the contrary, (I) Seller will not be required to provide such information or access to any employee records other than Transferring Employee Records, (II) Buyer shall not have the right to perform or conduct any environmental sampling or testing at, in, on, around or underneath the Auctioned Assets and (III) Seller shall not be required to

provide such access or information with respect to any Retained Asset or Retained Liabilities.

(b) Unless otherwise agreed to in writing by Buyer, Seller shall, for a period commencing on the Closing Date and terminating three years after the Closing Date, keep confidential and shall cause its representatives to keep confidential all Confidential Information (as defined in the Confidentiality Agreement) on the terms set forth in the Confidentiality Agreement. Except as contemplated by the following sentence, Seller shall not release any person from any confidentiality agreement now existing with respect solely to the Auctioned Assets or waive or amend any provision thereof. After the Closing Date, upon reasonable request of Buyer, Seller shall, to the maximum extent permitted by law and the applicable Bidder Confidentiality Agreement (as defined below), appoint Buyer to be Seller's representative and agent in respect of confidential information relating to the Auctioned Assets under the confidentiality agreements ("Bidder Confidentiality Agreements") between Seller and prospective purchasers of certain generation assets of Seller of which the Auctioned Assets form part.

(c) From and after the Closing Date, Buyer shall retain all Operating Records (whether in electronic form or otherwise) relating to the Auctioned Assets on or prior to the Closing Date. Buyer also agrees that, from and after the Closing Date, Seller shall have the right, upon reasonable request to Buyer, to receive from Buyer copies of any Operating Records or other information in Buyer's possession relating to the Auctioned Assets on or prior to the Closing Date and required by Seller in order to comply with applicable law. Seller shall reimburse Buyer for its reasonable costs and expenses incurred in connection with the foregoing sentence.

SECTION 7.03. Consents and Approvals; Transferable Permits. (a) Seller and Buyer shall cooperate with each other and (i) prepare and file (or otherwise effect) as soon as practicable all applications, notices, petitions and filings with respect to and (ii) use their reasonable best efforts (including negotiating in good faith modifications and amendments to this Agreement and the Ancillary Agreements) to obtain (A) the Seller Required Regulatory Approvals and the Buyer Required Regulatory Approvals and (B) any other consents, approvals or authorizations of any other Governmental Authorities or third parties that are necessary to consummate the transactions contemplated by this Agreement or the Ancillary Agreements. Without limiting the generality of the foregoing, (1) each Party agrees to, upon the other Party's request, support such other Party's applications for regulatory approvals of the purchase and sale of the Auctioned Assets contemplated by this Agreement, (2) Buyer agrees not to seek any relief from, or modifications or amendments in respect of, any bid cap, price limitation or other market power mitigation measure or other restriction with respect to any power generation operations and assets described in or contemplated by Section 6.03(b)(iii)(B)(2) until after the Closing Date and (3) Buyer and Seller agree to defend any lawsuits or other legal proceedings, whether judicial or administrative, challenging this Agreement or the Ancillary Agreements, or the consummation of the transactions contemplated hereby or thereby, including seeking to have any stay or temporary restraining order entered by any Governmental Authority vacated or reversed.

(b) Upon execution of this Agreement, Seller shall commence the process of transferring to Buyer the Transferable Permits, including completing and filing applications and related documents with the appropriate Governmental Authorities. Seller hereby reserves the right to modify, alter or amend any Transferable Permit or to refuse to correct violations or deficiencies in respect of any Transferable Permit as long as such modification, alteration, amendment or refusal would not, individually or in the aggregate, create a Material Adverse Effect. Seller shall use its reasonable best efforts to give notice to Buyer of any modification, alteration or amendment to any Transferable Permit.

(c) Seller shall use its reasonable best efforts to cooperate with Buyer in the transfer of Transferable Permits to Buyer by Closing. If the transfer of any Transferable Permit cannot be completed by Closing, Buyer is hereby authorized, but not required, to act as Seller's representative and agent in respect of such Transferable Permit and to do all things necessary for effecting transfer of such Transferable Permit as soon after the Closing as is practicable, with Seller remaining the Transferable Permit "holder of record" in such case until such transfer is completed. In the case of each such Transferable Permit, Seller shall, to the maximum extent permitted by law and such Transferable Permit, enter into such reasonable arrangements with Buyer as are necessary to provide Buyer with the benefits and obligations of such Transferable Permit. If Buyer is able to complete the transfer of any Transferable Permit after Closing without the occurrence of any event that, if such event had occurred between the execution of this Agreement and the Closing, would have created, individually or in the aggregate, a Material Adverse Effect, Seller may substitute Buyer in its place and stead as the Party responsible for completing the transfer of such Transferable Permit.

SECTION 7.04. Further Assurances. (a) Subject to the terms and conditions of this Agreement, each of the Parties will use its reasonable best efforts to take, or cause to be taken, as soon as possible, all action, and to do, or cause to be done, as soon as possible, all things necessary, proper or advisable under applicable laws and regulations to consummate the sale of the Auctioned Assets pursuant to this Agreement as soon as possible, including using its reasonable best efforts to ensure satisfaction of the conditions precedent to each Party's obligations hereunder. Prior to Buyer's submission of any application with a Governmental Authority for a regulatory approval, Buyer shall submit such application to Seller for review and comment and Buyer shall incorporate into such application any revisions reasonably requested by Seller. Neither of the Parties will, without prior written consent of the other Party, take or fail to take, or permit their respective Affiliates to take or fail to take, any action, which would reasonably be expected to prevent or materially impede, interfere with or delay the consummation, as soon as possible, of the transactions contemplated by this Agreement or the Ancillary Agreements. Without limiting the generality of the foregoing, each of the Parties shall use its reasonable best efforts to negotiate in good faith as soon as possible after the date of this Agreement, and enter into (i) the A-0 License and the A-10 License, the terms of which shall be substantially as set forth in Exhibits H and F, respectively, (ii) to the extent required to achieve subdivision of the Astoria site, one or more contracts, agreements or other arrangements satisfactory to the New York City Fire Department regarding fire prevention at the Astoria site and (iii) any other agreement reasonably necessary to consummate the sale of the Auctioned Assets pursuant to this Agreement as soon as possible.

(b) From time to time after the date hereof, without further consideration and at its own expense, (i) Seller will execute and deliver such instruments of assignment or conveyance as Buyer may reasonably request to more effectively vest in Buyer Seller's title to the Auctioned Assets (subject to Permitted Exceptions and the other terms of this Agreement) and (ii) Buyer will execute and deliver such instruments of assumption as Seller may reasonably request in order to more effectively consummate the sale of the Auctioned Assets and the assumption of the Assumed Obligations pursuant to this Agreement.

(c) Seller shall not, and shall use its reasonable best efforts to cause its Affiliates not to, sponsor or support any recommendation or application to effect prior to April 1, 2002 (i) a reduction in the locational generation capacity requirement that 80% of New York City peak electric loads must be met with in-City generation capacity, as in effect as of the date of this Agreement, unless such reduction is justified by a significant change in the transmission import capability into New York City whether as a result of actions by Seller or others, (ii) a reduction in the $105/kW-year bid and price cap in respect of capacity under the Mitigation Measures, as in effect as of the date of this Agreement or (iii) a change in the method of determining required system capability set forth in NYPP Billing Procedure 4-11 (Installed Reserve Requirements), as in effect as of the date of this Agreement that would reduce the installed reserve requirements for the winter capability period applicable to summer peaking systems if such reduction would also reduce the annual price for installed capacity that Buyer could otherwise obtain.

(d) Seller shall join or support Buyer's application to the PSC for the certification required under Section 32(c) of the Public Utility Holding Company Act of 1935 in order for Buyer to obtain qualification, with respect to the Auctioned Assets, as an exempt wholesale generator under the Energy Policy Act of 1992.

(e) Seller and Buyer shall cooperate in good faith to establish a transition committee to consider operational and business issues related to the purchase and sale of the Auctioned Assets.

(f) Prior to the Closing Date, Seller shall cooperate in good faith with Buyer to enable Buyer to obtain insurance in respect of the Auctioned Assets comparable to that maintained by Seller as of the date of this Agreement.

(g) Seller and Buyer shall cooperate in good faith to enable Buyer to obtain fuel storage capacity with respect to the Auctioned Assets.

SECTION 7.05. Public Statements. The Parties shall consult with each other prior to issuing any public announcement, statement or other disclosure with respect to this Agreement, the Ancillary Agreements or the transactions contemplated hereby or thereby, including any statement appearing in any filing contemplated hereby or thereby, and shall not issue any such public announcement, statement or other disclosure prior to such consultation, except as may be required by law.

SECTION 7.06. Tax Matters. (a) All transfer and sales taxes (including any petroleum business taxes and similar excise taxes on sales of petroleum based products) incurred in connection with this Agreement and the transactions

contemplated hereby shall be borne by Buyer. Buyer shall prepare and file in a timely manner any and all Tax Returns or other documentation relating to such taxes; provided, however, that, to the extent required by applicable law, Seller will join in the execution of any such Tax Returns or other documentation relating to any such taxes. Buyer shall provide to Seller copies of each Tax Return described in the proviso in the preceding sentence at least 30 days prior to the date such Tax Return is required to be filed.

(b) At Seller's election, but on no less than 10 Business Days' notice to Buyer, the transfer of the Auctioned Assets and the receipt of the Purchase Price shall be made through a qualified intermediary in a manner satisfying the requirements of Treasury Regulation Section 1.1031(k)-1(g), so long as such election by Seller does not create a Material Adverse Effect and Seller indemnifies Buyer for its additional costs and expenses incurred by reason of such election.

(c) Each Party shall provide the other Party with such assistance as may reasonably be requested by the other Party in connection with the preparation of any Tax Return, any audit or other examination by any taxing authority, or any judicial or administrative proceedings relating to liability for Taxes, and each Party shall retain and provide the other Party with any records or information which may be relevant to such return, audit, examination or proceedings. Any information obtained pursuant to this Section 7.06(c) or pursuant to any other Section hereof providing for the sharing of information or review of any Tax Return or other instrument relating to Taxes shall be kept confidential by the parties hereto.

(d) If either Buyer or Seller receives a refund of Taxes in respect of the Auctioned Assets for a taxable period including the Closing Date, Buyer shall pay to Seller the portion of any such refund attributable to the portion of such taxable period prior to the Closing Date, and Seller shall pay to Buyer the portion of any such refund attributable to the portion of such taxable period on and after the Closing Date.

SECTION 7.07. Bulk Sales or Transfer Laws. Buyer acknowledges that Seller will not comply with the provisions of any bulk sales or transfer laws of any jurisdiction in connection with the transactions contemplated by this Agreement. Buyer hereby waives compliance by Seller with the provisions of the bulk sales or transfer laws of all applicable jurisdictions.

SECTION 7.08. Storage. Seller shall store for Buyer the Auctioned Assets described in the second sentence of Section 2.01 until the date that is six months after the Closing Date or, in respect of all or a portion of such Auctioned Assets, until one or more earlier dates proposed by Buyer with reasonable advance notice, which schedule shall be reasonably acceptable to Seller. Buyer agrees to reimburse Seller for its reasonable costs and expenses in connection with such storage. Buyer agrees that Seller shall have no responsibility or liability for the actual removal of such Auctioned Assets from the actual storage location, and that Buyer shall have sole responsibility therefor. Notwithstanding the provisions of Section 10.01, Buyer agrees that Seller shall have no liability for loss or damage with respect to the matters contemplated by this Section 7.08 or such Auctioned Assets, and Buyer agrees to hold each Seller Indemnitee harmless from and against all loss or damage or Indemnifiable Losses, and to indemnify each Seller Indemnitee from and against all loss or damage or Indemnifiable Losses incurred, asserted against or suffered as a result of any storage or other services provided by Seller pursuant to this Section 7.08, in each case, except to the extent any such loss or damage or Indemnifiable Loss results in whole or in part from the gross negligence or wilful or wanton acts or omissions to act of any Seller Indemnitee (or any contractor or subcontractor of Seller).
SECTION 7.09. Information Resources. From the Closing Date until the date that is three months thereafter, Seller shall provide Buyer with access to Seller's mainframe computer only to the extent reasonably necessary to enable Buyer to use the PPMIS and MMS (in read only mode) systems and applications solely in connection with the Auctioned Assets. Buyer agrees that it will not use any such access for any purpose other than for the use of the PPMIS and MMS systems and applications solely in connection with the Auctioned Assets. Buyer acknowledges that, as long as it retains access to Seller's mainframe computer, Seller, its employees and third parties may have access to Buyer's information resources systems and applications (including the PPMIS and MMS systems and applications served by Seller's mainframe computer). Notwithstanding the provisions of Section 10.01, Buyer agrees that Seller shall have no liability or obligation whatsoever with respect to the matters contemplated by this Section 7.09, and Buyer agrees to hold each Seller Indemnitee harmless from and against all loss or damage or Indemnifiable Losses, and to indemnify each Seller Indemnitee from and against all loss or damage or Indemnifiable Losses incurred, asserted against or suffered as a result of Buyer's access to Seller's mainframe computer pursuant to this Section 7.09, in each case, except to the extent any such loss or damage or Indemnifiable Loss results in whole or in part from the gross negligence or wilful or wanton acts or omissions to act of any Seller Indemnitee (or any contractor or subcontractor of Seller).

SECTION 7.10. Witness Services. At all times from and after the Closing Date, each Party shall use reasonable best efforts to make available to the other Party, upon reasonable written request, its and its subsidiaries' then current or former officers, directors, employees (including former employees of Seller) and agents as witnesses to the extent that (i) such persons may reasonably be required by such requesting Party in connection with any claim, action, proceeding or investigation in which such requesting Party may be involved and (ii) there is no conflict between Buyer and Seller in such claim, action, proceeding or investigation. Such other Party shall be entitled to receive from such requesting Party, upon the presentation of invoices for such witness services, payments for such amounts, relating to supplies, disbursements and other out-of-pocket expenses and direct and indirect costs of employees who are witnesses, as may be reasonably incurred in providing such witness services.

SECTION 7.11. Consent Orders. Buyer and Seller agree to cooperate with each other and NYSDEC to facilitate the entry of a consent order between NYSDEC and Buyer, wherein Buyer will agree to assume and perform the Assumed Consent Order Obligations.

SECTION 7.12. Nitrogen Oxide Allowances. Seller agrees to negotiate in good faith with NYSDEC for nitrogen oxide allowances to be allocated to the Auctioned Assets for any period subsequent to the year 2002.

SECTION 7.13. Trade Names. Seller shall not object to the use by Buyer of any trade names, trademarks, service marks or logos (and any rights to and in the same, including any right to use the same) primarily relating to the Generating Facilities that contain the words "Astoria", "Gowanus" or "Narrows".

SECTION 7.14. NYPA Agreements. (a) Seller shall, to the maximum extent permitted by law and the NYPA Agreements, enter into such reasonable arrangements with Buyer as are necessary to provide Buyer with the benefits of Seller's rights and interests under the NYPA Agreements relating to the Auctioned Assets and set forth on Schedule 7.14.

(b) Buyer hereby acknowledges that Seller has provided it with copies of the NYPA Agreements.

SECTION 7.15. Narrows. From the date of this Agreement to the Closing and notwithstanding anything to the contrary contained in Section 7.01, Seller shall use its reasonable best efforts to obtain in the following order of preference (a) (i) fee title, or (ii) a permanent easement to maintain and operate the existing Narrows Gas Turbines (the "Narrows Turbines") at the Narrows Gas Turbine Site in a manner consistent with the operation by Seller of the Narrows Turbines in the past or (b) if the options in clause (a) above are not capable of being obtained within a reasonable period (which period may run prior to Closing) a long term lease with a lease term of not less than 20 years having terms reasonably satisfactory to Buyer that will permit the maintenance and operation of the Narrows Turbines at the Narrows Gas Turbine Site in a manner consistent with the operation by Seller of the Narrows Turbines in the past, in each case in respect of that real property described on Schedule 7.15. From the Closing until the third anniversary of the date of this Agreement, Buyer shall, at its election, either (x) take over Seller's efforts to obtain such fee title, easement or long term lease (and in such event Buyer shall keep Seller informed of its efforts, consult with Seller in its efforts and act in a commercially reasonable manner in its efforts) and, in the event Buyer has taken over the efforts referred to above, Seller shall reimburse Buyer for its reasonable costs and expenses incurred in pursuing such efforts, or (y) require Seller to continue to use its reasonable best efforts to obtain such fee title, easement or long term lease. The amounts paid or payable to obtain such fee title, easement or long term lease shall be the responsibility of Seller; provided, however, that the amounts payable by Seller under this Section 7.15, including by way of reimbursement to Buyer, shall not exceed $5 million in the aggregate. Seller's obligations under this Section 7.15 shall cease in all respects upon such third anniversary.

ARTICLE VIII

Conditions

SECTION 8.01. Conditions Precedent to Each Party's Obligation To Effect the Purchase and Sale. The respective obligations of each Party to effect the purchase and sale of the Auctioned Assets shall be subject to the satisfaction or waiver by such Party on or prior to the Closing Date of the following conditions, unless, in the case of Section 8.01(c) below, the PSC determines that such condition need not be included or complied with:

(a) the Seller Required Regulatory Approvals and Buyer Required Regulatory Approvals, other than the Revocable Consent, shall have been obtained and all conditions to effectiveness prescribed therein or otherwise by law, regulation or order shall

have been satisfied; provided, however, that if at the time any Seller Required Regulatory Approval or Buyer Required Regulatory Approval is obtained, a Party reasonably expects a request for rehearing or a challenge thereto to be filed or if a request for rehearing or a challenge thereto has been filed, in each case, which, if successful, would cause such Seller Required Regulatory Approval or Buyer Required Regulatory Approval, as the case may be, to be reversed, stayed, enjoined, set aside, annulled, suspended or substantially modified, then such Party may by notice to the other Party within five Business Days after receipt of such Seller Required Regulatory Approval or Buyer Required Regulatory Approval, as the case may be, delay the Closing until the time for requesting rehearing has expired or until such challenge is decided, in each case, whether or not any appeal thereof is pending; provided further, however, that if the Closing is delayed pursuant to the foregoing provision, the Termination Date shall be automatically extended for a period of time equal to the period of such delay;

(b) no preliminary or permanent injunction or other order or decree by any Federal or state court of competent jurisdiction and no statute or regulation enacted by any Governmental Authority prohibiting the consummation of the purchase and sale of the Auctioned Assets (collectively, "Restraints") shall be in effect;

(c) the ISO shall have become operational to the extent reasonably necessary to monitor market power in respect of the Auctioned Assets; and

(d) delivery of each Continuing Site Agreement, each Declaration of Easements Agreement, each Declaration of Subdivision Easements and each Zoning Lot Development Agreement
to the Title Company for recording.

SECTION 8.02. Conditions Precedent to Obligation of Buyer To Effect the Purchase and Sale. The obligation of Buyer to effect the purchase and sale of the Auctioned Assets contemplated by this Agreement shall be subject to the satisfaction or waiver by Buyer on or prior to the Closing Date of the following additional conditions:

(a) Seller shall have performed in all material respects its covenants and agreements contained in this Agreement which are required to be performed on or prior to the Closing Date;

(b) the representations and warranties of Seller which are set forth in this Agreement shall be true and correct as of the date of this Agreement and as of the Closing Date, as if made at and as of such time (except to the extent expressly made as of an earlier date, in which case as of such date), except where the failure of such representations and warranties to be so true and correct (without giving effect to any limitation as to "materiality" or "Material Adverse Effect" set forth therein) would not, individually or in the aggregate, create a Material Adverse Effect;

(c) Buyer shall have received a certificate from an authorized officer of Seller, dated the Closing Date, to the effect that, to the best of such officer's knowledge, the conditions set forth in Sections 8.02(a) and (b) have been satisfied;

(d) all material Permits and Environmental Permits required for Buyer to conduct the business and operations of the Auctioned Assets as currently conducted shall have been transferred or will be transferable to Buyer, or shall have been obtained or will be obtainable by Buyer, or shall have been made available to Buyer in accordance with Section 7.03(c), on, prior to or within a reasonable period of time after the Closing Date;

(e) Buyer shall have received (i) the deeds of conveyance substantially in the form of Exhibits B-1 and B-2, respectively, (ii) a Foreign Investment in Real Property Tax Act Certification and Affidavit substantially in the form of Exhibit C and (iii) an opinion from John D. McMahon, Esq., General Counsel of Seller or other counsel reasonably acceptable to Buyer, dated the Closing Date, substantially in the form set forth in Exhibit D;

(f) execution and delivery by Seller of each of (i) the Transition Capacity Agreement and the Zoning Lot Development Agreements and (ii) the A-10 License and the A-0 License, each in a form reasonably satisfactory to Buyer;

(g) the Title Company shall be willing to issue to Buyer a New York form of ALTA (1992) Owner's Title Insurance Policy insuring fee title to the Buyer Real Estate in an amount equal to that portion of the Purchase Price properly allocable to Buyer Real Estate, subject only to the Permitted Exceptions;

(h) Buyer shall have received originals of the ALTA/ACSM Land Title Surveys which include the Buyer Real Estate in addition to other property, signed by the surveyor with Buyer's name and the name of not more than one other Party designated by Buyer added to the certification set forth thereon; and

(i) (x) There shall not be any New York State Governmental Authority with jurisdiction seeking to prevent Buyer from operating the Narrows Turbines on the Narrows Gas Turbine Site in a manner consistent with the operation of the Narrows Turbines by Seller in the past as a result of the state of title in respect of the real property described in Schedule 7.15 and (y) if (x) is not satisfied, the presence of the state of facts in (x) in and of itself and without regard to

any other facts or circumstances, will not have a reasonable probability of materially and adversely affecting Buyer's ability to obtain financing for the acquisition of the Auctioned Assets (it being understood that the obtaining of a "use permit" or equivalent Permit from the appropriate Governmental Authority in form and substance reasonably satisfactory to Buyer in respect of such real property and the Narrows Turbines by Buyer shall satisfy this condition and the obtaining of fee title, an easement or long term lease satisfying the requirements of Section 7.15 shall also satisfy such condition).

SECTION 8.03. Conditions Precedent to Obligation of Seller To Effect the Purchase and Sale. The obligation of Seller to effect the purchase and the sale of the Auctioned Assets contemplated by this Agreement shall be subject to the satisfaction or waiver by Seller on or prior to the Closing Date of the following additional conditions:

(a) Buyer shall have performed in all material respects its covenants and agreements contained in this Agreement which are required to be performed on or prior to the Closing Date;

(b) the representations and warranties of Buyer which are set forth in this Agreement shall be true and correct as of the date of this Agreement and as of the Closing Date, as if made at and as of such time (except to the extent expressly made as of an earlier date, in which case as of such date), except where the failure of such representations and warranties to be so true and correct (without giving effect to any limitation as to "materiality" or "Buyer Material Adverse Effect" set forth therein) would not, individually or in the aggregate, create a Buyer Material Adverse Effect;

(c) Seller shall have received a certificate from an authorized officer of Buyer, dated the Closing Date, to the effect that, to the best of such officer's knowledge, the conditions set forth in Sections 8.03(a) and (b) have been satisfied;

(d) Seller shall have received an opinion substantially in the form of Exhibit E dated as of the Closing Date and from counsel reasonably acceptable to Seller;

(e) execution and delivery by Buyer of each of (i) Transition Capacity Agreement, the Gowanus Zoning Lot Development Agreement and, unless executed and delivered prior to the Closing Date, the Astoria Zoning Lot Development Agreement and (ii) the A-10 License and the A-0 License, each in a form reasonably satisfactory to Seller;

(f) Buyer shall have provided evidence in form and substance reasonably satisfactory to Seller of compliance by Buyer with its obligations under Article IX;

(g) the Guarantee Agreement shall be in full force and effect;

(h) Guarantor shall have performed in all material respects its covenants and agreements contained in the Guarantee Agreement which are required to be performed on or prior to the Closing Date;

(i) the representations and warranties of Guarantor which are set forth in the Guarantee Agreement shall be true and correct as of the date of the Guarantee Agreement and as of the Closing Date, as if made at and as of such time (except to the extent expressly made as of an earlier date, in which case as of such date), except where the failure of such representations and warranties to be so true and correct (without giving effect to any limitation as to "materiality" or "Guarantor Material Adverse Effect" set forth therein) would not, individually or in the aggregate, create a Guarantor Material Adverse Effect (as defined therein);

(j) Seller shall have received a certificate from an authorized officer of Guarantor, dated the Closing Date, to the effect that, to the best of such officer's knowledge, the conditions set forth in Sections 8.03(h) and (i) have been satisfied; and

(k) Seller shall have received an opinion substantially in the form of Exhibit L dated the Closing Date and from counsel reasonably acceptable to Seller.

ARTICLE IX

Employee Matters

SECTION 9.01. Employee Matters. (a) Buyer shall offer equivalent employment at the Auctioned Assets to those employees of Seller regularly assigned by Seller to work at the Auctioned Assets on the Closing Date in the job titles and facilities listed in Schedule 9.01(a)(all such employees described above and those individuals described in the following sentence being hereinafter referred to as "Affected Employees"). Affected Employees include each such employee of Seller who is not actively at work on the Closing Date due solely to a temporary short-term absence, whether paid or unpaid, in accordance with applicable policies of Seller, including as a result of vacation, holiday, personal time, leave of absence, union leave, short- or long-term disability leave, military leave or jury duty. Affected Employees whether or not they accept an offer of employment from Buyer shall cease to be employees of Seller on the Closing Date and, to

the extent they accept an offer of employment from Buyer, their period of employment by Buyer shall begin on the Closing Date. Seller shall be responsible for any obligation to provide employee benefits to an Affected Employee prior to such employee's period of employment by Buyer.

All such offers of employment will be made (x) in accordance with all applicable laws and regulations, and (y) for employees represented by Utility Workers' Union of America AFL-CIO and its Local Union 1-2 ("Local 1-2"), in accordance with the Local 1-2 Collective Bargaining Agreement (as defined in Schedule 9.01(b)). Each Affected Employee who becomes employed by Buyer pursuant to this Section 9.01(a) shall be referred to herein as a "Continued Employee".

Buyer may commence discussions concerning offers for employment beginning on the Closing Date to Affected Employees at any time following the date of this Agreement.

Seller acknowledges and agrees that Buyer may discharge any of its obligations under this Article IX through one of its Affiliates; provided, however, that Buyer shall in no event be relieved from the full liabilities and the full financial responsibility under this Article IX.

(b) Schedule 9.01(b) sets forth the collective bargaining agreement, and amendments thereto, to which Seller is a party in connection with the Auctioned Assets (the "Collective Bargaining Agreement"). Affected Employees who are included in the collective bargaining unit covered by the Collective Bargaining Agreement are referred to herein as "Affected Union Employees". Each Continued Employee who is an Affected Union Employee shall be referred to herein as a "Continued Union Employee". On the Closing Date, Buyer will assume the terms and conditions of the Collective Bargaining Agreement, except as set forth in Section 9.02(b) below, as it relates to Affected Union Employees until the expiration date of the Collective Bargaining Agreement. Buyer will comply with its legal obligations with respect to collective bargaining under Federal labor law for the employees at the Auctioned Assets in the job titles or related work responsibilities of the Affected Union Employees, and Buyer will comply with all applicable obligations thereunder as the new owner of the Auctioned Assets. Buyer shall recognize Local 1-2 as the exclusive collective bargaining representative of the employees at the Auctioned Assets in the job titles or related work responsibilities of the Affected Union Employees and Buyer agrees that, should any other business entity (regardless of its relationship to Buyer) acquire all or a portion of the Auctioned Assets from Buyer prior to the expiration date of the Collective Bargaining Agreement, Buyer will require such business entity to (i) offer employment to Affected Union Employees employed by Buyer at the Auctioned Assets immediately prior to the change in ownership, (ii) recognize Local 1-2 as the exclusive collective bargaining representative of Buyer's employees at the Auctioned Assets in the job titles and work responsibilities of the Affected Union Employees, and (iii) assume the terms and conditions of the Collective Bargaining Agreement as they relate to Affected Union Employees from the date of such acquisition through the expiration date of the Collective Bargaining Agreement.

SECTION 9.02. Continuation of Equivalent Benefit Plans/Credited Service. (a) For not less than three years following the Closing Date, Buyer shall maintain compensation (including base pay and bonus compensation) and employee benefits and employee benefit plans and arrangements for each Continued Employee who is not a Continued Union Employee (a "Continued Non-Union Employee") which are at least equivalent to those provided pursuant to the compensation, employee benefits and employee benefit plans and arrangements in effect on the Closing Date for the Affected Employees who are not Affected Union Employees. Such total compensation shall be based upon (x) such employee's existing individual base pay, (y) such employee's authorized overtime, if applicable, and (z) the average bonus and benefit component for such employee's salary plan level, as consistently applied by Seller, apportioned according to such employee's base pay. No provision of this Agreement shall affect any Continued Non-Union Employee's status as an employee-at-will.

(b) From the Closing Date until the expiration date of the Collective Bargaining Agreement, Buyer shall provide to each Continued Union Employee benefits and employee benefit plans and arrangements which are equivalent to those provided under such Collective Bargaining Agreement. Such benefits, plans and arrangements include the following: (i) hospital, medical, dental, vision care and prescription drug benefits (including employee contributions to be made on a pre-tax basis), (ii) health care and dependent care flexible spending accounts; (iii) employer-provided basic group term life and accidental death and dismemberment insurance; (iv) employee-paid group universal life and spousal and dependent child life insurance; (v) sick allowance (short term disability) and long term disability benefits; (vi) business travel accident insurance and crime protection insurance; (vii) occupational accidental death insurance; (viii) adoption benefits and child care and elder care referral benefits; (ix) tuition aid benefits; (x) vacation and holidays; (xi) employee stock purchase plan (including employer matching contributions) and (xii) defined

benefit pension and 401(k) plan benefits. In providing such benefits, Buyer shall have the right, subject to any applicable laws, to use different providers from those used by Seller and to establish Buyer's own benefit plans or use Buyer's existing benefit plans. For purposes hereof, except as provided in Section 9.04(b), Buyer shall have no obligation to maintain a fund holding or measured by common stock of Seller's parent under any of Buyer's plans or arrangements, notwithstanding any such fund maintained by Seller under its plans and arrangements.

(c) Continued Employees shall be given credit by Buyer for all service with Seller and its Affiliates under all existing or future employee benefit and fringe benefit plans, programs and arrangements of the Buyer ("Buyer Benefit Plans") in which they become participants. The service credit given by Buyer shall be for purposes of eligibility, vesting, eligibility for early retirement and early retirement subsidies, benefit accrual and service-related level of benefits. Buyer shall assume and honor all vacation, sick and personal days accrued and unused by Continued Employees through the Closing Date in accordance with Seller's applicable policies and arrangements.

SECTION 9.03. Pension Plan. (a) Effective as of the Closing Date, Buyer shall have in effect defined benefit pension plans ("Buyer's Pension Plans") intended to be (i) qualified pursuant to Section 401(a) of the Code and (ii) nonqualified, in order to provide for benefits which would otherwise be payable under the applicable qualified plan but for the application of Sections 401(a)(17) and 415 of the Code, providing benefits as of the Closing Date identical in all material respects (except for such changes as may be required by law) to the benefits provided to them under Seller's Pension Plans (as defined below), in particular (x) for Continued Non-Union Employees, such Buyer's Pension Plans to provide benefits identical in all material respects to those benefits provided under Seller's Retirement Plan for Management Employees and Seller's Supplemental Retirement Income Plan, and (y) for Continued Union Employees, such Buyer's Pension Plans to provide benefits identical in all material respects to those provided under Seller's Pension and Benefits Plan (collectively, "Seller's Pension Plans"), in each case, as of the Closing Date. Buyer acknowledges and agrees that one such material respect is to count age after termination of employment for purposes of satisfying requirements for early retirement eligibility and early retirement subsidies.

(b) Continued Employees participating in Seller's Pension Plans immediately prior to the Closing Date shall become participants in Buyer's Pension Plans as of the Closing Date. Without limiting the generality of Section 9.02(c), Continued Employees shall receive credit for all compensation and service with Seller (subject to the terms of Seller's Pension Plans) for purposes of eligibility for participation, vesting, eligibility for early retirement and early retirement subsidies and benefit accrual under Buyer's Pension Plans. Seller shall be responsible for Continued Employees' pension benefits accrued up to the Closing Date, and Buyer shall be responsible for pension benefits accrued by such Continued Employees on and after the Closing Date as provided herein. Buyer may offset against the accrued benefits determined under Buyer's Pension Plans the accrued benefits determined under Seller's Pension Plans. For the purpose of this Section 9.03(b), "accrued benefit" means the amount that would be paid as a life annuity at normal retirement age irrespective of the date of actual distribution from either Seller's or Buyer's Pension Plans. Seller shall make pension distributions to Continued Employees of the vested portion of their accrued benefits in accordance with the terms of Seller's Pension Plans as in effect from time to time. As soon as reasonably practicable following the Closing Date, Seller shall provide Buyer a list showing, as of the Closing Date, the accrued benefit of each Continued Employee under Seller's Pension Plans.

(c) In the event that any other business entity (regardless of its relationship to Buyer) acquires all or a portion of the Auctioned Assets from Buyer at any time prior to the third anniversary of the Closing Date in the case of Continued Non-Union Employees and prior to the expiration date of the Collective Bargaining Agreement in the case of Continued Union Employees, Buyer will require such entity to maintain the defined benefit plans, provide the benefits and recognize compensation and service with Seller and Buyer to the same extent as Buyer is required under Sections 9.03(a) and (b) above.

SECTION 9.04. 401(k) Plan. (a) Effective as of the Closing Date, Buyer shall have in effect tax-qualified defined contribution plans that include a qualified cash or deferred arrangement within the meaning of Section 401(k) of the Code ("Buyer's 401(k) Plans") that will provide benefits that are identical in all material respects (except for such changes as may be required by law) to those provided by (i) Seller's Thrift Savings Plan for Management Employees, in the case of Continued Non-Union Employees, and (ii) Seller's Retirement Income Savings Plan for Weekly Employees, in the case of Continued Union Employees (such Seller plans herein referred to collectively as "Seller's 401(k) Plans"), in each case, as

of the Closing Date. Each Continued Employee participating in Seller's 401(k) Plans immediately prior to the Closing Date shall become a participant in Buyer's 401(k) Plans as of the Closing Date. Continued Employees shall receive credit for all service with Seller for purposes of eligibility and vesting under Buyer's 401(k) Plans.

(b) At such time after the Closing Date as Seller is reasonably satisfied that Buyer's 401(k) Plans meet the requirements for qualification under Section 401(a) of the Code, Seller shall cause to be transferred to Buyer's 401(k) Plans in a trust-to-trust transfer in common stock of Seller's parent (as provided in the following sentence) and cash (or other property reasonably acceptable to Buyer) an amount equal to the value of the assets held in the accounts of all Continued Employees (including any outstanding loan balances of Continued Employees in Seller's 401(k) Plans), subject to any qualified domestic relations orders. In connection therewith, Buyer shall establish an investment fund under Buyer's 401(k) Plans to which shall be transferred the shares of common stock of Seller's parent (or any successor thereto) which, as of the date of transfer, are credited to the accounts of the Continued Employees under Seller's 401(k) Plans. After the Closing Date and prior to any such transfer, Buyer shall cooperate with Seller in the administration of distributions to and loan repayments by Continued Employees. Prior to such transfer of assets, Seller shall vest any unvested benefits of Continued Employees under Seller's 401(k) Plans. Following any such transfer of assets, Buyer shall assume all obligations and liabilities of Seller under Seller's 401(k) Plans with respect to such Continued Employees, and Seller shall have no further liability to Buyer or any Continued Employee with respect thereto.

SECTION 9.05. Welfare Plans. (a) Continued Employees and their dependents who are eligible to participate in Seller's current welfare benefits plans, programs or arrangements shall be eligible to participate in the welfare benefits plans, programs or arrangements maintained or established by Buyer ("Buyer's Welfare Plans"), effective as of the Closing Date. Effective as of the Closing Date, any and all limitations as to pre-existing conditions and actively-at-work exclusions and waiting periods under Buyer's Welfare Plans shall be waived by Buyer with respect to Continued Employees and their eligible dependents to the extent satisfied under Seller's applicable Welfare Plans. In addition, effective as of the Closing Date, Buyer shall cause Buyer's Welfare Plans to recognize any out-of-pocket health care expenses incurred by Continued Employees and their eligible dependents prior to the Closing Date and during the calendar year in which such Closing Date occurs for purposes of determining their deductibles and out-of-pocket maximums under Buyer's Welfare Plans. Seller shall retain responsibility under Seller's welfare plans for claims relating to expenses incurred by Continued Employees and their eligible dependents prior to the Closing Date. Buyer shall have responsibility under Buyer's Welfare Plans for claims relating to expenses incurred by Continued Employees and their eligible dependents on and after the Closing Date.

(b) Effective as of the Closing Date, Buyer shall have in effect health care and dependent care reimbursement account plans for the benefit of each Continued Employee, the terms of which shall (i) be identical in all material respects to the Flexible Reimbursement Account Plans for Management and Weekly Employees of Seller ("Seller's Reimbursement Account Plans") as in effect on the Closing Date and (ii) give full effect to, and continue in effect, salary reduction elections made under Seller's Reimbursement Account Plans. Prior to the Closing Date, Seller shall cause the accounts of Continued Employees under Seller's Reimbursement Account Plans to be segregated into separate health care and dependent care reimbursement accounts (the "Segregated Reimbursement Accounts"), and such Segregated Reimbursement Accounts shall be transferred to and assumed by Buyer as of the Closing Date.

(c) Buyer shall, subject to any applicable laws, provide a retiree health program identical in all material respects to Seller's retiree health program as in effect on the Closing Date to each Continued Employee who terminates his employment with Buyer within three years after the Closing Date, in the case of a Continued Non-Union Employee, and on or prior to the expiration date of the Collective Bargaining Agreement, in the case of a Continued Union Employee, and, in each case, who at the time of such termination of employment satisfies the eligibility requirements for such retiree health program provided by Buyer; provided, however, that Seller shall remain liable, pursuant to Seller's retiree health program, for all Continued Employees who satisfy, as of the Closing Date, the eligibility requirements then in effect for Seller's retiree health program.

SECTION 9.06. Short- and Long-Term Disability. Effective as of the Closing Date, Buyer shall have in effect short-and long-term disability plans for the benefit of Continued Employees, the cost of which to Continued Employees shall be the same as under, and the terms of which are identical in all material respects to, Seller's applicable plans as in effect as of the Closing Date. Any and all waiting periods and pre-existing condition clauses shall be waived under Buyer's short- and long-term disability plans with respect to

Continued Employees.

SECTION 9.07. Life Insurance and Accidental Death and Dismemberment Insurance. Effective as of the Closing Date, Buyer shall have in effect group term life insurance, group universal life insurance, accidental death and dismemberment insurance, occupational accidental death insurance, business travel accident insurance and crime protection insurance plans for the benefit of Continued Employees, the cost of which to Continued Employees shall be the same as under, and terms of which are identical in all material respects to, Seller's applicable plans that provide such benefits to Continued Employees immediately prior to the Closing Date.

SECTION 9.08. Severance. (a) Effective as of the Closing Date, Buyer shall have in effect a severance plan covering Continued Non-Union Employees that contains terms identical in all material respects to those under Seller's Severance Pay Plan for Management Employees as of the Closing Date.

(b) Buyer shall, subject to any applicable laws, provide a special separation allowance for any Continued Employee whose employment with Buyer is terminated involuntarily by Buyer other than for cause on or prior to, in the case of Continued Non-Union Employees, three years after the Closing Date and, in the case of Continued Union Employees, the expiration date of the Collective Bargaining Agreement. Such allowance shall be not less than the sum of four weeks pay plus one week pay for each completed year of service (as determined by aggregating each affected individual's respective service with Seller and Buyer) and shall be payable by Buyer (to the extent not paid pursuant to any Buyer severance plan referenced in Section 9.08(a)) in a lump sum within 30 days after termination of employment. In addition, in the case of each Continued Non-Union Employee described in the first sentence of this Section 9.08(b), Buyer shall pay (to the extent not paid pursuant to any Buyer severance plan referenced in Section 9.08(a)) the Continued Non-Union Employee a lump sum equal to the excess of (i) the actuarial equivalent of the Employee's "potential benefit" under the applicable Buyer's Pension Plans, which such Employee would receive if such Employee's employment continued until three years after the Closing Date and such Employee's base and incentive compensation for such deemed additional period was the same as in effect on the date of such Employee's termination of employment with Buyer, over (ii) the actuarial equivalent of such Employee's "actual benefit" under the applicable Buyer's Pension Plans, as of the date of such Employee's termination of employment from Buyer. For the purpose of the foregoing sentence, (i) the term "potential benefit" shall refer to the monthly pension that would have been payable to the applicable Employee commencing on the first day of the month following the latest of (A) the last day of the deemed additional period, (B) Employee's attainment of age 55, or (C) the earlier of (l) the first date as of which the sum of such Employee's age and years of service, as taken into account in determining the actuarial reduction for commencement prior to normal retirement age that is to be applied to his accrued benefit under the applicable Buyer's Pension Plans, equals 75 or (2) such Employee's attainment of age 65, (ii) the term "actual benefit" shall refer to the monthly pension payable to such Employee under the applicable Buyer's Pension Plans commencing as of the date determined in accordance with clause (i) of this sentence, and (iii) the actuarial equivalent of the "potential benefit" and the "actual benefit" shall each be a lump sum payable as of the date of such Employee's termination of employment from Buyer, determined on the basis of the interest rate used to determine the amount of lump sum distributions and, to the extent applicable, other actuarial assumptions then in effect under the applicable Buyer's Pension Plans. Buyer shall also provide outplacement services to such terminated Continued Non-Union Employee appropriate to the level of the Employee's position and job responsibilities. Buyer shall also continue to provide or cause to be provided to any such terminated Continued Employee health insurance coverage and group term and universal life insurance coverage at the same rates as for active Continued Employees for a period equal to the number of weeks of separation allowance which any such terminated Continued Employee is entitled to from Buyer. Buyer shall have the right to require a release in form reasonably satisfactory to Buyer as a condition for eligibility to receive such separation allowance. The allowance shall not apply to Continued Employees whose employment is terminated due to death or expiration of sick allowance or other authorized leave of absence or who terminate employment voluntarily. If at any time during the three-year period following the Closing Date, Buyer shall assign a Continued Non-Union Employee to work on a regular basis at a location that is more than fifty miles from the location to which such Employee is assigned as of the Closing Date, Buyer shall offer such Employee the option to terminate employment and receive the severance benefits set forth in this Section 9.08(b) in lieu of the reassignment.

SECTION 9.09. Workers Compensation. Effective as of the Closing Date, Buyer shall have in effect a workers compensation program for Continued Employees that shall provide coverage identical in all material respects to Seller's workers compensation program as of the Closing Date.

ARTICLE X

Indemnification and Dispute Resolution

SECTION 10.01. Indemnification. (a) Seller will indemnify and hold harmless Buyer and its Affiliates and their respective directors, officers, employees and agents (collectively with Buyer and its Affiliates, the "Buyer Indemnitees") from and against any and all claims, demands or suits by any person, and all losses, liabilities, damages, obligations, payments, costs and expenses (including reasonable legal fees and expenses and including costs and expenses incurred in connection with investigations and settlement proceedings) (each, an "Indemnifiable Loss"), as incurred, asserted against or suffered by any Buyer Indemnitee relating to, resulting from or arising out of:

(i) any breach by Seller of any covenant or agreement of Seller contained in this Agreement or, prior to their expiration in accordance with Section 12.03, the representations and warranties contained in Sections 5.01, 5.02, 5.03 and 5.17;

(ii) the Retained Liabilities;

(iii) noncompliance by Seller with any bulk sales or transfer laws as provided in Section 7.07; or

(iv) any breach by Seller of any Ancillary Agreement.

(b) Buyer will indemnify and hold harmless Seller and its Affiliates and their respective directors, officers, trustees, employees and agents (collectively with Seller and its Affiliates, the "Seller Indemnitees") from and against any and all Indemnifiable Losses, as incurred, asserted against or suffered by any Seller Indemnitee relating to, resulting from or arising out of:

(i) any breach by Buyer of any covenant or agreement of Buyer contained in this Agreement or, prior to their expiration in accordance with Section 12.03, the representations and warranties contained in Sections 6.01, 6.02, 6.03 and 6.05;

(ii) the Assumed Obligations;

(iii) any obligation resulting from any action or inaction of Buyer (A) under any Contract or warranty pursuant to Section 2.04(b) (whether acting as principal or representative and agent for Seller pursuant to Section 2.04(b) or otherwise), (B) pursuant to Section 2.05 or Section 7.14 (in each case, whether acting as representative or agent for Seller or otherwise) or (C) pursuant to any Transferable Permit in respect of which Seller remains the holder of record after the Closing Date pursuant to Section 7.03(c); or

(iv) any breach by Buyer of any Ancillary Agreement.

(c) The amount of any Indemnifiable Loss shall be reduced to the extent that the relevant Buyer Indemnitee or Seller Indemnitee (each, an "Indemnitee") receives any insurance proceeds with respect to an Indemnifiable Loss and shall be (i) increased to take account of any Tax Cost incurred by the Indemnitee arising from the receipt of indemnity payments hereunder (grossed up for such increase) and (ii) reduced to take account of any Tax Benefit realized by the Indemnitee arising from the incurrence or payment of any such Indemnifiable Loss. If the amount of any Indemnifiable Loss, at any time subsequent to the making of an indemnity payment in respect thereof, is reduced by recovery, settlement or otherwise under or pursuant to any insurance coverage, or pursuant to any claim, recovery, settlement or payment by or against any other person, the amount of such reduction, less any costs, expenses or premiums incurred in connection therewith, will promptly be repaid by the Indemnitee to the Party required to provide indemnification hereunder (the "Indemnifying Party") with respect to such Indemnifiable Loss.

(d) To the fullest extent permitted by law, neither Party nor any Buyer Indemnitee or any Seller Indemnitee shall be liable to the other Party or any other Buyer Indemnitee or Seller Indemnitee for any claims, demands or suits for consequential, incidental, special, exemplary, punitive, indirect or multiple damages connected with or resulting from any breach after the Closing Date of this Agreement or the Ancillary Agreements (other than breach of this Article X), or any actions undertaken in connection with or related hereto or thereto, including any such damages which are based upon breach of contract, tort (including negligence and misrepresentation), breach of warranty, strict liability, statute, operation of law or any other theory of recovery.

(e) The rights and remedies of Seller and Buyer under this Article X are, solely as between Seller and Buyer, exclusive and in lieu of any and all other rights and remedies which Seller and Buyer may have under this Agreement, the Ancillary Agreements (except as expressly provided in any Continuing Site Agreement or any Declaration of Easements Agreement) or otherwise for monetary relief with respect to (i) any breach of, or failure to perform, any covenant or agreement set forth in this Agreement or the Ancillary Agreements by Seller or Buyer, (ii) any breach of any representation or warranty by Seller or Buyer, (iii) the Assumed Obligations or the Retained

Liabilities, (iv) noncompliance by Seller with any bulk sales or transfer laws and (v) any obligation in respect of Section 2.04, Section 2.05, Section 7.03 or Section 7.14. Each Party agrees that the previous sentence shall not limit or otherwise affect any non-monetary right or remedy which either Party may have under this Agreement or the Ancillary Agreements or otherwise limit or affect either Party's right to seek equitable relief, including the remedy of specific performance.

(f) Buyer and Seller agree that, notwithstanding Section 10.01(e), each Party shall retain, subject to the other provisions of this Agreement, including Sections 10.01(d) and 12.03, all remedies at law or in equity with respect to (i) fraud or wilful or intentional breaches of this Agreement or the Ancillary Agreements and (ii) gross negligence or wilful or wanton acts or omissions to act of any Indemnitee (or any contractor or subcontractor thereof) on or after the Closing Date.

SECTION 10.02. Third Party Claims Procedures. (a) If any Indemnitee receives notice of the assertion of any claim or of the commencement of any claim, action, or proceeding made or brought by any person who is not a Party or an Affiliate of a Party (a "Third Party Claim") with respect to which indemnification is to be sought from an Indemnifying Party, the Indemnitee will give such Indemnifying Party reasonably prompt written notice thereof, but in any event not later than 20 Business Days after the Indemnitee's receipt of notice of such Third Party Claim; provided, however, that a failure to give timely notice will not affect the rights or obligations of any Indemnitee except if, and only to the extent that, as a result of such failure, the Indemnifying Party was actually prejudiced. Such notice shall describe the nature of the Third Party Claim in reasonable detail and will indicate the estimated amount, if practicable, of the Indemnifiable Loss that has been or may be sustained by the Indemnitee.

(b) If a Third Party Claim is made against an Indemnitee, the Indemnifying Party will be entitled to participate in the defense thereof and, if it so chooses, to assume the defense thereof with counsel selected by the Indemnifying Party; provided, however, that such counsel is not reasonably objected to by the Indemnitee; and provided further that the Indemnifying Party first admits in writing its liability to the Indemnitee with respect to all material elements of such claim. Should the Indemnifying Party so elect to assume the defense of a Third Party Claim, the Indemnifying Party will not be liable to the Indemnitee for any legal expenses subsequently incurred by the Indemnitee in connection with the defense thereof. If the Indemnifying Party elects to assume the defense of a Third Party Claim, the Indemnitee will (i) cooperate in all reasonable respects with the Indemnifying Party in connection with such defense, (ii) not admit any liability with respect to, or settle, compromise or discharge, any Third Party Claim without the Indemnifying Party's prior written consent and (iii) agree to any settlement, compromise or discharge of a Third Party Claim which the Indemnifying Party may recommend and which by its terms obligates the Indemnifying Party to pay the full amount of the liability in connection with such Third Party Claim and releases the Indemnitee completely in connection with such Third Party Claim. In the event the Indemnifying Party shall assume the defense of any Third Party Claim, the Indemnitee shall be entitled to participate in (but not control) such defense with its own counsel at its own expense. If the Indemnifying Party does not assume the defense of any such Third Party Claim, the Indemnitee may defend the same in such manner as it may deem appropriate, including settling such claim or litigation after giving notice to the Indemnifying Party of the terms of the proposed settlement and the Indemnifying Party will promptly reimburse the Indemnitee upon written request. Anything contained in this Agreement to the contrary notwithstanding, no Indemnifying Party shall be entitled to assume the defense of any Third Party Claim if such Third Party Claim seeks an order, injunction or other equitable relief or relief for other than monetary damages against the Indemnitee which, if successful, would materially adversely affect the business of the Indemnitee; provided, however, that such Indemnifying Party shall continue to be obligated to such Indemnitee pursuant to Section 10.01(a) or (b), as the case may be, for all Indemnifiable Losses relating to, resulting from or arising out of such Third Party Claim.

ARTICLE XI

Termination

SECTION 11.01. Termination. (a) This Agreement may be terminated at any time prior to the Closing by an instrument in writing signed on behalf of each of the Parties.

(b) This Agreement may be terminated by Seller or Buyer if the Closing shall not have occurred on or before the date that is 12 months from the date of this Agreement (the "Termination Date"); provided, however, that the right to terminate this Agreement pursuant to this Section 11.01(b) shall not be available to any Party whose failure to fulfill any obligation

under this Agreement has been the cause of, or resulted in, the failure of the Closing to occur on or before such date.

(c) This Agreement may be terminated by either Seller or Buyer if any Restraint having any of the effects set forth in Section 8.01(b) shall be in effect and shall have become final and nonappealable; provided, however, that the Party seeking to terminate this Agreement pursuant to this Section 11.01(c) shall have used its reasonable best efforts to prevent the entry of and to remove such Restraint.

ARTICLE XII

Miscellaneous Provisions

SECTION 12.01. Expenses. Except to the extent specifically provided herein, all costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be borne by the Party incurring such costs and expenses, whether or not the transactions contemplated hereby are consummated.

SECTION 12.02. Amendment and Modification; Extension; Waiver. This Agreement may be amended, modified or supplemented only by an instrument in writing signed on behalf of each of the Parties. Either Party may (i) extend the time for the performance of any of the obligations or other acts of the other Party, (ii) waive any inaccuracies in the representations and warranties of the other Party contained in this Agreement or (iii) waive compliance by the other Party with any of the agreements or conditions contained in this Agreement. Any agreement on the part of a Party to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such Party. The failure of a Party to this Agreement to assert any of its rights under this Agreement or otherwise shall not constitute a waiver of such rights.

SECTION 12.03. No Survival of Representations or Warranties. Each and every representation and warranty contained in this Agreement, other than the representations and warranties contained in Sections 5.01, 5.02, 5.03 and 5.17 and 6.01, 6.02, 6.03 and 6.05 (which representations and warranties shall survive for 18 months from the Closing Date), shall expire with, and be terminated and extinguished by the Closing and no such representation or warranty shall survive the Closing Date. From and after the Closing Date, none of Seller, Buyer or any officer, director, trustee or Affiliate of any of them shall have any liability whatsoever with respect to any such representation or warranty. The expiration of the representations and warranties contained in Sections 5.01, 5.02, 5.03 and 5.17 and 6.01, 6.02, 6.03 and 6.05 shall not affect the Parties' obligations under Article X if the Indemnitee provided the Indemnifying Party with proper notice of the claim or event for which indemnification is sought prior to such expiration.

SECTION 12.04. Notices. All notices and other communications hereunder shall be in writing and shall be deemed given (as of the time of delivery or, in the case of a telecopied communication, of confirmation) if delivered personally, telecopied (which is confirmed) or sent by overnight courier (providing proof of delivery) to the Parties at the following addresses (or at such other address for a Party as shall be specified by like notice):

if to Seller, to:

Consolidated Edison Company of New York, Inc.
4 Irving Place
New York, NY 10003
Telecopy No.: (212) 677-0601
Attention: General Counsel

with a copy on or prior to the Closing Date to:

Cravath, Swaine & Moore
825 Eighth Avenue
New York, NY 10019
Telecopy No.: (212) 474-3700
Attention: George W. Bilicic, Jr., Esq.

if to Buyer, to:

Astoria Generating Company, L.P.
c/o Orion Power Holdings, Inc.
111 Market Place
Suite 520
Baltimore, MD 21202
Telecopy No.: (410) 468-3699
Attention: General Counsel

with a copy on or prior to the Closing Date to:

Thelen Reid & Priest LLP
Two Embarcadero Center
Suite 2100
San Francisco, CA 94111

Telecopy No.: (415) 421-1068
Attention: Thomas B. Glascock, Esq.

SECTION 12.05. Assignment; No Third Party Beneficiaries. (a) This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the Parties and their respective successors and permitted assigns, but neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any Party, including by operation of law, without the prior written consent of the other Party, except (i) in the case of Seller (A) to an Affiliate of Seller or a third party in connection with the transfer of the Transmission System to such Affiliate or third party or (B) to a lending institution or trustee in connection with a pledge or granting of a security interest in all or any part of the Transmission System and this Agreement and (ii) in the case of Buyer (A) to an Affiliate of Buyer in connection with the transfer of the Auctioned Assets to such Affiliate and (B) to a lending institution or trustee in connection with a pledge or granting of a security interest in the Auctioned Assets and this Agreement; provided, however, that no assignment or transfer of rights or obligations by either Party shall relieve it from the full liabilities and the full financial responsibility, as provided for under this Agreement, unless and until the transferee or assignee shall agree in writing to assume such obligations and duties and the other Party has consented in writing to such assumption.

(b) Nothing in this Agreement is intended to confer upon any other person except the Parties any rights or remedies hereunder or shall create any third party beneficiary rights in any person, including, with respect to continued or resumed employment, any employee or former employee of Seller (including any beneficiary or dependent thereof). No provision of this Agreement shall create any rights in any such persons in respect of any benefits that may be provided, directly or indirectly, under any employee benefit plan or arrangement except as expressly provided for thereunder.

SECTION 12.06. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York (regardless of the laws that might otherwise govern under applicable principles of conflicts of law).

SECTION 12.07. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

SECTION 12.08. Interpretation. When a reference is made in this Agreement to an Article, Section, Schedule or Exhibit, such reference shall be to an Article or Section of, or Schedule or Exhibit to, this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words "include", "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation" or equivalent words. The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. All terms defined in this Agreement shall have the defined meanings when used in the Ancillary Agreements and any certificate or other document made or delivered pursuant hereto or thereto unless otherwise defined therein. The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms and to the masculine as well as to the feminine and neuter genders of such term. Any agreement, instrument, statute, regulation, rule or order defined or referred to herein or in any agreement or instrument that is referred to herein means such agreement, instrument, statute, regulation, rule or order as from time to time amended, modified or supplemented, including (in the case of agreements or instruments) by waiver or consent and (in the case of statutes, regulations, rules or orders) by succession of comparable successor statutes, regulations, rules or orders and references to all attachments thereto and instruments incorporated therein. References to a person are also to its permitted successors and assigns.

SECTION 12.09. Jurisdiction and Enforcement. (a) Each of the Parties irrevocably submits to the exclusive jurisdiction of (i) the Supreme Court of the State of New York, New York County and (ii) the United States District Court for the Southern District of New York, for the purposes of any suit, action or other proceeding arising out of this Agreement or any transaction contemplated hereby. Each of the Parties agrees to commence any action, suit or proceeding relating hereto either in the United States District Court for the Southern District of New York or, if such suit, action or proceeding may not be brought in such court for jurisdictional reasons, in the Supreme Court of the State of New York, New York County. Each of the Parties further agrees that service of process, summons, notice or document by hand delivery or U.S. registered mail at the address specified for such Party in Section 12.04 (or such other address specified by such Party from time to time pursuant to Section 12.04) shall be effective service of process for any action, suit or

proceeding brought against such Party in any such court. Each of the Parties irrevocably and unconditionally waives any objection to the laying of venue of any action, suit or proceeding arising out of this Agreement or the transactions contemplated hereby in (i) the Supreme Court of the State of New York, New York County, or (ii) the United States District Court for the Southern District of New York, and hereby further irrevocably and unconditionally waives and agrees not to plead or claim in any such court that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum.

(b) The Parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement or any Ancillary Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the Parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement or any Ancillary Agreement and to enforce specifically the terms and provisions of this Agreement or any Ancillary Agreement, this being in addition to any other remedy to which they are entitled at law or in equity.

SECTION 12.10. Entire Agreement. This Agreement, the Confidentiality Agreement and the Ancillary Agreements including the Exhibits, Schedules, documents, certificates and instruments referred to herein or therein and other contracts, agreements and instruments contemplated hereby or thereby, embody the entire agreement and understanding of the Parties in respect of the transactions contemplated by this Agreement. There are no restrictions, promises, representations, warranties, covenants or undertakings other than those expressly set forth or referred to herein or therein. This Agreement and the Ancillary Agreements supersede all prior agreements and understandings between the Parties with respect to the transactions contemplated by this Agreement other than the Confidentiality Agreement.

SECTION 12.11. Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the Parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible to the fullest extent permitted by applicable law in an acceptable manner to the end that the transactions contemplated hereby are fulfilled to the extent possible.

SECTION 12.12. Conflicts. Except as expressly otherwise provided herein or therein, in the event of any conflict or inconsistency between the terms of this Agreement and the terms of any Ancillary Agreement, the terms of this Agreement shall prevail.

IN WITNESS WHEREOF, Seller and Buyer have caused this Agreement to be signed by their respective duly authorized officers as of the date first above written.

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.,

by /s/ Joan S. Freilich
Name: Joan S. Freilich
Title: Executive Vice Presient and CFO

ASTORIA GENERATING COMPANY, L.P.,

BY: ORION POWER NEW YORK GP II, INC.,

by /s/ Jack A. Fusco
Name: Jack A. Fusco
Title: President

CONSOLIDATED EDISON, INC.
Ratio of Earnings to Fixed Charges
Twelve Months Ended
(Thousands of Dollars)

	DECEMBER 1998	DECEMBER 1997
Earnings		
Net Income Available for Common	$712,742	$694,479
Preferred Dividends	17,007	18,344
Federal Income Tax	318,980	357,100
Federal Income Tax Deferred	95,140	31,450
Investment Tax Credits Deferred	(8,710)	(8,830)
Total Earnings Before Federal Income Tax	1,135,159	1,092,543
Fixed Charges*	345,513	353,689
Total Earnings Before Federal Income Tax and Fixed Charges	$1,480,672	$1,446,232
* Fixed Charges		
Interest on Long-Term Debt	$294,894	$306,109
Amort. of Debt Discount, Premium & Expense	13,777	12,049
Interest on Component of Rentals	18,442	18,448
Other Interest	18,400	17,083
Total Fixed Charges	$345,513	$353,689
Ratio of Earnings to Fixed Charges	4.29	4.09

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.
Ratio of Earnings to Fixed Charges
Twelve Months Ended
(Thousands of Dollars)

	DECEMBER 1998	DECEMBER 1997
Earnings		
Net Income	$745,140	$712,823
Federal Income Tax	327,805	357,100
Federal Income Tax Deferred	95,140	31,450
Investment Tax Credits Deferred	(8,710)	(8,830)
Total Earnings Before Federal Income Tax	1,159,375	1,092,543
Fixed Charges*	345,513	353,689
Total Earnings Before Federal Income Tax and Fixed Charges	$1,504,888	$1,446,232
* Fixed Charges		
Interest on Long-Term Debt	$294,894	$306,109
Amort. of Debt Discount, Premium & Expense	13,777	12,049
Interest on Component of Rentals	18,442	18,448
Other Interest	18,400	17,083
Total Fixed Charges	$345,513	$353,689
Ratio of Earnings to Fixed Charges	4.36	4.09

Consent of Independent Accountants

We hereby consent to the incorporation by reference of our report dated February 23, 1999, except as to Note K, which is as of March 2, 1999, appearing on page 39 of this combined Annual Report on Form 10-K of Consolidated Edison, Inc. ("CEI") and Consolidated Edison Company of New York, Inc. ("Con Edison") in (i) the Prospectus constituting part of CEI's Registration Statement on Form S-3 (No. 333-69013) relating to the CEI Automatic Dividend Reinvestment and Cash Payment Plan; (ii) the Prospectus constituting part of CEI's Registration Statement on Form S-8 (No. 333-04463-99) relating to the CEI 1996 Stock Option Plan; (iii) the Prospectus constituting part of CEI's Registration Statement on Form S-8 (No. 333-48475) relating to The Consolidated Edison Discount Stock Purchase Plan; and (iv) the Prospectus constituting part of Con Edison's Registration Statement on Form S-3 (No.333-45745) relating to Con Edison's unsecured debt securities.

PricewaterhouseCoopers LLP

New York, New York
March 29, 1999

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, 1998, 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 23rd day of March 1999.

E Virgil Conway
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, 1998, 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 28th day of March 1999.

Gordon J. Davis
Gordon J. Davis

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, 1998, 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 26th day of March 1999.

Ruth M. Davis
Ruth M. Davis

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, 1998, 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 23rd day of March 1999.

Joan S. Freilich
Joan S. Freilich

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, 1998, 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 23rd day of March 1999.

Ellen V. Futter
Ellen V. Futter

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, 1998, 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 23rd day of March 1999.

Sally Hernandez-Pinero
Sally Hernandez-Pinero

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, 1998, 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 23rd day of March 1999.

Peter W. Likins
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, 1998, 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 23rd day of March 1999.

Eugene R. McGrath
Eugene R. McGrath

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, 1998, 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 23rd day of March 1999.

Robert G. Schwartz
Robert G. Schwartz

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, 1998, 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 27th day of March 1999.

Richard A. Voell
Richard A. Voell

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, 1998, 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 19th day of March 1999.

Stephen R. Volk
Stephen R. Volk

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, 1998, 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 29th day of March 1999.

Hyman Schoenblum
Hyman Schoenblum

UT

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

0001047862
Consolidated Edison, Inc.
1,000

Dec-31-1998

Dec-31-1998

12-Mos

Per-Book

11,406,543

378,445

1,093,543

551,856

951,016

14,381,403

588,720

857,175

4,700,500

6,025,605

37,050

212,563

4,050,108

0

0

0

225,000

0

37,295

2,584

3,791,198

14,381,403

7,093,048

407,639

5,632,084

6,039,723

1,053,325

2,249

1,055,574

325,825

729,749

17,007

712,742

496,945

308,671

1,365,757

3.04

3.04

UT

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

0000023632
Consolidated Edison Company of New York, Inc.
1,000

Dec-31-1998

Dec-31-1998

12-Mos

Per-Book

11,406,543

279,813

983,569

551,856

951,016

14,172,797

588,720

857,265

4,517,529

5,842,724

37,050

212,563

4,050,108

0

0

0

225,000

0

37,295

2,584

3,765,473

14,172,797

6,998,660

414,810

5,516,778

5,931,588

1,067,072

3,893

1,070,965

325,825

745,140

17,007

728,133

496,945

308,671

1,436,774

0