3/5/02 DRAFT

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 8-K

Current Report

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

Date of Report: March 8, 2002

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

INFORMATION TO BE INCLUDED IN THE REPORT

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS

(c) See Exhibit Index.

ITEM 9. REGULATION FD DISCLOSURE

The material attached hereto as Exhibit 99.4, which is incorporated in this Item 9 by reference thereto, is furnished pursuant to Regulation FD.

SIGNATURE

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

CONSOLIDATED EDISON, INC.

By: /s/ Joan S. Freilich

Joan S. Freilich
Executive Vice President and
Chief Financial Officer

DATE: March 8, 2002

Index to Exhibits

Exhibit	Description	Sequential Number at which Exhibit Begins
23	Consent of PricewaterhouseCoopers LLP	
99.1	Consolidated balance sheet and statement of capitalization at December 31,2001 and 2000, and related consolidated statements of income, of retained earnings, of comprehensive income and of cash flows for each of the three years in the period ended December 31, 2001, and the notes thereto, of Consolidated Edison, Inc. and its subsidiaries ("2001 Financial Statements").	
99.2	Report of PricewaterhouseCoopers LLP, dated February 21, 2002, relating to the 2001 Financial Statements.	
99.3	Management's Discussion and Analysis of Financial Condition and Results of Operations relating to the 2001 Financial Statements.	
99.4	Presentation to Investors - March 8, 2002	

Exhibit 23

Consent of Independent Accountants

We hereby consent to the incorporation by reference of our report dated February 20, 2002, included as Exhibit 99.2 to the Consolidated Edison, Inc. Form 8-K dated March 8, 2002 in: (i) the Registration Statement on Form S-3 (No. 333-69013) relating to the Con Edison Automatic Dividend Reinvestment and Cash Payment Plan; (ii) the Registration Statement on Form S-8 (No. 333-04463-99) relating to the Con Edison 1996 Stock Option Plan; (iii) the Registration Statement on Form S-8 (No. 333-48475) relating to The Consolidated Edison Discount Stock Purchase Plan; and (iv) the Registration Statement on Form S-3 (No. 333-72264) relating to debt securities of Consolidated Edison, Inc.

PricewaterhouseCoopers LLP
New York, New York
March 8, 2002

Exhibit 99.1

CONSOLIDATED BALANCE SHEET   CONSOLIDATED EDISON, INC.

ASSETS AT DECEMBER 31 (THOUSANDS OF DOLLARS)	2001	2000
Utility plant, at original cost (Note A)		
Electric	$11,145,400	$11,808,102
Gas	2,405,730	2,300,055
Steam	758,600	740,189
General	1,354,099	1,388,602
Total	15,663,829	16,236,948
Less: Accumulated depreciation	4,472,994	5,186,058
Net	11,190,835	11,050,890
Construction work in progress	654,107	504,471
Nuclear fuel assemblies and components, less accumulated amortization	--	107,641
NET UTILITY PLANT	11,844,942	11,663,002

--------------- --------------- --------------- --------------- ------ NON-UTILITY PLANT Unregulated generating assets, less accumulated depreciation of $21,289 and $48,643 in 2001 and 2000, respectively 291,039 230,416 Non-utility property, less accumulated depreciation of $8,606 and $5,516 in 2001 and 2000 respectively 112,394 41,752 - -------------- --------------- --------------- --------------- --------------- --------------- --------------- ---------- NET PLANT 12,248,375 11,935,170 - -- --------------- --------------- --------------- --------------- --------------- --------------- --------------- ------ CURRENT ASSETS Unrestricted cash and temporary cash investments (Note A) 271,356 94,828 Restricted cash (Note C) 69,823 -- Accounts receivable - customer, less allowance for uncollectible accounts of $34,775 and $33,714 in 2001 and 2000, respectively 613,733 910,344 Other receivables 124,343 168,411 Fuel, at average cost 18,216 28,455 Gas in storage, at average cost 111,507 83,112 Materials and supplies, at average cost 90,976 131,362 Prepayments 79,687 157,634 Other current assets 50,454

69,200 - ------

-- TOTAL
CURRENT ASSETS
1,430,095
1,643,346 - ---

INVESTMENTS
Nuclear
decommissioning
trust funds
(Note I) --
328,969 Other
(Note J)
216,979 197,120
- -------------

TOTAL
INVESTMENTS
(NOTE A)
216,979 526,089
- -------------

DEFERRED
CHARGES,
REGULATORY
ASSETS AND
NONCURRENT
ASSETS GOODWILL
443,547 488,702
INTANGIBLE
ASSETS 85,783 -
- ACCRUED
PENSION CREDITS
697,807 366,743
REGULATORY
ASSETS Future
federal income
tax (Note A)
659,891 676,527
Recoverable
energy costs
(Note A)
210,264 340,495
Sale of nuclear
generating
plant (Note I)
170,241 -- Real
estate sale
costs - First
Avenue
properties
105,407 103,009
Deferred
special
retirement

program costs (Note D) 81,796 88,633 Accrued unbilled revenue (Note A) 64,249 72,619 Deferred environmental remediation costs (Note F) 62,559 49,056 Workers' compensation (Note F) 62,109 47,097 Divestiture - capacity replacement reconciliation (Note I) 58,850 73,850 Deferred revenue taxes 41,256 43,880 World Trade Center restoration costs (Note Q) 32,933 -- Other 88,260 112,603 - -- TOTAL REGULATORY ASSETS 1,637,815 1,607,769 - --- Other deferred charges and noncurrent assets 235,710 199,426 - --- TOTAL DEFERRED CHARGES, REGULATORY ASSETS AND NONCURRENT ASSETS 3,100,662 2,662,640 - --- TOTAL $16,996,111 $16,767,245 - -

----

CONSOLIDATED BALANCE SHEET   CONSOLIDATED EDISON, INC.

Capitalization and Liabilities

AT DECEMBER 31 (THOUSANDS OF DOLLARS) 2001 2000 - -------- --------------- --------------- --------------- --------------- --------------- ---------- Capitalization (see Statement of Capitalization) Common shareholders' equity $ 5,666,268 $ 5,472,389 Preferred stock subject to mandatory redemption (Note B) 37,050 37,050 Other preferred stock (Note B) 212,563 212,563 Long-term debt 5,501,217 5,415,409 - --- --------------- --------------- --------------- --------------- --------------- --------------- TOTAL CAPITALIZATION 11,417,098 11,137,411 - -- --------------- --------------- --------------- --------------- --------------- --------------- - MINORITY INTERESTS 9,522 8,416 NONCURRENT LIABILITIES Obligations under capital leases 41,088 31,504 Accumulated provision for injuries and damages 175,665 160,671 Pension and benefits reserve 187,739 181,346 Other noncurrent

liabilities
30,159 21,702 -

--- TOTAL
NONCURRENT
LIABILITIES
434,651 395,223
- -------------

----- CURRENT
LIABILITIES
Long-term debt
due within one
year 310,950
309,590 Notes
payable 343,722
255,042
Accounts
payable 665,342
1,020,402
Customer
deposits
214,121 202,888
Accrued taxes
146,657 64,343
Accrued
interest 80,238
85,276 Accrued
wages 77,131
70,951 Other
current
liabilities
372,404 307,541
- -------------

----- TOTAL
CURRENT
LIABILITIES
2,210,565
2,316,033 - ---

DEFERRED
CREDITS AND
REGULATORY
LIABILITIES
ACCUMULATED
DEFERRED INCOME
TAX (NOTE L)
2,235,295
2,302,764
ACCUMULATED
DEFERRED
INVESTMENT TAX
CREDITS (NOTE
A) 118,350
131,429
REGULATORY
LIABILITIES
NYISO
reconciliation
(Note A) 92,504
-- World Trade
Center casualty

loss (Note Q) 81,483 -- Gain on divestiture (Note I) 59,030 60,338 Deposit from sale of First Avenue properties 50,000 50,000 Recoverable energy costs 45,008 36,222 Accrued electric rate reduction (Note A) 38,018 38,018 NYPA revenue increase 9,169 35,021 Other 180,915 256,153 - ---

----- TOTAL REGULATORY LIABILITIES 556,127 475,752 - ---

----- Other deferred credits 14,503 217 - ---

--------- TOTAL DEFERRED CREDITS AND REGULATORY LIABILITIES 2,924,275 2,910,162 - ---

TOTAL $16,996,111 $16,767,245 - ---

--

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

CONSOLIDATED INCOME STATEMENT   CONSOLIDATED EDISON, INC.

YEAR ENDED DECEMBER 31 (THOUSANDS OF DOLLARS)

2001 2000
1999 - -----

Operating
revenues
(Note A)
Electric $
6,887,863 $
6,938,128 $
5,792,673
Gas
1,465,957
1,261,970
1,000,083
Steam
503,736
452,135
340,026 Non-
utility
776,406
779,158
358,541 - --

TOTAL
OPERATING
REVENUES
9,633,962
9,431,391
7,491,323 -

OPERATING
EXPENSES
Purchased
power
3,630,542
3,644,675
1,824,023
Fuel 393,830
350,816
430,050 Gas
purchased
for resale
859,961
789,080
485,155
Other
operations
1,061,950
1,146,598
1,188,623
Maintenance
430,291
458,046
437,979

Depreciation and amortization (Note A) 526,235 586,407 526,182 Taxes, other than income taxes 1,139,127 1,121,843 1,179,796 Income taxes (Notes A and L) 464,553 317,790 399,716 - -- ------------ ------------ ------------ ------------ ------------ ------------ ------------ ------------ ------------ -------- TOTAL OPERATING EXPENSES 8,506,489 8,415,255 6,471,524 - ------------ ------------ ------------ ------------ ------------ ------------ ------------ ------------ ------------ ---------- OPERATING INCOME 1,127,473 1,016,136 1,019,799 - ------------ ------------ ------------ ------------ ------------ ------------ ------------ ------------ ------------ ---------- OTHER INCOME (DEDUCTIONS) Investment income (Note A) 9,435 8,476 14,842 Allowance for equity funds used during construction (Note A) 1,281 1,299 3,810 Other income less miscellaneous deductions (33,396) (32,660) (13,571) Income taxes (Notes A and

L) 21,922
10,622
26,891 - ---

TOTAL OTHER
INCOME
(DEDUCTIONS)
(758)
(12,263)
31,972 - ---

INCOME
BEFORE
INTEREST
CHARGES
1,126,715
1,003,873
1,051,771 -

Interest on
long-term
debt 396,948
363,994
319,393
Other
interest
41,823
49,527
20,065
Allowance
for borrowed
funds used
during
construction
(Note A)
(7,891)
(6,076)
(1,895) - --

-------- NET
INTEREST
CHARGES
430,880
407,445
337,563 - --

NET INCOME	$ 695,835	$ 596,428	$ 714,208
PREFERRED STOCK DIVIDEND REQUIREMENTS	13,593	13,593	13,593
NET INCOME FOR COMMON STOCK	$ 682,242	$ 582,835	$ 700,615
EARNINGS PER COMMON SHARE - BASIC	$ 3.22	$ 2.75	$ 3.14
EARNINGS PER COMMON SHARE - DILUTED	$ 3.21	$ 2.74	$ 3.13

AVERAGE NUMBER OF SHARES OUTSTANDING - BASIC 212,146,750 212,186,412 223,442,315
- ----------

AVERAGE NUMBER OF SHARES OUTSTANDING - DILUTED 212,919,524 212,417,885 223,890,546
- ----------

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) 2001 2000 1999 - ----
----

Balance, January 1 $ 5,040,931 $ 4,921,089 $ 4,700,500
Less: Stock options exercised 5,430 1,026 1,922
Orange & Rockland purchase accounting adjustment -- (46) 51
Net income for the

year
695,835
596,428
714,208 - -

--- TOTAL
5,731,336
5,516,445
5,412,837 -

DIVIDENDS
DECLARED ON
CAPITAL
STOCK
Cumulative
Preferred,
at required
annual
rates
13,593
13,593
13,593
Common,
$2.20,
$2.18 and
$2.14 per
share,
respectively
466,726
461,921
478,155 - -

--- TOTAL
DIVIDENDS
DECLARED
480,319
475,514
491,748 - -

BALANCE,
DECEMBER 31
$ 5,251,017
$ 5,040,931
$ 4,921,089
- ---------

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME CONSOLIDATED EDISON, INC.

YEAR ENDED DECEMBER 31 (THOUSANDS OF DOLLARS)	2001	2000	1999
Net Income For Common Stock	$ 682,242	$ 582,835	$ 700,615
Other Comprehensive income/(loss), net of taxes			
Investment in marketable equity securities, net of $703 and $454 taxes in 2001 and 2000, respectively	(808)	(843)	--
Minimum pension liability adjustments, net of $1,580 and $703 taxes in 2001 and 2000, respectively	(2,095)	(1,304)	--
Unrealized (losses)/gains on derivatives qualified as hedges due to cumulative effect of a change in accounting principle, net of $5,635 taxes	(8,002)	--	--
Unrealized (losses)/gains on derivatives qualified as hedges, net of $21,901 taxes	(31,191)	--	--
Reclassification adjustment for gains/(losses) included in net income, net of $10,291 taxes	14,807	--	--

----

Total Other
Comprehensive
income/(loss),
net of taxes
(27,289)
(2,147) -- - --

COMPREHENSIVE
INCOME $
654,953 $
580,688 $
700,615 - -----

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) 2001
2000 1999 - ---

---- OPERATING
ACTIVITIES Net
income $
695,835 $
596,428 $
714,208
PRINCIPAL NON-
CASH CHARGES
(CREDITS) TO
INCOME
Depreciation
and
amortization
526,235 586,407
526,182
Deferred income
tax (excluding
taxes resulting
from
divestiture of
plant) 5,629
177,736 41,784

Common equity component of allowance for funds used during construction (1,281) (1,299) (3,810) Accrued pension costs (259,107) (201,666) (34,803) Other non-cash charges 37,815 18,448 42,050 CHANGES IN ASSETS AND LIABILITIES NET OF EFFECTS OF DIVESTITURE OF UTILITY PLANTS, PURCHASE OF THE LAKEWOOD PROJECT AND PURCHASE OF ORANGE AND ROCKLAND UTILITIES IN 2001, 2000 AND 1999, RESPECTIVELY Accounts receivable -- customer, less allowance for uncollectibles 296,611 (262,799) (66,371) Materials and supplies, including fuel and gas in storage (20,086) (19,980) 56,554 Prepayments, other receivables and other current assets 119,325 (131,203) (37,588) Deferred recoverable energy costs 130,231 (221,804) (57,692) Cost of removal less salvage (101,163) (130,590) (71,451) Accounts payable (353,601) 402,861 167,598 Other -- net 273,528 204,895 (56,449) - -- -- NET CASH FLOWS FROM

OPERATING
ACTIVITIES
1,349,971
1,017,434
1,220,212 - ---

--- INVESTING
ACTIVITIES
INCLUDING
CONSTRUCTION
Utility
construction
expenditures
(1,103,823)
(1,002,607)
(679,486)
Common equity
component of
allowance for
funds used
during
construction
1,281 1,299
3,810 Nuclear
fuel
expenditures
(6,111)
(27,357)
(16,537)
Contributions
to nuclear
decommissioning
trust (89,185)
(21,301)
(21,301)
Payment for
purchase of
Orange and
Rockland, net
of cash and
cash
equivalents --
-- (509,083)
Payment for
purchase of the
Lakewood
Project, net of
cash and cash
equivalents --
(98,090) --
Divestiture of
utility plants
(net of federal
income tax)
671,473 --
1,138,750
Investments by
unregulated
subsidiaries
(195,664)
(19,309)
(101,953)
Demolition and
remediation
costs for First
Avenue
properties
(2,398)
(101,935) --
Deposit
received from
sale of First
Avenue
properties --

50,000 -- - ---

--- NET CASH FLOWS USED IN INVESTING ACTIVITIES INCLUDING CONSTRUCTION (724,427) (1,219,300) (185,800) - ---
----

--- FINANCING ACTIVITIES INCLUDING DIVIDENDS Repurchase of common stock -- (68,531) (817,399) Net proceeds from short-term debt 39,720 (265,031) 430,196 Issuance of long-term debt 722,600 1,030,000 767,689 Retirement of long-term debt (309,590) (403,230) (225,000) Advance refunding of preferred stock and long-term debt (328,150) -- (300,000) Issuance and refunding costs (23,218) (5,468) (16,440) Common stock dividends (466,962) (462,503) (477,110) Preferred stock dividends (13,593) (13,593) (13,593) - ----
----

-- NET CASH FLOWS USED IN FINANCING ACTIVITIES

INCLUDING
DIVIDENDS
(379,193)
(188,356)
(651,657) - ---

--- CASH AND
TEMPORARY CASH
INVESTMENTS: -

------ NET
CHANGE FOR THE
PERIOD 246,351
(390,222)
382,755 - -----

- BALANCE AT
BEGINNING OF
PERIOD $ 94,828
$ 485,050 $
102,295 - -----

- BALANCE AT
END OF PERIOD $
341,179 $
94,828 $
485,050 - -----

- LESS:
RESTRICTED CASH
69,823 -- --
BALANCE:
UNRESTRICTED
CASH AND
TEMPORARY CASH
INVESTMENTS $
271,356 $
94,828 $
485,050 - -----

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the period for:			
Interest	$ 390,677	$ 351,165	$ 321,785
Income taxes	217,175	136,573	846,559
Business Acquisitions			
Assets	$ --	$ 225,462	$ 1,009,049
Purchase price in excess of net assets acquired	--	66,336	436,725
Total assets	--	291,798	1,445,774
Long-term debt, minority interest and liability assumed	--	193,708	936,691
Net cash used to acquire	$ --	$ 98,090	$ 509,083

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

CONSOLIDATED STATEMENT OF CAPITALIZATION CONSOLIDATED EDISON, INC.

YEAR ENDED

DECEMBER 31 (THOUSANDS OF DOLLARS) 2001 2000 - -------- --------------- --------------- --------------- --------------- --------------- --------------- --------------- --------------- --- Shares outstanding --- --------------- -------------- December 31, December 31, 2001 2000 ----- --------------- ------------

COMMON SHAREHOLDERS' EQUITY (NOTE B)

Common stock, $.10 value, authorized 500,000,000 shares 212,146,750 212,027,131 $ 1,482,341 $ 1,482,341

Retained earnings 5,251,017 5,040,931

Treasury stock, at cost; 23,230,850 shares and 23,460,963 shares in 2001 and 2000, respectively at December 31, 2001 and 2000 (1,002,107) (1,012,919)

Capital stock expense (35,547) (35,817)

Accumulated other comprehensive income

Investment in marketable equity securities, net of $703 and $454 taxes in 2001 and 2000, respectively (1,651) (843)

Minimum pension liability adjustments, net of $1,580 and $703 taxes in 2001 and 2000, respectively (3,399) (1,304)

Unrealized (losses)/gains on derivatives qualified as hedges arising during the

period due to
cumulative
effect of a
change in
accounting
principles, net
of $5,635 taxes
(8,002) --
Unrealized
(losses)/gains
on derivatives
qualified as
hedges, net of
$21,901 taxes
(31,191) --
Reclassification
adjustment for
gains/(losses)
included in net
income, net of
$10,291 taxes
14,807 -- - ---

-------- Total
other
comprehensive
income/(loss),
net of taxes
(29,436)
(2,147) - -----

------ TOTAL
COMMON
SHAREHOLDERS'
EQUITY
5,666,268
5,472,389 - ---

PREFERRED STOCK
(NOTE B)
Subject to
mandatory
redemption
Cumulative
Preferred, $100
par value, 6-
1/8% Series J
370,500 370,500
37,050 37,050 -

TOTAL SUBJECT

TO MANDATORY
REDEMPTION
37,050 37,050 -

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* 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
212,563 212,563
- -------------

TOTAL PREFERRED
STOCK $ 249,613
$ 249,613 - ---

----

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

CONSOLIDATED STATEMENT OF CAPITALIZATION CONSOLIDATED EDISON, INC.
(CONTINUED)

AT DECEMBER
31 (THOUSANDS

OF DOLLARS)
2001 2000 - -

- Long-term
debt (Note B)
Maturity
Interest Rate
Series - ----

Debentures:
2001 6-1/2
1993B $ - $
150,000 2001
3.25 1996B -
150,000 2002
6-5/8 1993C
150,000
150,000 2002
4.72* 1997A
150,000
150,000 2003
6-3/8 1993D
150,000
150,000 2003
6.56 1993D
35,000 35,000
2004 7-5/8
1992B 150,000
150,000 2005
6-5/8 1995A
100,000
100,000 2005
6-5/8 2000C
350,000
350,000 2007
6.45 1997B
330,000
330,000 2007
7-1/8 1997J
20,000 20,000
2008 6-1/4
1998A 180,000
180,000 2008
6.15 1998C
100,000
100,000 2009
7.15 1999B
200,000
200,000 2010
8-1/8 2000A
325,000
325,000 2010
7-1/2 2000A
55,000 55,000
2010 7-1/2
2000B 300,000
300,000 2023
7-1/2 1993G
380,000
380,000 2026
7-3/4 1996A
100,000
100,000 2027

6-1/2 1997F
80,000 80,000
2028 7.1
1998D 105,000
105,000 2028
6.9 1998D
75,000 75,000
2029 7-1/8
1994A 150,000
150,000 2029
7.0 1999G
45,000 45,000
2039 7.35
1999A 275,000
275,000 2041
7-1/2 2001A
400,000 - - -

- Total
debentures
4,205,000
4,105,000 - -

- Tax-exempt
debt - notes
issued to New
York State
Energy
Research and
Development
Authority for
Facilities
Revenue
Bonds: 2014
6.09 1994**
55,000 55,000
2015 4.21
1995** 44,000
44,000 2020
5-1/4 1993B
127,715
127,715 2020
6.10 1995A
128,285
128,285 2022
5-3/8 1993C
19,760 19,760
2026 7-1/2
1991A -
128,150 2027
6-3/4 1992A -
100,000 2027
6-3/8 1992B -
100,000 2028
6.00 1993A
101,000
101,000 2029
7-1/8 1994A
100,000
100,000 2034
2.74* 1999A
292,700
292,700 2036

1.95* 2001A
224,600 -
2036 1.81*
2001B 98,000
- - ---------

------ Total
tax-exempt
debt
1,191,060
1,196,610 - -

-
Subordinated
deferrable
interest
debentures:
2031 7-3/4
1996A 275,000
275,000 - ---

Other long-
term debt
167,845
177,440
Unamortized
debt discount
(26,738)
(29,051) - --

Total
5,812,167
5,724,999
Less: long-
term debt due
within one
year 310,950
309,590 - ---

Total long-
term debt
5,501,217
5,415,409 - -

- Total
capitalization
$ 11,417,098
$ 11,137,411
- -----------

----

* Rates reset weekly, quarterly or by auction held every 35 days; December 31, 2001 rates shown.

** Issued for O&R pollution control financing.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

These notes form an integral part of the accompanying consolidated financial statements of Consolidated Edison, Inc. (Con Edison) and its subsidiaries.

CON EDISON

Con Edison is a holding company that provides a wide range of energy-related services to its customers through its regulated and unregulated subsidiaries. Con Edison's core business is energy distribution and it is also pursuing related growth opportunities in competitive businesses.

Con Edison's principal subsidiary is Consolidated Edison Company of New York, Inc. (Con Edison of New York), a regulated utility that provides electric service to over 3.1 million customers and gas service to over 1.1 million customers in New York City and Westchester County. It also provides steam service in parts of Manhattan.

Orange and Rockland Utilities, Inc. (O&R), a regulated utility that Con Edison acquired in July 1999 (see Note K), provides electric service to over 280,000 customers and gas service to over 120,000 customers in southeastern New York and in adjacent sections of New Jersey and northeastern Pennsylvania.

Con Edison has four unregulated subsidiaries: Consolidated Edison Solutions, Inc. (Con Edison Solutions), a retail energy services company that sells electricity and gas to delivery customers of utilities, including Con Edison of New York and O&R; Consolidated Edison Energy, Inc. (Con Edison Energy), a wholesale energy supply company that enters into derivative financial and commodity instruments as part of its energy trading activities; Consolidated Edison Development, Inc. (Con Edison Development), a company that develops generating projects; and Con Edison Communications LLC (Con Edison Communications), a company which builds and operates fiber optic networks to provide wholesale telecommunications services. The unregulated subsidiaries participate in competitive energy supply and services businesses that are subject to different risks than those found in the businesses of the regulated utility subsidiaries.

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION Con Edison's consolidated financial statements include the accounts of Con Edison and its consolidated subsidiaries, including the regulated utilities, Con Edison of New York and O&R. Intercompany transactions have been eliminated.

ACCOUNTING POLICIES The accounting policies of Con Edison and its subsidiaries conform to accounting principles generally accepted in the United States of America. For regulated public utilities, like Con Edison of New York and O&R, accounting principles generally accepted in the United States include the Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation," and, in accordance with SFAS No. 71, the accounting requirements and rate-making practices of the Federal Energy Regulatory Commission (FERC) and their state public utility commissions.

The standards in SFAS No. 101, "Regulated Enterprises - Accounting for the Discontinuation of Application of the FASB Statement No. 71," have been applied to Con Edison's electric supply business, including electric generating assets and non-utility generators (NUG) contracts and related regulatory assets and liabilities (the Deregulated Business), which was deregulated as a result of the Restructuring Agreement (defined below). The application of SFAS No. 101 to the

Deregulated Business had no material effect on the financial position or results of operations of Con Edison. No loss has been recognized in income in connection with generation divestiture (see Note I), the NUG contracts (see Note H) or deferred charges (regulatory assets - principally relating to future federal income taxes) and deferred credits (regulatory liabilities) relating to the Deregulated Business. Recovery of Con Edison of New York's loss on the sale of its nuclear generating unit, its costs under NUG contracts and regulatory assets net of regulatory liabilities is probable under the Restructuring Agreement.

RATE AND RESTRUCTURING AGREEMENTS In September 1997 the New York State Public Service Commission (NYPSC) approved a restructuring agreement between Con Edison of New York, the NYPSC staff and certain other parties (the Restructuring Agreement). The Restructuring Agreement provided 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 of electric generation capacity by Con Edison of New York.

At December 31, 2001, approximately 145,000 Con Edison of New York customers representing approximately 20 percent of aggregate customer load were purchasing electricity from other suppliers under the electric Retail Choice program (which is available to all of Con Edison of New York's electric customers). Con Edison of New York delivers electricity to customers in this program through its regulated transmission and distribution systems. In general Con Edison of New York's delivery rates for Retail Choice customers are equal to the rates applicable to other comparable Con Edison of New York customers, less an amount reflecting costs otherwise associated with supplying customers with energy and capacity.

Pursuant to the Restructuring Agreement, Con Edison of New York reduced electric rates, on an annual basis, by $129 million in 1998, $80 million in April 1999, $103 million in April 2000 and $209 million in April 2001. The 2001 rate reduction excludes the divestiture of the nuclear generating facility and the Roseton plant. The effect in 2001 of the April 2001 decrease was partially offset by recognition in income of $36 million relating to rates for distributing electricity to customers of the New York Power Authority and $50 million (after tax) of deferred generation divestiture gain. See Note I.

Pursuant to the Restructuring Agreement, as amended by a July 1998 NYPSC order, Con Edison of New York has sold approximately 7,790 MW of the approximately 8,300 MW of generating capacity that it owned at the time the Restructuring Agreement was executed. See Note I.

In November 2000 the NYPSC approved an agreement (the 2000 Electric Rate Agreement) that revises and extends the rate plan provisions of the Restructuring Agreement. Pursuant to the 2000 Electric Rate Agreement, Con Edison of New York reduced the distribution component of its electric rates by $170 million on an annual basis, effective October 2000, and further reduced electric rates, effective April 1, 2001, in accordance with the Restructuring Agreement (as discussed above).

In general under the 2000 Electric Rate Agreement, Con Edison of New York's base electric transmission and distribution rates will not otherwise be changed during the five-year period ending March 2005 except (i) with respect to certain changes in costs above anticipated annual levels resulting from legal or regulatory requirements, inflation in excess of a 4 percent annual rate, property tax changes and environmental cost increases or (ii) if the NYPSC determines that circumstances have occurred that either threaten Con Edison of New York's economic viability or ability to provide, or render Con Edison of New York's rate of return unreasonable for the provision of safe and adequate service.

Under the 2000 Electric Rate Agreement as approved by the NYPSC and as modified in December 2001, 35 percent of any earnings in each of the rate years ending March 2002 through 2005 in excess of a specified rate of return on electric common equity will be retained for shareholders and the balance will be applied for customer benefit through rate reductions or as otherwise determined by the NYPSC. There was no sharing of earnings for the rate year ending March 2001. The earnings threshold for the rate year ending March 2002 of 12.9 percent can be increased by 25 basis points if certain demand reductions and supply increases exceed targeted projections. The earnings threshold for rate years ending March 2003 through March 2005 of 11.75 percent can be increased by 50 basis points. The threshold will increase by 25 basis points if certain demand reductions and supply increases exceed targeted projections and by an additional 25 basis points if certain customer service and reliability objectives are achieved. Con Edison of New York could be required to pay up to $40 million annually in penalties if certain threshold service and reliability objectives are not achieved.

Con Edison of New York's potential electric strandable costs are those prior utility investments and commitments that may not be recoverable in a competitive electric supply market. Con Edison of New York is recovering these costs in the rates it charges all of its electric customers. The 2000 Electric Rate Agreement continues the stranded cost recovery provisions of the Restructuring Agreement, stating that Con Edison of New York "will be given a reasonable opportunity to recover stranded and strandable costs remaining at March 31, 2005, including a reasonable return on investments, under the parameters and during the time periods set forth therein."

The 2000 Electric Rate Agreement also continues the rate provisions pursuant to which Con Edison of New York recovers prudently incurred purchased power and fuel costs from customers. See "Recoverable Energy Costs" in this Note A.

In 1997 the NYPSC approved a four-year O&R restructuring plan, pursuant to which O&R sold all of its generating assets made retail access available to all of its electric customers effective May 1, 1999 and reduced its electric rates by approximately $32.4 million through rate reductions implemented in December 1997 and 1998. In 1998 and 1999, similar plans for O&R's utility subsidiaries in Pennsylvania and New Jersey were approved by state regulators. The Pennsylvania plan provides for retail access for all customers effective May 1999. The New Jersey plan provides for rate reductions of $6.8 million effective August 1999, an additional reduction of $2.7 million effective January 2001 and a final reduction of $6.2 million effective August 2002.

In accordance with the April 1999 NYPSC order approving Con Edison's acquisition of O&R, Con Edison of New York has reduced its annual electric and gas rates by approximately $12 million and $2 million, respectively, and O&R has reduced its electric rates by $6.1 million and its gas rates by approximately $1.1 million.

In November 2000 the NYPSC approved an agreement between Con Edison of New York, the NYPSC staff and certain other parties that revised and extended the 1996 gas rate settlement agreement through September 2001. The 1996 agreement, with limited exceptions, continued base rates at September 1996 levels through September 2000.

Under the new agreement, the level above which Con Edison of New York shared with customers 50 percent of earnings was increased from a 13 percent to a 14 percent rate of return on gas common equity. In addition customer bills were reduced by $20 million during the January through March 2001 period. Approximately $22.6 million that normally would be credited to customers over various annual periods was credited during the four-month period ending March 2001, and $19 million of charges to customers resulting from the reconciliation of actual gas costs to amounts included in rates that were scheduled to be billed to customers beginning December 2000 instead were billed to customers beginning April 2001.

Under the new agreement, Con Edison of New York also reduced firm transportation customer bills by a retail choice credit and implemented other programs designed to increase customer and marketer participation in Con Edison of New York's gas Retail Choice program, the net costs of which are to be recovered by reducing credits otherwise due customers or deferred for future recovery from customers.

On February 15, 2002, Con Edison of New York, the Staff of the NYPSC and several other participants in the current Con Edison of New York gas rate proceeding, submitted to the NYPSC for approval a settlement of various gas rate and restructuring issues for the three-year period ending September 30, 2004. The rate agreement reduces retail sales and transportation rates by approximately $25 million, on an annual basis.

In November 2000 the NYPSC also approved a gas rate settlement agreement between O&R, the NYPSC staff, and certain other parties covering the three-year period November 2000 through October 2003. With limited exceptions, the agreement provides for no changes to base rates. O&R will be permitted to retain $18.1 million of deferred credits that otherwise would have been credited to customers.

In November 2000 the NYPSC approved an agreement between Con Edison of New York, the NYPSC staff and certain other parties, which provided for a $16.6 million steam rate increase in October 2000 and, with limited exceptions, no further changes in steam rates prior to October 2004. Con Edison of New York is required to share with customers 50 percent of any earnings for any rate year covered by the agreement in excess of a specified rate of return on steam common equity (11.0 percent for the first rate year, the 12-month period ended September 2001; 10.5 percent thereafter if the re-powering of Con Edison of New York's East River steam-electric generating plant is not completed). A rate moderation mechanism will permit Con Edison of New York to defer a portion of the revenues collected in the first two rate years attributable to the rate increase and recognize such deferrals in income during the last two rate years.

Under the steam rate agreement, upon completion of the East River re-powering project, the net benefits of the project (including the net after-tax gain from the sale of a nine-acre development site in mid-town Manhattan along the East River) allocable to steam operations will inure to the benefit of steam customers.

The agreement continues the rate provisions pursuant to which Con Edison of New York recovers prudently incurred purchased steam and fuel costs and requires Con Edison of New York to develop a strategy for hedging price variations for a portion of the steam produced each year.

UTILITY PLANT AND DEPRECIATION Utility plant is stated at original cost. 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 of New York's own funds when so used, determined in accordance with NYPSC and FERC regulations. The AFDC rate was 6.8 percent in 2001, 7.2 percent in 2000 and 9.1 percent in

1999. The rate was compounded semiannually, and the amounts applicable to borrowed funds were treated as a reduction of interest charges.

Con Edison's utility subsidiaries generally compute annual charges for depreciation using the straight-line method for financial statement purposes, with rates based on average lives and net salvage factors. Con Edison's regulated utility depreciation rates averaged approximately 3.1 percent in 2001, 3.6 percent in 2000 and 3.4 percent in 1999.

REVENUES Con Edison's utility subsidiaries recognize revenues for electric, gas and steam service on a monthly billing cycle basis. O&R accrues revenues at the end of each month for estimated energy usage not yet billed to customers, while Con Edison of New York does not accrue such revenues. Con Edison of New York defers for refund to firm gas sales and transportation customers over a 12-month period all net interruptible gas revenues not authorized by the NYPSC to be retained by Con Edison of New York.

RECOVERABLE ENERGY COSTS Con Edison's utility subsidiaries generally recover all of their prudently incurred fuel, purchased power and gas costs, including hedging gains and losses, in accordance with rate provisions approved by their state public utility commissions. For Con Edison of New York, the provision also includes a $35 million annual incentive or penalty ($25 million effective April 1, 2002) relating to electricity costs. If the actual energy costs for a given month are more or less than amounts billed to customers for that month, the difference is recoverable from or refundable to customers. Differences between actual and billed energy costs are generally deferred for charge or refund to customers during the next billing cycle (normally within one or two months). At December 31, 2001, Con Edison of New York had deferred $92.5 million of New York Independent System Operator (NYISO) refunds for purchased power. Any reconciliation to actual supply by NYISO will be recoverable from or refundable to customers. At December 31, 2001, Con Edison's New Jersey utility subsidiary, Rockland Electric Company, had deferred $76.7 million of such costs for charge to customers in the manner and at such time as is to be determined by the New Jersey Board of Public Utilities.

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

INVESTMENTS For 2001 and 2000, investments consisted primarily of the investments of Con Edison's unregulated subsidiaries, which are recorded either at cost or using the equity method. Investments in 2000 also included the external nuclear decommissioning trust fund, which was transferred in connection with the sale of Con Edison of New York's nuclear generating unit. See Note I.

GUARANTEES OF SUBSIDIARY OBLIGATIONS Con Edison has guaranteed certain obligations of its subsidiaries. These guarantees, which had maximum limits totaling $1.1 billion and $683 million at December 31, 2001 and 2000, respectively, relate primarily to certain obligations of Con Edison Development (See Note J) and obligations of up to $484 million in 2001 and $263 million in 2000 under power purchase and sales agreements entered into by Con Edison Solutions and Con Edison Energy. As of December 31, 2001, a total of $456.2 million of underlying obligations to which the guarantees relate were outstanding, of which, $52.4 million, representing accounts payable and mark-to-market contract positions, was included in the consolidated balance sheet. Con Edison does not expect to incur losses as a result of these guarantees.

NEW FINANCIAL ACCOUNTING STANDARDS During 2001 the FASB issued four new accounting standards: SFAS No. 141, "Business Combinations," SFAS No. 142, "Accounting for Goodwill and Other Intangible Assets," SFAS No. 143, "Accounting for Asset Retirement Obligations," and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

SFAS No. 141 requires that all business combinations initiated after June 30, 2001 use the purchase method of accounting, which includes recognition of goodwill. The application of SFAS No. 141 had no effect on Con Edison's consolidated financial statements.

SFAS No. 142, which Con Edison adopted on January 1, 2002, provides that goodwill (i.e., the excess of cost over the fair value of assets of businesses acquired) and intangible assets with indefinite useful lives shall no longer be subject to amortization. Con Edison's intangible assets relate to certain Con Edison Development power purchase and transmission rights agreements. Con Edison's amortization expense in 2001 for goodwill was $11.1 million and for intangible assets was $5.9 million. Under SFAS No. 142, Con Edison will continue to amortize the intangible assets relating to the power purchase agreement on a straight-line basis over its 25-year contract period but will cease amortizing goodwill and the indefinite lived intangible asset relating to the transmission rights agreement. As a result net income for common stock in 2002 will be $11.9 million ($0.06 per share) more than it would have been had Con Edison continued to amortize its goodwill and its indefinite lived intangible asset. In accordance with SFAS No. 142, Con Edison will in 2002, and thereafter as required by SFAS No. 142, review its goodwill and intangible assets for impairment. If determined in 2002 to be impaired, goodwill or the intangible assets will be reduced to their fair value and an impairment charge will be reflected as a cumulative effect of a change in accounting principle. Following 2002 any such charge would be recognized in income.

SFAS No. 143, which Con Edison is required to adopt on January 1, 2003, requires entities to record the fair value of a liability associated with an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes the cost by increasing the carrying amount of the related asset. The liability is increased to its present value each period and the capitalized cost is depreciated over the useful life of the related asset. Upon retirement of the asset, the entity settles the obligation for the amount recorded or incurs a gain or loss. Con Edison has not yet determined the effect of this standard on its consolidated financial statements.

SFAS No. 144, which Con Edison adopted on January 1, 2002, replaces SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." SFAS No. 144 requires that long-lived assets be measured at the lower of book value or fair value less cost to sell. The standard also broadens the reporting of discontinued operations. Con Edison does not expect the application of this standard to have a significant effect on its financial position or results of operations.

FEDERAL INCOME TAX In accordance with SFAS No. 109, "Accounting for Income Taxes," Con Edison's utility subsidiaries have 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, the utility subsidiaries have recovered amounts from customers for a portion of the tax expense they 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, the utility subsidiaries have established regulatory assets for the net revenue requirements to be recovered from customers for the related future tax expense. See Note L. In 1993 the NYPSC issued a Policy Statement proposing accounting procedures consistent with SFAS No. 109 and providing assurances that these future increases in taxes will be recoverable in rates.

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

Con Edison and its subsidiaries file a consolidated federal income tax return. Income taxes are allocated to each company based on its taxable income.

STATE INCOME TAX The New York State tax laws applicable to utility companies were changed effective January 1, 2000. Certain revenue-based taxes were repealed or reduced and replaced by a net income-based tax. In June 2001 the NYPSC issued its final Order relating to the tax law changes. It authorized each utility to use deferral accounting to record the difference between taxes being collected and the tax expense resulting from the tax law changes, until those changes are incorporated in base rates.

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 2001, 2000 and 1999 amounting to $14.0 million, $14.1 million and $12.4 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 the current year presentation.

EARNINGS PER COMMON SHARE In accordance with SFAS No. 128, "Earnings per Share," Con Edison presents basic and diluted earnings per share on the face of the Consolidated Income Statement. Basic earnings per share (EPS) is calculated by dividing earnings available to common shareholders ("Net income applicable to common stock" on the Consolidated Income Statement) by the weighted average number of common shares outstanding during the period. In the calculation of diluted EPS, weighted average shares outstanding are increased for additional shares that would be outstanding if potentially dilutive securities were converted to common stock.

Potentially dilutive securities for Con Edison consist of stock options whose exercise price is less than the average market price of the common shares during the reporting period. These options were granted under the Stock Option Plan (see Note M). Additionally awards of restricted stock are included in the diluted earnings per share calculation.

Shown below is a reconciliation of the numerator and denominator used in the basic and diluted EPS calculations.

Twelve Months Ended December 31, ------------ 2001 2000 1999 ----- ---- ---- (Millions of Dollars - except share data) (Thousands of Shares) Net income

	$ 695.8	$ 596.4	$ 714.2
Less: Preferred stock dividend requirements	13.6	13.6	13.6
Net income applicable to common stock (Numerator for basic and diluted EPS)	$ 682.2	$ 582.8	$ 700.6
Number of shares on which basic EPS is Calculated	212,147	212,186	223,442
Add - Incremental shares attributable to effect of dilutive securities	773	232	449
Number of shares on which diluted EPS is calculated	212,920	212,418	223,891
Basic EPS	$ 3.22	$ 2.75	$ 3.14
Diluted EPS	$ 3.21	$ 2.74	$ 3.13

Stock options to purchase 5.33 million, 4.67 million and 3.04 million common shares for the year ending December 31, 2001, 2000 and 1999 were not included in the respective period's computation of diluted earnings per share because the exercise price of the option was greater than the average market price of the common shares.

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

NOTE B   CAPITALIZATION

CAPITALIZATION OF CON EDISON Con Edison's outstanding capitalization, on a consolidated basis, consists of its common shareholders' equity and the outstanding preferred stock and long-term debt of its subsidiaries. Con Edison'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 of New York has the option to redeem its $5 cumulative preferred stock at $105 and its cumulative preferred stock,

Series C and Series D, at a price of $101 per share (in each case, plus accrued and unpaid dividends).

PREFERRED STOCK SUBJECT TO MANDATORY REDEMPTION Con Edison of New York 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.

DIVIDENDS Dividends on Con Edison's common shares depend primarily on the dividends and other distributions that Con Edison of New York and Con Edison's other subsidiaries pay to Con Edison, and the capital requirements of Con Edison and its subsidiaries. Under Con Edison of New York's Restructuring Agreement, the dividends that it may pay are limited to not more than 100 percent of its 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 paid in order to transfer to Con Edison proceeds from major transactions, such as asset sales, or to dividends reducing Con Edison of New York's equity ratio to a level appropriate to its business risk.

Payment of Con Edison of New York's common stock dividends to Con Edison is subject to certain additional restrictions. No dividends may be paid, or funds set apart for payment, on Con Edison of New York'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 of New York 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 of New York's capital stock during any period in which Con Edison of New York has deferred payment of interest on its subordinated deferrable interest debentures.

LONG-TERM DEBT Long-term debt maturing in the period 2002-2006 is as follows:

	(Millions of Dollars)
2002	$311
2003	185
2004	150
2005	450
2006	- -

Long-term debt includes the note issued by Con Edison of New York to the New York State Energy Research and Development Authority for the net proceeds of the Authority's $224.6 million aggregate principal amount of Facilities Revenue Bonds, Series 2001 A. The interest rate determination method for this debt is subject to change in accordance with the related indenture, and the debt currently bears interest at a weekly rate determined by its remarketing agent. While the debt bears interest at a weekly rate, it is subject to optional and, in certain circumstances, mandatory tender for purchases by Con Edison of New York.

Long-term debt includes notes issued by O&R to the New York State Energy Research and Development Authority for the net proceeds of the Authority's $55 million aggregate principal amount of 1994 Series and $44 million aggregate principal amount of 1995 Series Pollution Control Refunding Revenue Bonds. The interest rate determination method for this debt is subject to change in accordance with the related indenture, and the debt currently bears interest at

a weekly rate determined by its remarketing agent. While the debt bears interest at a weekly rate, it is subject to optional and, in certain circumstances, mandatory tender for purchase by O&R.

Long-term debt is stated at cost, which, as of December 31, 2001, approximates fair value (estimated based on current rates for debt of the same remaining maturities).

NOTE C   SHORT TERM BORROWING

At December 31, 2001, Con Edison and its utility subsidiaries had commercial paper programs, under which short-term borrowings are made at prevailing market rates, totaling $950 million. These programs are supported by revolving credit agreements with banks. At December 31, 2001, $159.0 million, at a weighted average interest rate of 2.02 percent, was outstanding under Con Edison's $350 million program; no commercial paper was outstanding under Con Edison of New York's $500 million program; and $16.6 million, at a weighted average interest rate of 1.90 percent, was outstanding under O&R's $100 million program. Con Edison of New York changes the amount of its program from time to time, subject to a $1 billion FERC-authorized limit.

Bank commitments under the revolving credit agreements total $950 million, of which $775 million expires in late 2002 (by which time renewal is expected). The commitments may terminate upon a change of control of Con Edison, 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 of the borrower not at any time exceed 0.65 to 1. At December 31, 2001, this ratio was 0.52 to 1 for Con Edison, 0.52 to 1 for Con Edison of New York and 0.51 to 1 for O&R. Borrowings under the agreements are not subject to maintenance of credit rating levels. The fees charged for the revolving credit facilities and borrowings under the agreements reflect the credit ratings of Con Edison of New York.

During 2001 Con Edison also made short-term borrowings from an affiliate of the lessor of the Newington Project. See Note J. The average daily outstanding amount of such short-term borrowing was $59.9 million at an average interest rate of 4.9 percent. At December 31, 2001, $49.2 million was outstanding at an interest rate of 4.2 percent.

In 2001 Con Edison Development used special-purpose entities to arrange for short term financing of electric generating projects. At December 31, 2001, approximately $119.3 million of such financing was outstanding, for which Con Edison had deposited $69.8 million into an escrow account in order to secure payment. The company expects that this financing will be repaid, and the restricted cash returned to Con Edison in 2002.

NOTE D   PENSION BENEFITS

Con Edison provides non-contributory pension benefits that cover substantially all employees of Con Edison of New York and O&R and certain employees of other Con Edison subsidiaries. The plan is designed to comply with the Employee Retirement Income Security Act of 1974 (ERISA).

Investment gains and losses are fully recognized in expense over a 15-year period (13 years for O&R in 1999 and 2000). Other actuarial gains and losses are fully recognized in expense over a 10- year period.

Con Edison offered a special retirement program in 1999 providing enhanced pension benefits for those employees who met specified eligibility requirements and retired within specific time limits. These incentives fall within the category of special termination benefits and curtailments as described in SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of

Defined Benefit Pension Plans and for Termination Benefits." The increase in pension obligations as a result of these programs amounted to $49.7 million. For Con Edison of New York, the Agreement provided that $15 million of this amount would be expensed in 2000 and the remaining $30 million would be recorded as a regulatory asset and amortized over a 15-year period beginning in October 2000. For O&R pension costs for 1999 reflect the impact of the sale of its generating assets. Due to the relatively high number of employees for whom benefits ceased to be accrued as a result of this event, a curtailment charge of $4.7 million was recognized. A portion of this curtailment charge was recorded as a regulatory asset in accordance with SFAS No. 71 and a portion was expensed.

The acquisition of O&R by Con Edison in July 1999 triggered purchase accounting requirements that are reflected in the net periodic pension cost. Under such accounting O&R's accrued pension liability was adjusted to recognize all previously unrecognized gains and losses arising from past experience different from that assumed, all unrecognized prior service costs, and the remainder of any unrecognized obligation or asset existing at the date of the initial application of SFAS No. 87, "Employers' Accounting for Pensions." A portion of these adjustments was recorded as a regulatory liability in accordance with SFAS No. 71 and a portion was expensed.

O&R is currently allowed to recover in rates pension costs recognized under SFAS No. 87. In accordance with the provisions of SFAS No. 71, Con Edison of New York defers for future recovery any difference between expenses recognized under SFAS No. 87 and the current rate allowance authorized by each regulatory jurisdiction in which it operates.

The components of Con Edison of New York and O&R's net periodic pension costs for 2001, 2000 and 1999 were as follows:

(Millions of Dollars)	2001	2000	1999
Service cost - including administrative expenses	$ 95.3	$ 90.0	$ 110.9
Interest cost on projected benefit obligation	425.2	408.7	378.4
Expected return on plan assets	(657.4)	(565.7)	(505.6)
Amortization of net actuarial (gain)	(193.9)	(186.1)	(92.8)
Amortization of prior service cost	13.6	10.5	12.6
Amortization of transition obligation	3.0	3.0	2.5
Recognition of curtailment and termination benefits	--	--	11.9
Recognition of purchase accounting	--	--	(29.6)
Net periodic			

pension cost
(314.2)
(239.6)
(111.7) - ---

Amortization
of regulatory
asset* 4.2
17.7 2.2 - --

Total pension
cost $
(310.0) $
(221.9) $
(109.5) - ---

Cost
capitalized
(61.4) (41.4)
(47.5) Cost
charged to
operating
expenses $
(248.6) $
(180.5) $
(62.0) - ----

----

* Relates to increases in Con Edison of New York's pension obligations of $33.3 million from a 1993 special retirement program and $45 million from a 1999 special retirement program.

The funded status at December 31, 2001, 2000 and 1999 was as follows:

(Millions of
Dollars) 2001
2000 1999 - ----

CHANGE IN
BENEFIT
OBLIGATION
Benefit
obligation at
beginning of
year $ 5,630.4 $
5,241.6 $
5,673.9 Service
cost - excluding
administrative

expenses 93.6 88.7 109.6 Interest cost on projected benefit obligation 425.2 408.7 378.4 Plan amendments 9.8 37.7 0.8 Net actuarial loss/(gain) 30.4 128.5 (705.4) Termination benefits and curtailments -- -- 49.7 Benefits paid (285.1) (274.8) (265.4) - -- --- Benefit obligation at end of year $ 5,904.3 $ 5,630.4 $ 5,241.6 - --- ----------- CHANGE IN PLAN ASSETS Fair value of plan assets at beginning of year $ 7,347.5 $ 7,720.1 $ 6,945.7 Actual return on plan assets (406.6) (84.7) 1,047.0 Employer contributions 3.7 4.7 13.0 Benefits paid (285.1) (274.8) (265.4) Administrative expenses (25.8) (17.8) (20.2) - -- - Fair value of plan assets at end of year $ 6,633.7 $ 7,347.5 $ 7,720.1 - --- ----------- Funded status $ 729.4 $ 1,717.1 $ 2,478.5 Unrecognized net (gain) (184.2) (1,496.8) (2,478.2)

Unrecognized prior service costs	95.9	99.8	72.5
Unrecognized net transition (asset)/liability at January 1, 1987*	(0.6)	2.4	5.3
Net prepaid benefit cost	$ 640.5	$ 322.5	$ 78.1

* Being amortized over approximately 15 years.

The amounts recognized in the consolidated balance sheet at December 31, 2001, 2000 and 1999 were as follows:

(Millions of Dollars)	2001	2000	1999
Prepaid benefit cost	$ 674.4	$ 350.6	$ 113.0
Accrued benefit liability	(40.2)	(37.1)	(34.9)
Intangible asset	0.6	7.1	--
Accumulated other comprehensive income	5.7	1.9	--
Net amount recognized	$ 640.5	$ 322.5	$ 78.1

The actuarial assumptions for Con Edison of New York and O&R at December 31, 2001, 2000 and 1999 were as follows:

	2001	2000	1999
Discount rate	7.50%	7.75%	8.00%
Expected return on plan assets	9.20%	8.50%	8.50%
Rate of compensation increase - Con Edison	4.30%	4.55%	4.80%
Rate of compensation increase - O&R Hourly	4.15%	4.40%	3.00%
Management	4.15%	4.40%	1.00%

Con Edison offers a defined contribution savings plan that covers substantially all employees of Con Edison of New York and O&R and certain employees of other Con Edison subsidiaries. Con Edison made contributions to the plan of approximately $16.7 million, $16.4 million and $16.7 million for years 2001, 2000 and 1999, respectively.

NOTE E   POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Con Edison of New York and O&R have contributory comprehensive hospital, medical and prescription drug programs for all retirees, their dependents and surviving spouses.

Con Edison of New York also has a contributory life insurance program for bargaining unit employees and provides basic life insurance benefits up to a specified maximum at no cost to retired management employees. O&R has a non-contributory life insurance program for retirees.

Certain employees of other Con Edison subsidiaries are eligible to receive benefits under these programs. The company has reserved the right to amend or terminate these programs.

Investment gains and losses are fully recognized in expense over a 15-year period for Con Edison of New York and O&R (10 years for O&R in 1999 & 2000). For both plans, other actuarial gains and losses are recognized in expense over a 10-year period.

For O&R, plan assets are used to pay benefits and expenses for participants that retired on or after January 1, 1995. O&R pays benefits for other participants. Plan assets include amounts owed to O&R of $0.3 million in 2001, $2.2 million in 2000 and $1.4 million in 1999.

During 1999, O&R sold its electric generating assets. Because of the relatively high number of O&R employees for whom benefits in the plan ceased to be accrued as a result of this event, a curtailment charge was recorded in accordance with SFAS No. 106, "Employers' Accounting for Postretirement Benefits other than Pensions."

The acquisition of O&R by Con Edison in July 1999 triggered purchase accounting requirements that are reflected in the net periodic benefit cost. Under such accounting O&R's accrued postretirement liability was adjusted to recognize all previously unrecognized actuarial gains or losses, all unrecognized prior service costs, and the remainder of any unrecognized obligation or asset existing at the date of the initial application of SFAS No. 106. The total of these adjustments along with the curtailment charge discussed above were recorded as a regulatory asset in accordance with SFAS No. 71.

O&R is currently allowed to recover in rates OPEB costs recognized under SFAS No. 106. In accordance with the provisions of SFAS No. 71, the company defers for future recovery any

difference between expenses recognized under SFAS No. 106 and the current rate allowance authorized by each regulatory jurisdiction in which it operates.

The components of Con Edison of New York and O&R's postretirement benefit (health and life insurance) costs for 2001, 2000 and 1999 were as follows:

(Millions of Dollars)	2001	2000	1999
Service cost	$ 12.2	$ 10.7	$ 15.4
Interest cost on accumulated postretirement benefit obligation	88.4	78.8	77.8
Expected return on plan assets	(73.8)	(62.3)	(43.7)
Amortization of net actuarial loss	10.2	1.2	27.2
Amortization of prior service cost	1.4	1.4	1.4
Amortization of transition obligation	17.4	17.4	18.6
Recognition of curtailment and termination benefits	--	--	(5.1)
Recognition of purchase accounting valuation	--	--	39.2
Net periodic postretirement benefit cost	$ 55.8	$ 47.2	$ 130.8
Cost capitalized/deferred	13.2	10.3	53.0
Cost charged to operating expenses	42.6	36.9	77.8

The funded status of the programs at December 31, 2001, 2000 and 1999 was as follows:

(Millions of Dollars)	2001	2000	1999
CHANGE IN BENEFIT OBLIGATION			
Benefit obligation at beginning of year	$ 1,169.8	$ 1,012.5	$ 1,177.5
Service cost	12.2	10.7	15.4
Interest cost on accumulated postretirement benefit obligation	88.4	78.8	77.8
Plan amendments	--	(0.4)	--
Net actuarial (gain) loss	148.7	127.6	(205.5)
Benefits paid and administrative expenses	(82.0)	(71.4)	(63.5)
Participant contributions	14.0	12.0	10.8
Benefit obligation at end of year	$ 1,351.1	$ 1,169.8	$ 1,012.5
CHANGE IN PLAN ASSETS			
Fair value of plan assets at beginning			

of year $
844.1 $ 872.3
$ 697.0
Actual return
on plan
assets (29.3)
4.4 103.4
Employer
contributions
55.9 23.5
121.0
Participant
contributions
13.9 11.9
10.8 Benefits
paid (75.5)
(62.9) (55.7)
Administrative
expenses
(4.9) (5.1)
(4.2) - -----

- Fair value
of plan
assets at end
of year $
804.2 $ 844.1
$ 872.3 - ---

--- Funded
status $
(546.9) $
(325.7) $
(140.2)
Unrecognized
net (gain)
loss 210.9
(32.1)
(215.6)
Unrecognized
prior service
costs 8.0 9.4
11.2
Unrecognized
transition
obligation at
January 1,
1993* 191.4
208.8 226.2 -

Accrued
postretirement
benefit cost
$ (136.6) $
(139.6) $
(118.4) - ---

---

*Being amortized over a period of 20 years.

The actuarial assumptions for Con Edison of New York and O&R at December 31, 2001, 2000 and 1999 were as follows:

2001
2000
1999 -

-
Discount
rate
7.50%
7.75%
8.00%
Expected
return
on plan
assets
Tax-
exempt
assets
9.20%
8.50%
8.50%
Taxable
assets
Con
Edison
of New
York
8.20%
7.50%
7.50%
O&R
8.70%
8.00%
7.50%

The health care cost trend rate assumed for 2002 is 8.0 percent. The rate is assumed to decrease gradually to 5.0 percent for 2006 and remain at that level thereafter.

A one-percentage point change in the assumed health care cost trend rate would have the following effects:

1-Percentage-
Point 1-
Percentage-
(Millions of
Dollars)
Increase
Point
Decrease - --

Effect on accumulated postretirement benefit obligation	$167.7	$(146.8)
Effect on service cost and interest cost components	$ 14.2	$ (12.1)

NOTE F ENVIRONMENTAL MATTERS

Hazardous substances, such as asbestos, polychlorinated biphenyls (PCBs) and coal tar, have been used or generated in the course of operations of Con Edison's utility subsidiaries and may be present in their facilities and equipment.

The Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 (Superfund) and similar state statutes impose joint and several strict liability, regardless of fault, upon generators of hazardous substances for resulting removal and remedial costs and environmental damages. Liabilities under these laws 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.

At December 31, 2001, Con Edison had accrued $132.2 million as its best estimate of the utility subsidiaries' liability for sites as to which they have received process or notice alleging that hazardous substances generated by them (and, in most instances, other potentially responsible parties) were deposited. There will be additional liability relating to these sites and other sites, the amount of which is not presently determinable but may be material to Con Edison's financial position, results of operations or liquidity.

Con Edison's utility subsidiaries are permitted under current rate agreements to defer for subsequent recovery through rates certain site investigation and remediation costs with respect to hazardous waste. At December 31, 2001, $62.6 million of such costs had been deferred as regulatory assets.

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

Workers' compensation administrative proceedings have been commenced, wherein current and former employees claim benefits based upon alleged disability from exposure to asbestos. Based on the information and relevant circumstances known to Con Edison at this time, these claims are not expected to have a material adverse effect on Con Edison's financial position, results of operations or liquidity. At December 31, 2001, Con Edison had accrued a $136.7 million provision as its best estimate of the utility subsidiaries' liability for workers' compensation claims, including those related to asbestos exposure. Of this amount $62.1 million was deferred as a regulatory asset. Other legal proceedings have commenced, wherein non-employee contractors claim benefits based upon alleged disability from exposure to asbestos. At December 31, 2001, Con Edison of New York had accrued a $4.0 million provision as its best estimate of the utility subsidiaries' liability for these alleged claims and deferred a like amount as a regulatory asset.

NOTE G NUCLEAR GENERATION

In September 2001 Con Edison of New York completed the sale of its nuclear generating unit and related assets and the transfer to the buyer of its nuclear decommissioning trust funds. See Note I.

The NYPSC is investigating a February 2000 to January 2001 outage of the nuclear generating unit, its causes and the prudence of Con Edison of New York's actions regarding the operation and maintenance of the generating unit. The proceeding covers, among other things, Con Edison of New York's inspection practices, the circumstances surrounding prior outages, the basis for postponement of the unit's steam generator replacement and whether, and to what extent, increased replacement power costs and repair and replacement costs should be borne by Con Edison's shareholders.

Con Edison of New York has billed to customers replacement power costs for the outage incurred prior to August 2000 and after October 2000, but not approximately $90 million of replacement power costs incurred in August through October 2000. Con Edison of New York has also accrued a $40 million liability for the possible disallowance of replacement power costs that it had previously recovered from customers.

An appeal is pending in the United States Court of Appeals for the Second Circuit of the October 2000 decision by the United States District Court for the Northern District of New York, in an action entitled Consolidated Edison Company of New York, Inc. v. Pataki, et al., in which the court determined that the law that directed the NYPSC to prohibit Con Edison of New York from recovering replacement power costs for the outage from customers was unconstitutional and granted Con Edison of New York's motion for a permanent injunction to prevent its implementation.

Con Edison of New York is unable to predict whether or not any proceedings, lawsuits, legislation or other actions relating to the nuclear generating unit will have a material adverse effect on its financial position, results of operations or liquidity.

NOTE H   NON-UTILITY GENERATORS (NUGS)

Con Edison's utility subsidiaries have contracts with NUGs for approximately 3,127 MW of electric generating capacity, including a contract with the buyer of the approximately 1,000 MW nuclear generating unit that Con Edison of New York sold in 2001. Assuming performance by the NUGs, the utility subsidiaries are obligated over the terms of the contracts (which extend for various periods, up to 2036) to make capacity and other fixed payments.

For the years 2002-2006, the capacity and other fixed payments under the contracts are estimated to be $541 million, $539 million, $543 million, $529 million and $525 million. Such payments gradually increase to approximately $600 million in 2013, and thereafter decline significantly. For energy delivered under most of these contracts, the utility subsidiaries are obligated to pay variable prices that are estimated to be lower overall than expected market levels. For energy from the nuclear generating unit sold by Con Edison of New York in 2001, Con Edison of New York is obligated to pay an average annual price of 3.9 cents per kilowatthour.

Under the terms of its electric rate agreements, Con Edison of New York is recovering in rates the charges it incurs under contracts with NUGs. The 2000 Electric Rate Agreement provides that, following March 31, 2005, Con Edison of New York will be given a reasonable opportunity to recover, through a non-bypassable charge to customers, the amount, if any, by which the actual costs of its purchases under the contracts exceed market value.

O&R is recovering its costs under the contracts pursuant to rate provisions approved by the state public utility regulatory authority having jurisdiction.

The Restructuring Agreement provided for a potential NUG contract disallowance of the lower of (i) 10 percent of the above-market costs or (ii) $300 million (in 2002 dollars). The Restructuring Agreement provided that Con Edison of New York could offset the potential disallowance by NUG contract mitigation and by 10 percent of the gross proceeds of any generating unit sales to third parties. Con Edison of New York has offset the entire $300 million maximum possible disallowance through NUG contract mitigation and generating plant divestiture proceeds.

NOTE I   GENERATION DIVESTITURE

In 1999 Con Edison of New York completed the sale of almost 6,300 MW of its approximately 8,300 MW of electric generating assets for an aggregate price of $1.8 billion. The net book value of the assets sold was approximately $1 billion.

In 1999 pursuant to the Restructuring Agreement, as amended by a July 1998 PSC order, $50 million of the net after-tax gain was applied as an increase to the accumulated depreciation reserve for Con Edison of New York's nuclear generating unit and $29 million of accumulated deferred taxes and investment tax credits relating to the assets sold were recognized in income. Pursuant to the 2000 Electric Rate Agreement, the balance of the net after-tax gain (including interest accrued thereon) was applied in 2000 as follows: $188.2 million was credited against electric distribution plant balances, $107.3 million was used to offset a like amount of regulatory assets (including deferred power contract termination costs), $50 million was deferred for recognition in income during the 12 months ending March 31, 2002, and $12 million was deferred to be used for low-income customer programs. In addition $30 million of employee retirement incentive expenses related to the generation divestiture were deferred for amortization over 15 years and $15 million of such expenses were charged to income in 2000.

The 2000 Electric Rate Agreement provides for recovery of an approximately $74 million regulatory asset representing incremental electric capacity costs incurred prior to May 2000 to purchase capacity from the buyers of the generating assets Con Edison of New York sold in 1999, from the shareholders' portion of any earnings above the earnings sharing levels specified for each rate year. By March 2005 any remaining unrecovered balance will be charged to expense. Fifteen million dollars of this amount was charged to expense in December 2001. See "Rate and Restructuring Agreements" in Note A.

In January 2001 Con Edison of New York completed the sale of its 480 MW interest in the jointly owned Roseton generating station for approximately $138 million. The net after-tax gain from the sale, which has been deferred as a regulatory liability, was $37.1 million. In September 2001 Con Edison of New York completed the sale of its approximately 1000 MW nuclear generating facilities and related assets for $504.5 million. The proceeds were net of a $73.8 million payment to increase the value of the nuclear decommissioning trust funds being transferred to $430 million (the amount provided for in the sales agreement). The net after-tax loss from the sale, which has been deferred as a regulatory asset, was $175.4 million. In addition Con Edison of New York was authorized effective September 2001 to continue to recover the cost of nuclear assets, which are included in rates, until the loss on divestiture has been recovered. The 2000 Electric Agreement provides that Con Edison of New York "will be given a reasonable opportunity to recover stranded and strandable costs remaining at March 31, 2005, including a reasonable return on investments." See "Rate and Restructuring Agreements" in Note A.

O&R completed the sale of all of its generating assets prior to the completion of Con Edison's purchase of O&R in July 1999.

NOTE J   LEASES

In November 2000 a Con Edison Development subsidiary entered into an operating lease arrangement with a limited partnership (Lessor) to finance the purchase, installation, assembly and construction of a 525 MW gas-fired electric generating facility under construction in Newington, New Hampshire (Newington Project). The limited partnership is a special-purpose entity and has an aggregate financing commitment from third-party equity and debt participants of approximately $353 million. In accordance with SFAS No. 13 "Accounting for Leases" and related EITF issues (including EITF Issue No. 90-15, "Impact of Non-substantive Lessors, Residual Value Guarantees, and Other Provisions in Leasing Transactions" and EITF Issue No. 97-10, "The Effect of Lessee Involvement in Asset Construction"), the Newington Project and the related lease obligations are not included on Con Edison's consolidated balance sheet. The Lessor has appointed the Con Edison Development subsidiary as construction agent responsible for completing construction of the project by no later than June 2003. The initial lease term is approximately eight years, beginning at the date of construction completion, which is expected to be July 2002. At the end of the lease term (June 2010), the subsidiary has the option to extend the lease or purchase the project for the then outstanding amounts expended by the Lessor for the project. If the subsidiary chooses not to extend the lease or acquire the project, then Con Edison will guarantee a residual value of the Newington Project for an amount not to exceed $239.7 million. The subsidiary would also have contingent payment obligations to the Lessor if an event of default should occur during either the construction period or the lease period. If the subsidiary defaults, then its obligation would equal up to 100% of the Lessor's investment in the Newington Project, which could exceed the aforementioned residual value guarantee. At December 31, 2001, project costs were approximately $305 million. The subsidiary's payment and performance obligations relating to the Newington Project are fully and unconditionally guaranteed by Con Edison.

Future minimum rental payments as of December 31, 2001 are approximately as follows:

	(Millions of Dollars)
2002	$16.6
2003	33.2
2004	33.2
2005	33.2
2006	33.2
Thereafter	116.1
Total	$265.5

Con Edison Development subsidiaries have invested in two leveraged lease transactions involving the leasing of gas distribution assets and an electric generating facility in the Netherlands. The subsidiaries' equity investment of $93 million represented approximately 36% of the purchase price; the remaining 64% or $166 million was furnished by third-party financing in the form of long-term debt that provides for no recourse against the subsidiaries and is primarily secured by the assets. At December 31, 2001, the company's net investment in these leveraged leases amounted to approximately $71 million, which was included at cost on Con Edison's consolidated balance sheet. See "Investments" in Note A.

Con Edison Development has guaranteed the repurchase and remarketing obligations of one of its subsidiaries with respect to $40.7 million of debt relating to moderate income rental apartment properties eligible for tax credits under Section 42 of the Internal Revenue Code. In accordance with FASB EITF Issue No. 94-1, neither the rental apartments properties nor the related indebtedness is included on Con Edison's consolidated balance sheet.

Con Edison's subsidiaries lease electric generating and gas distribution facilities, other electric transmission and distribution facilities, office buildings and equipment. In accordance with SFAS No. 13, these leases are classified as either capital leases or operating leases. Most of the operating leases provide the option to renew at the fair rental value for future periods. Generally, it is expected that leases will be renewed or replaced in the normal course of business.

Capital leases: For ratemaking purposes capital leases are treated as operating leases, therefore, in accordance with SFAS No. 71 the amortization of the leased asset is based on the rental payments recovered through rates. The following assets and obligations under capital leases are included in the accompanying consolidated balance sheet at December 31, 2001 and 2000:

	2001	2000
	(Millions of Dollars)	
Utility Plant		
Production	$ -	$ 0.7
Transmission	13.5	14.9
Common	29.7	18.6
Total	$43.2	$ 34.2
Current Liabilities	$2.1	$2.8

Non-Current Liabilities	41.1	31.4
	----	------
Total Liabilities	$43.2	$34.2
	=====	======

The future minimum lease commitments for the above assets are as follows:

	(Millions of Dollars)
2002	$ 7.5
2003	7.8
2004	7.5
2005	7.3
2006	7.2
All years thereafter	42.2

Total	$79.5
Less: amount representing interest	36.3

Present value of net minimum lease payments	$43.2
	=====

Operating leases: The future minimum lease commitments under Con Edison's non-cancelable operating lease agreements excluding the Newington Project are as follows:

	(Millions of Dollars)
2002	$ 33.9
2003	34.2
2004	34.7
2005	5.3
2006	5.0
All years thereafter	33.5

Total	$146.6
	======

NOTE K ACQUISITION OF ORANGE AND ROCKLAND UTILITIES (O&R)

In July 1999 Con Edison completed its acquisition of O&R for $791.5 million in cash. Con Edison has accounted for the acquisition under the purchase method of accounting in accordance with generally accepted accounting principles. The results of operations of O&R for the years 2001 and 2000 and the six months ended December 31, 1999 have been included in the consolidated income statement of Con Edison. Con Edison has recorded in its consolidated financial statements all of the assets and liabilities of O&R. The fair value of O&R's regulatory assets approximates book value. All other assets and liabilities of O&R were adjusted to their estimated fair values. The $437 million excess of the purchase price paid by Con Edison over the estimated fair value of net assets acquired and liabilities assumed was recorded as goodwill. Con Edison adopted SFAS No. 142, "Accounting for Goodwill and Other Intangible Assets," on January 1, 2002. See Note A. In accordance with regulatory agreements, costs to achieve the merger have been deferred as regulatory assets and are being amortized over a five-year period ending May 2004.

The unaudited pro forma consolidated Con Edison financial information shown below has been prepared based upon the historical consolidated income statements of Con Edison and O&R, giving effect to Con Edison's acquisition of O&R as if it had occurred at the beginning of 1999. See "New Financial Accounting Standards" in Note A for information about Con Edison's accounting for goodwill. The pro forma information is not necessarily indicative of the results that Con Edison would have had if its acquisition of O&R had been completed prior to July 1999, or the results that Con Edison will have in the future.

(Millions of Dollars)	1999
Revenues	$ 7,817
Operating income	985
Net income	646
Average shares outstanding (000)	223,442
Earnings per share	$ 2.89

NOTE L   Income Tax

The components of income taxes are as follows:

YEAR ENDED DECEMBER 31 (THOUSANDS OF DOLLARS)	2001	2000	1999
Charged to Operations:			
State Current	$ 69,279	$ 28,941	$ --
Deferred - net	78,989	--	--
Federal Current	380,509	103,670	836,783
Deferred - net	(57,089)	193,257	(428,859)
Amortization of investment tax credit	(7,135)	(8,078)	(8,208)
TOTAL CHARGED TO OPERATIONS	464,553	317,790	

399,716 - ---

Charged to Other Income: State Current (4,102) (5,304) -- Deferred - net 72 -- -- Federal Current (8,684) (1,095) 1,430 Deferred - net (7,045) (3,892) (13,825) Amortization of investment tax credit (2,163) (331) (14,496) - --
----

Total charged to other income (21,922) (10,622) (26,891) - --
----

TOTAL $ 442,631 $ 307,168 $ 372,825 - ---

The tax effect of temporary differences which gave rise to deferred tax assets and liabilities is as follows: AS OF DECEMBER 31 (MILLIONS OF DOLLARS) 2001 2000 1999 - ------
----

Liabilities: Depreciation $1,348.5 $1,441.1 $1,367.1 SFAS 109 659.8 676.5 785.0 Other 413.4 397.9 337.9 ---
Total liabilities 2,421.7 2,515.5 2,490.0 - --
Assets: Other (186.4) (212.7) (222.5) - --
Total assets (186.4) (212.7) (222.5) - ---
Net Liability $2,235.3 $2,302.8 $2,267.5 - ---
Reconciliation of the difference between income tax expenses and the amount computed by applying the prevailing statutory income tax rate to income before income taxes is as follows: YEAR ENDED DECEMBER 31,

	2001	2000	1999
(% of Pre-tax income)			
STATUTORY TAX RATE			
Federal	35%	35%	35%
Changes in computed taxes resulting from:			
State Income Tax	9%	2%	--
Depreciation Related Differences	3%	4%	5%
Cost of Removal	(4)%	(6)%	(3)%
Amortization of Taxes Associated With Divestiture Assets	--	--	(3)%
Other	(4)%	(1)%	--
Effective Tax Rate	39%	34%	34%

NOTE M   STOCK-BASED COMPENSATION

Under Con Edison's Stock Option Plan (the Plan), options may be granted to officers and key employees of Con Edison and its subsidiaries for up to a total of 10 million shares of Con Edison's common stock. Generally options become exercisable three years after the grant date and remain exercisable until 10 years from the grant date.

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

Disclosure of pro forma information regarding net income and earnings per share is required by SFAS No. 123. The information presented below relates to the income and earnings per share of Con Edison. This information has been determined as if Con Edison had accounted for its employee stock options under the fair value method of that statement. The fair values of 2001, 2000 and 1999 options are $5.23, $4.42 and $7.90 per share, respectively. These values were estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

2001 2000

			1999
Risk-free interest rate	5.22%	6.25%	5.24%
Expected lives - in years	8	8	8
Expected stock volatility	21.32%	20.51%	18.76%
Dividend yield	5.83%	6.60%	4.46%

The following table reflects pro forma net income and earnings per share had Con Edison elected to adopt the fair value approach of SFAS No. 123 (income in millions):

	2001	2000	1999
Net income			
As reported	$ 682	$ 583	$ 701
Pro forma	678	578	697
Diluted earnings per share			
As reported	$3.21	$2.74	$3.13
Pro forma	3.19	2.72	3.11

These pro forma amounts may not be representative of future disclosures due to changes in future market conditions and additional option grants in future years. For 2001, 2000 and 1999, the number of total shares of common stock after giving effect to potentially dilutive securities as used in the reported diluted earnings per share calculation is 212.9 million, 212.4 million and 223.9 million, respectively.

A summary of the status of Con Edison's Stock Option Plan as of December 31, 2001, 2000 and 1999 and changes during those years is as follows:

	Shares	Weighted Average Price
Outstanding at 12/31/98	2,395,950	$34.589
Granted	1,293,950	

47.880
Exercised
(113,440)
27.875
Forfeited
(20,250)
40.246 - -

Outstanding
at
12/31/99
3,556,210
39.607
Granted
1,349,500
32.499
Exercised
(68,697)
29.732
Forfeited
(48,100)
39.231 - -

Outstanding
at
12/31/00
4,788,913
37.749
Granted
1,487,050
37.758
Exercised
(363,013)
29.740
Forfeited
(160,300)
41.333 - -

Outstanding
at
12/31/01
5,752,650
$38.157
The
following
summarizes
the Plan's
stock
options
outstanding
at
December
31, 2001:
Weighted
Plan
Average
Shares
Remaining
Year
Exercise
Outstanding
Contractual
Price AT

12/31/01
Life -----

- ----

2001	$37.758	1,481,050	9 years
2000	32.499	1,292,500	8 years
1999	47.876	1,213,900	7 years
1998	42.609	825,350	6 years
1997	31.500	578,150	5 years
1996	27.875	361,700	4 years

As of December 31, 2001, 2000 and 1999 there were outstanding vested options to purchase 939,850, 1,304,863 and 572,460 shares of common stock, respectively, at an exercise price below the closing market price on that day.

Pursuant to employment agreements, effective September 2000, certain senior officers of Con Edison and Con Edison of New York were granted an aggregate of 350,000 restricted stock units. The units, each of which represents the right to receive one share of Con Edison common stock and related dividends, vest over a five-year period or immediately upon the occurrence of certain events. Pursuant to APB No. 25, Con Edison is recognizing compensation expense and accruing a liability for the units over the vesting period. The expense recognized for restricted stock during 2001 and 2000 was $3.1 million and $0.9 million, respectively.

NOTE N FINANCIAL INFORMATION BY BUSINESS SEGMENT

Con Edison's business segments were determined based on similarities in economic characteristics, the regulatory environment, and management's reporting requirements. Con Edison's principal business segments are:

- Regulated Electric - consists of regulated activities of Con Edison of New York and O&R relating to the generation, transmission and distribution of electricity in New York, New Jersey and Pennsylvania.

- Regulated Gas - consists of regulated activities of Con Edison of New York and O&R relating to the transportation, storage and distribution of natural gas in New York and Pennsylvania.

- Regulated Steam - consists of regulated activities of Con Edison of New York relating to the generation and distribution of steam in New York.

- Unregulated Subsidiaries - represents the operations of the competitive electric and gas supply, energy-related products and services and the operations of the affiliate that invests in energy infrastructure and wholesale telecommunications businesses.

- Other - includes the operations of the parent company, Con Edison, and consolidation adjustments.

All revenues of Con Edison's business segments, excluding revenues earned by an affiliate of Con Edison on certain energy infrastructure projects, which are deemed to be immaterial, are from customers located in the United States of America. Also, all assets, excluding certain investments in energy infrastructure projects by an affiliate of Con Edison, which are deemed to be immaterial, are located in the United States of America. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. See Note A.

Common services shared by the business segments are assigned directly or allocated based on various cost factors, depending on the nature of the service provided.

The financial data for business segments are as follows:

NOTE N   FINANCIAL INFORMATION BY BUSINESS SEGMENT

(Thousands of Dollars)	REGULATED ELECTRIC 2001	2000	1999	REGULATED STEAM 2001	2000	1999
Operating revenues	$ 6,887,863	$ 6,938,128	$5,792,673	$ 503,736	$ 452,135	$ 340,026
Intersegment revenues	12,589	53,514	150,488	1,903	2,023	1,667
Depreciation and amortization	407,992	477,352	433,203	17,902	18,173	17,996
Income tax expense	382,153	239,772	339,630	5,695	2,407	2,910
Operating income	902,176	808,960	858,681	27,893	25,557	

19,450
Interest
charge
316,449
309,753
268,392
20,768
18,191
15,363
Total
assets
12,193,525
12,386,304
11,831,548
746,587
686,807
631,353
Construction
expenditures
810,821
786,211
530,068
64,308
32,014
28,488
REGULATED
GAS
UNREGULATED
SUBSIDIARIES
- ---------

-------- --

2001 2000
1999 2001
2000 1999 -

------ ----

Operating
revenues $
1,465,957 $
1,261,970
$1,000,083
$ 785,739 $
793,740 $
358,541
Intersegment
revenues
3,181 6,113
2,812 - - -
Depreciation
and
amortization
72,050
66,780
66,262
17,470
13,547
3,303
Income tax
expense
73,768
64,942

60,598
2,937
10,669
(5,122)
Operating
income
179,823
176,171
152,212
29,590
18,024
(9,313)
Interest
charge
72,068
66,498
52,498
16,863
9,652 -
Total
assets
2,711,008
2,607,624
2,295,191
995,476
820,942
387,692
Construction
expenditures
169,739
140,702
119,602
163,921
121,214
165,000
OTHER TOTAL
- ---------

-------- --

2001 2000
1999 2001
2000 1999 -

------ ----

Operating
revenues $
(9,333) $
(14,582) $
- $
9,633,962 $
9,431,391 $
7,491,323
Intersegment
revenues
9,333
14,582 -
27,006
76,232
154,967
Depreciation
and
amortization

10,821
10,555
5,418
526,235
586,407
526,182
Income tax
expense - -
1,700
464,553
317,790
399,716
Operating
income
(12,009)
(12,576)
(1,231)
1,127,473
1,016,136
1,019,799
Interest
charge
4,732 3,351
1,310
430,880
407,445
337,563
Total
assets
349,515
265,568
385,692
16,996,111
16,767,245
15,531,476
Construction
expenditures
- - -
1,208,789
1,080,141
843,158

NOTE O DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

As of January 2001 Con Edison adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137, "Deferral of the Effective Date of FASB Statement No. 133," and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities--an amendment of FASB Statement No. 133" (collectively, SFAS No. 133).

ENERGY PRICE HEDGING

Con Edison's subsidiaries use derivative financial instruments to hedge market price fluctuations in related underlying transactions for the physical purchase or sale of electricity and gas (Hedges).

Con Edison's utility subsidiaries, pursuant to SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," defer recognition in income of gains and losses on a Hedge until the underlying transaction is completed. Pursuant to rate provisions that permit the recovery of the cost of purchased power and gas, Con Edison's utility subsidiaries credit or charge to their customers gains or losses on Hedges and related transaction costs. See "Recoverable Energy Costs" in Note A. To the extent SFAS No. 71 does not allow deferred recognition in income, Con Edison's utility subsidiaries have elected special hedge accounting pursuant to SFAS No. 133 (Cash Flow Hedge Accounting). Con Edison Solutions (which provides competitive gas and electric supply and energy-related products and services) has also elected Cash Flow Hedge Accounting.

Pursuant to Cash Flow Hedge Accounting, except as described in the following paragraph, the mark-to-market unrealized gain or loss on each Hedge is recorded in other comprehensive income and reclassified to income at the time the underlying transaction is completed. Upon adoption of SFAS No. 133, Con Edison's subsidiaries recognized after-tax transition gains of $1.7 million in other comprehensive income and $0.4 million in income. In 2001 the company reclassified to income from accumulated other comprehensive income after-tax net losses relating to Hedges of $12.4 million. These losses, which were recognized in net income as fuel or purchased power costs, were largely offset by directionally opposite changes in the market value of the underlying commodities.

Under Cash Flow Hedge Accounting, any gain or loss relating to any portion of the Hedge determined to be "ineffective" is recognized in income in the period in which such determination is made. As a result changes in value of a Hedge may be recognized in income in an earlier period than the period in which the underlying transaction is recognized in income. The company expects, however, that these changes in values will be offset, at least in part, when the underlying transactions are recognized in income. In 2001 Con Edison Solutions recognized in income mark-to-market unrealized pre-tax net losses of $6.2 million relating primarily to derivative transactions that were determined to be "ineffective." As of December 31, 2001, unrealized after-tax losses amounting to $12.7 million relating to the subsidiaries' Hedges for which Cash Flow Hedge Accounting was used were for a term of less than two years and $11.6 million of after-tax losses relating to such Hedges were expected to be reclassified from accumulated other comprehensive income to income within the next 12 months.

Con Edison Energy (which markets specialized energy supply services to wholesale customers) enters into over-the-counter and exchange traded contracts for the purchase and sale of electricity and installed capacity, gas or oil (which may provide for either physical or financial settlement)

and is considered an "energy trading organization" required to account for such trading activities in accordance with FASB EITF Issue No. 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities." With respect to such contracts entered into by Con Edison Energy, Con Edison recognized in income unrealized mark-to-market pre-tax net gains of $9.6 million in 2001.

INTEREST RATE HEDGING

O&R and Con Edison Development (which invests in and manages energy infrastructure projects) use Cash Flow Hedge Accounting for their interest rate swap agreements. In connection with its $55 million promissory note issued to the New York State Energy Research and Development Authority for the net proceeds of the Authority's variable rate Pollution Control Refunding Revenue Bonds, 1994 Series A (the 1994 Bonds), O&R has a swap agreement pursuant to which it pays interest at a fixed rate of 6.09 percent and is paid interest at the same variable rate as is paid on the 1994 Bonds. Upon adoption of SFAS No. 133, the company recognized after-tax transition adjustment losses relating to the swap agreement of $8.1 million in other comprehensive income. In 2001 the company reclassified $1.2 million of such losses from accumulated other comprehensive income to income. As of December 31, 2001, unrealized after-tax losses relating to the swap agreement amounted to $8.3 million of which $1.1 million were expected to be reclassified from accumulated other comprehensive income to income within the next 12 months.

In connection with $95 million of variable rate loans undertaken relating to the Lakewood electric generating plant, Con Edison Development has swap agreements pursuant to which it pays interest at a fixed rate of 6.68 percent and is paid interest at a variable rate equal to the three-month London Interbank Offered Rate. Upon adoption of SFAS No. 133, the company recognized after-tax transition adjustment losses relating to the swap agreements of $1.6 million in other comprehensive income. In 2001 the company reclassified $1.2 million of such losses from accumulated other comprehensive income to income. As of December 31, 2001, unrealized after-tax losses relating to the swap agreements amounted to $3.4 million of which $1.9 million were expected to be reclassified from accumulated other comprehensive income to income within the next 12 months.

COMPREHENSIVE INCOME

Unrealized (losses)/gains on derivatives, net of tax included in Accumulated other comprehensive income was as follows:

Twelve Months Ended (Millions of Dollars) December 31, 2001 - -------- ------------- - --------------- - Unrealized (losses)/gains on derivatives qualified as Hedges due to cumulative

effect of a change in accounting Principles, net of $5.6 taxes $ (8.0)
Unrealized (losses)/gains on derivatives qualified as Hedges, net of $21.9 taxes (31.2)
Reclassification adjustment for gains/(losses) included in net income, net of $10.3 taxes 14.8 -----
Unrealized (losses)/gains on derivatives qualified as hedges, at December 31, 2001 $(24.4) ======

NOTE P   NORTHEAST UTILITIES

In March 2001 Con Edison commenced an action in the United States District Court for the Southern District of New York, entitled Consolidated Edison, Inc. v. Northeast Utilities, seeking a declaratory judgment that Northeast Utilities has failed to meet certain conditions precedent to Con Edison's obligation to complete its acquisition of Northeast Utilities pursuant to their agreement and plan of merger, dated as of October 13, 1999, as amended and restated as of January 11, 2000 (the merger agreement). In May 2001 Con Edison amended its complaint. As amended Con Edison's complaint seeks, among other things, recovery of damages sustained by it as a result of the material breach of the merger agreement by Northeast Utilities and the court's declaration that under the merger agreement Con Edison has no further or continuing obligations to Northeast Utilities, and that Northeast Utilities has no further or continuing rights as against Con Edison.

In June 2001 Northeast Utilities withdrew the separate action it commenced in March 2001 in the same court and filed as a counter-claim to Con Edison's amended complaint its claim that Con Edison materially breached the merger agreement and that as a result Northeast Utilities and its shareholders have suffered substantial damages, including the difference between the consideration to be paid to Northeast Utilities shareholders pursuant to the merger agreement and the current market value of Northeast Utilities common stock, expenditures in connection with regulatory approvals and lost business opportunities. Pursuant to the merger agreement, Con Edison agreed to acquire Northeast Utilities for $26.00 per share (an estimated aggregate of not more than $3.9 billion) plus $0.0034 per share for each day after August 5, 2000 through the day prior to the completion of the transaction, payable 50 percent in cash and 50 percent in stock.

Con Edison believes that Northeast Utilities has materially breached the merger agreement, and that Con Edison has not materially breached the merger agreement. Con Edison believes it is not obligated to acquire Northeast Utilities because Northeast Utilities does not meet the merger agreement's conditions that Northeast Utilities perform all of its obligations under the merger agreement. Those obligations include the obligation that it carry on its businesses in the ordinary

course consistent with past practice; that the representations and warranties made by it in the merger agreement were true and correct when made and remain true and correct; and that there be no material adverse change with respect to Northeast Utilities. Con Edison is unable to predict whether or not any Northeast Utilities-related lawsuits or other actions will have a material adverse effect on Con Edison's financial position, results of operations or liquidity.

NOTE Q   WORLD TRADE CENTER ATTACK

Con Edison of New York estimates that it will incur approximately $400 million of costs for emergency response, temporary restoration and permanent replacement of electric, gas and steam transmission and distribution facilities damaged as a result of the September 11, 2001 attack on the World Trade Center. Most of the costs are expected to be capital in nature. In December 2001 Con Edison of New York filed a petition with the NYPSC for authorization to defer the costs. The company estimates that its insurers will cover approximately $65 million of the costs. The company expects the NYPSC to permit recovery from customers of the costs, net of any Federal reimbursement, insurance payment and tax savings. At December 31, 2001, the company had capitalized $54.9 million of such costs as utility plant and deferred $32.9 million of such costs as a regulatory asset. In addition at December 31, 2001, the company accrued a regulatory liability to defer recognition in income of an $81.5 million tax refund claim resulting from a casualty loss deduction taken by the company relating to the attack.

Exhibit 99.2

REPORT OF INDEPENDENT ACCOUNTANTS

TO THE STOCKHOLDERS AND BOARD OF DIRECTORS OF CONSOLIDATION EDISON, INC.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and comprehensive income, of retained earnings, of capitalization and of cash flows present fairly, in all material respects, the financial position of Consolidated Edison, Inc. and its subsidiaries at December 31, 2001 and December 31, 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America included in Exhibit 99.1 of this Form 8-K. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
New York, NY
February 21, 2002

Exhibit 99.3

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

This discussion and analysis relates to the accompanying consolidated financial statements of Consolidated Edison, Inc. (Con Edison) and should be read in conjunction with the consolidated financial statements and the notes thereto. Except where noted, this discussion and analysis is presented on a consolidated basis.

CON EDISON'S BUSINESS

Con Edison is a holding company that provides a wide range of energy-related services to its customers through its regulated and unregulated subsidiaries. Con Edison's core business is energy distribution and it is also pursuing related growth opportunities in competitive businesses.

Con Edison's principal subsidiary is Consolidated Edison Company of New York, Inc. (Con Edison of New York), a regulated utility that provides electric service to over 3.1 million customers and gas service to over 1.1 million customers in New York City and Westchester County. It also provides steam service in parts of Manhattan.

Orange and Rockland Utilities, Inc. (O&R) is also a regulated utility subsidiary of Con Edison. O&R, along with its regulated utility subsidiaries, provides electric service to over 280,000 customers and gas service to over 120,000 customers in southeastern New York and in adjacent sections of New Jersey and northeastern Pennsylvania.

Con Edison has four unregulated subsidiaries: Consolidated Edison Solutions, Inc. (Con Edison Solutions), a retail energy services company that sells electricity and gas to delivery customers of utilities, including Con Edison of New York and O&R; Consolidated Edison Energy, Inc. (Con Edison Energy), a wholesale energy supply company that enters into financial and commodity instruments as part of its energy trading activities; Consolidated Edison Development, Inc. (Con Edison Development), a company that develops generating projects; and Con Edison Communications, LLC (Con Edison Communications), a company that builds and operates fiber optic networks to provide wholesale telecommunications services. The unregulated subsidiaries participate in competitive energy supply and services businesses that are subject to different risks than those found in the businesses of the regulated utility subsidiaries. The unregulated subsidiaries accounted for approximately 8.2 percent of consolidated operating revenues and 1.7 percent of consolidated net income in 2001, and 5.0 percent of consolidated total assets at December 31, 2001.

SIGNIFICANT DEVELOPMENTS

The September 11, 2001 attack on the World Trade Center damaged electric, gas and steam transmission and distribution facilities of Con Edison of New York. See Note Q to the financial statements.

In 2001 Con Edison of New York completed the sale of its 480 MW interest in the jointly owned Roseton generating station and its 1,000 MW nuclear generating unit and related assets for $642.5 million. See "Liquidity and Capital Resources - - Generation Divestiture," below. Con Edison of New York's remaining electric generating facilities consist of steam-electric plants located in New York City with an aggregate electric capacity of approximately 629 MW.

In April 2001 Con Edison of New York reduced its electric rates $209 million (on an annual basis). Together with previous decreases implemented since its 1997 Restructuring Agreement, Con Edison has decreased its electric rates by $691 million (on an annualized basis). See "Regulatory Matters - Electric," below.

In March 2001 Con Edison and Northeast Utilities commenced litigation relating to their October 1999 merger agreement. See Note P to the financial statements.

CRITICAL ACCOUNTING POLICIES

Con Edison's financial statements reflect the application of the company's accounting policies. These accounting policies conform to accounting principles generally accepted in the United States of America. The accounting policies and the judgments and uncertainties affecting their application that are most important to the portrayal of Con Edison's financial condition and results of operations are discussed in the notes to the financial statements. It is likely that materially different amounts would be reported in financial statements under different conditions or using different assumptions.

Con Edison's critical accounting policies 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 state public utility regulatory authorities having jurisdiction.

SFAS No. 71 specifies the economic effects that result from the cause and effect relationship of costs and revenues in the rate-regulated environment and how these effects are to be accounted for by a regulated enterprise. Revenues intended to cover some costs may be recorded either before or after the costs are incurred. If regulation provides assurance that incurred costs will be recovered in the future, these costs would be capitalized as deferred charges or "regulatory assets" under SFAS No. 71. If revenues are recorded for costs that are expected to be incurred in the future, these revenues would be accrued as deferred credits or "regulatory liabilities" under SFAS No. 71. Actions of a regulator may also reduce or eliminate the value of an asset of a regulated enterprise, or impose a liability (or eliminate a liability it imposed) on the enterprise. Authoritative accounting pronouncements that apply to enterprises in general also apply to regulated enterprises. However, enterprises subject to SFAS No. 71 are required to apply it instead of any conflicting provisions of standards in other authoritative pronouncements. If some of an enterprise's operations are regulated and meet the criteria specified in SFAS No. 71, it is applied only to that regulated portion of the enterprise's operations.

Critical accounting policies of Con Edison are referenced in Note A (Summary of Significant Accounting Policies), Note D (Pension Benefits), Note E (Post Retirement Benefits Other Than Pensions) and Note O (Derivative Instruments and Hedging Activities) to the financial statements.

LIQUIDITY AND CAPITAL RESOURCES

Con Edison's liquidity is dependent on its cash flows from its operating, investing and financing activities listed on the accompanying consolidated statement of cash flows and discussed below. As a result of these activities, cash and temporary cash investments increased $176.5 million at December 31, 2001 compared to December 31, 2000.

CASH FLOWS FROM OPERATING ACTIVITIES

Con Edison's cash flows from operating activities reflect principally its energy sales and its cost of operations. The volume of energy sales is dependent on factors external to Con Edison such as weather, economic conditions and technological developments. The prices at which Con Edison's utility subsidiaries provide energy to their customers are determined in accordance with rate agreements approved by the state public utility regulatory authority having jurisdiction - New York State Public Service Commission (NYPSC), New Jersey

Board of Public Utilities (NJBPU) and Pennsylvania Public Utility Commission (PPUC). See "Regulatory Matters," below. In general changes in the utility subsidiaries' cost of purchased power and gas affect the timing of cash flows but not net income because the costs are recovered in accordance with rate agreements. See "Recoverable Energy Costs" in Note A to the financial statements.

Net cash flows from operating activities in 2001 increased $332.5 million compared with 2000, principally as a result of lower energy costs which are reflected in decreased customer accounts receivable and recoverable energy costs, offset in part by decreased accounts payable balances. Net cash flows from operating activities in 2000 decreased $202.8 million compared to 1999, due principally to increased energy costs, including $90 million of replacement power costs that were not recovered from customers. See Note G to the financial statements.

Net income for common stock is a result of cash and non-cash transactions. Only cash transactions affect Con Edison's cash flow from operations. Principal non-cash charges include depreciation. Principal non-cash credits include accrued pension credits. Pension credits result from favorable past performance in Con Edison of New York's pension fund and assumptions about future performance. See Note D to the financial statements.

Con Edison's accounts receivable - customer, less allowance for uncollectible accounts decreased $296.6 million at December 31, 2001 compared with year-end 2000, due primarily to lower customer billings during the fourth quarter by Con Edison's utility subsidiaries, reflecting lower energy costs, offset in part by the timing of customer payments and the remaining receivables from the higher summer billings. Con Edison of New York's equivalent number of days of revenue outstanding (ENDRO) of customer accounts receivable was 29.6 days at December 31, 2001, compared to 29.7 days at December 31, 2000. For O&R the ENDRO was 23.6 days at December 31, 2001 and 33.4 days at December 31, 2000.

Recoverable energy costs decreased $130.2 million at December 31, 2001 compared with year-end 2000, reflecting decreased purchased power and gas costs, resulting from lower sales volumes. See "Recoverable Energy Costs" in Note A to the financial statements.

Gas in storage increased $28.4 million at December 31, 2001 compared with year-end 2000 due primarily to higher volumes resulting from lower withdrawals as a result of warmer weather in 2001 as compared to 2000.

Prepayments decreased $77.9 million at December 31, 2001 compared with year-end 2000 due primarily to a prepayment of Federal and State taxes of $70.0 million at year-end 2000 by Con Edison of New York.

The decreases in 2001 compared to 2000 in electric plant, accumulated depreciation, materials and supplies, nuclear decommissioning trust funds, and the regulatory assets for future Federal income tax, as well as the establishment in 2001 of a regulatory asset for the sale of Con Edison of New York's nuclear generating unit, reflect generation divestitures in 2001. See "Generation Divestiture," below.

Deferred environmental remediation costs increased $13.5 million at December 31, 2001 compared with year-end 2000, reflecting site investigation and remediation costs for Con Edison's utility subsidiaries deferred under current rate agreements. See Note F to the financial statements.

The $15.0 million increase in the regulatory asset for the workers' compensation reserve and the $15.0 million increase in the accumulated provision for injuries and damages at December 31, 2001 compared with year-end 2000 reflect primarily workers' compensation claims relating to alleged asbestos exposure. See Note F to the financial statements.

For information about the regulatory asset for World Trade Center restoration costs, see Note Q to the financial statements.

Accounts payable decreased $355.1 million at December 31, 2001 compared with year-end 2000, due primarily to lower energy purchases in December 2001 as compared to December 2000.

Accrued taxes increased $82.3 million at December 31, 2001 compared to year-end 2000, primarily because, in light of the World Trade Center attack, the Federal government extended to January 2002 the due date for the final payment of 2001 income taxes for affected companies.

Regulatory liabilities increased $80.4 million at December 31, 2001 compared with year-end 2000, reflecting the deferral, pending future disposition by the NYPSC, of a $92.5 million refund from the New York Independent System Operator (NYISO) and an $81.5 million tax refund resulting from a casualty loss deduction taken by Con Edison of New York relating to the World Trade Center attack. These increases were offset in part by the recognition in income of $37 million of gains on generation divestiture, and $25.9 million of previously deferred New York Power Authority (NYPA) revenue increases related to the amortization of a NYPA revenue deficiency pursuant to terms of the agreements covering Con Edison of New York's electric rates. See "Restructuring Agreements" in Note A to the financial statements.

During 2001 other regulatory liabilities decreased $75.2 million, due primarily to a reduction of $80.6 million in the deferral related to New York State tax law changes. The reduction in the deferral was attributable to recognition in income of deferred state income tax expense and lower revenue-based tax collections. Changes in the New York State tax laws applicable to utility companies, effective January 1, 2000, repealed or reduced certain revenue-based taxes and instituted a net income-based tax. In June 2001 the NYPSC issued its final Order relating to these tax law changes. It authorized each utility to use deferral accounting to record the difference between taxes being collected and the tax expense resulting from the tax law changes, until those are incorporated into base rates.

CASH FLOWS USED IN INVESTING ACTIVITIES

Cash flows used in investing activities in 2001 decreased $494.9 million compared with 2000, due primarily to the receipt of proceeds from generation divestiture, which offset increased utility construction expenditures ($101.2 million) related to meeting load growth on Con Edison of New York's electric distribution system. See "Generation Divestiture" and "Capital Expenditures" below.

Con Edison's investments increased $176.4 million during 2001 compared with 2000, due principally to generation projects of Con Edison Development (see Note C to the financial statements), higher build-out costs of $42.6 million for Con Edison Communications and an expenditure of $25.5 million by Con Edison of New York to improve its underground facilities. This improvement will increase the capacity of Con Edison of New York to provide telecommunication companies access to install communication lines within Con Edison of New York's facilities.

In June 2000 Con Edison Development, purchased an 80 percent interest in a partnership that owns a 236-MW electric generating unit in Lakewood, New Jersey (the Lakewood Project) for $98.1 million.

Deferred real estate sale costs related to the demolition and remediation of a nine-acre development site in midtown Manhattan along the East River were $105.4 million at December 31, 2001 compared to $103.0 million at December 31, 2000. In 2000 Con Edison of New York agreed to sell this site for an expected price of $576 million to $680 million depending on zoning and other adjustments. The sale is subject to NYPSC

approval and other conditions. The buyer paid Con Edison of New York $50 million as a down payment, which Con Edison of New York used to fund a portion of the demolition and remediation expenses. The down payment has been recorded as a regulatory liability.

CASH FLOWS USED IN FINANCING ACTIVITIES

Cash flows used in financing activities in 2001 increased $190.8 million compared with 2000, a result of decreased external borrowings and increased debt redemption.

External borrowings are a source of liquidity for companies that could be affected by changes in credit ratings, financial performance and capital markets. For information about Con Edison's credit ratings and certain financial ratios, see "Capital Resources," below.

Con Edison had $343.7 million of commercial paper and other short-term notes outstanding at December 31, 2001 and $255 million outstanding at December 31, 2000. Con Edison's average daily short-term borrowing outstanding in 2001 was $241.8 million compared with $319 million in 2000. The weighted average interest rate was approximately 4.6 percent in 2001 compared to approximately 6.4 percent in 2000. For additional information about Con Edison's short-term borrowing, see Note C to the financial statements.

In February 2001 Con Edison of New York redeemed $150 million of 6.5 percent 8-year debentures. In June Con Edison of New York issued $400 million of 7.5 percent 40-year debentures. In addition Con Edison of New York issued $224.6 million of variable rate 35-year tax-exempt debt (with an initial weekly rate of 2.25 percent) through the New York State Energy Research and Development Authority (NYSERDA), the proceeds of which were used in July 2001 to redeem, in advance of maturity, $228.2 million of tax-exempt debt with a weighted average interest rate of 7.2 percent. In November 2001 Con Edison of New York issued $98 million of variable rate 35-year tax-exempt debt (with an initial weekly rate of 1.9 percent) through NYSERDA, the proceeds of which were used to redeem, in advance of maturity, $100 million of tax-exempt debt with an interest rate of 6.375 percent. In December 2001 Con Edison of New York redeemed $150 million of variable rate 5-year debentures.

During 2000 Con Edison of New York repaid at maturity $275 million of debentures, with a weighted average annual interest rate of approximately 7.48 percent, and issued $975 million of 5-year and 10-year debentures, with a weighted average annual interest rate of approximately 7.39 percent. During 2000, O&R repaid at maturity $120 million of debentures, with a weighted average annual interest rate of 8.27 percent, and issued $55 million of 10-year, 7.5 percent debentures.

Con Edison purchased approximately 1.9 million shares of its common stock, at an aggregate cost of $60.7 million, in 2000. Through December 31, 2000, a total of 23.2 million shares were purchased under a stock repurchase program begun in 1998, at an average price of $43.13 per share, and a total cost of $1.0 billion. No purchases were made by Con Edison in 2001.

GENERATION DIVESTITURE

Con Edison sold most of its electric generating capacity in 1999. O&R completed the sale of all its generating assets prior to the completion of Con Edison's acquisition of O&R in July 1999.

In January 2001 Con Edison of New York completed the sale of its 480 MW interest in the jointly owned Roseton generating station for approximately $138 million. In September 2001 Con Edison completed the sale of its nuclear generating facilities and related assets for $504.5 million. The proceeds were net of a $73.8 million payment to increase the value of the nuclear decommissioning trust funds being transferred to $430

million, the amount provided for in the sales agreement.

Net income for 2001 reflects neither the $37.1 million net after-tax gain on the Roseton sale (which was deferred as a regulatory liability) nor the $175.4 million net after-tax loss on the nuclear generating facilities sale which was deferred as a regulatory asset.

Con Edison of New York's remaining electric generating facilities consist of plants located in New York City with an aggregate capacity of approximately 629 MW.

For additional information about generation divestiture, see Note I to the financial statements.

CAPITAL RESOURCES

Con Edison is a holding company that operates only through its subsidiaries and has no material assets other than its interests in its subsidiaries. Con Edison expects to finance its capital requirements and the payment of dividends to its shareholders primarily from dividends it receives from its subsidiaries and through external borrowings, including commercial paper. Con Edison's ability to make payments on its external borrowings is dependent upon its receipt of dividends from its subsidiaries or proceeds from the sale of its securities or its interests in its subsidiaries. For information about restrictions on the payment of dividends by Con Edison of New York, see Note B to the financial statements.

In addition, Con Edison has determined to use authorized but previously unissued shares of its common stock instead of shares purchased on the open market for its Automatic Dividend Reinvestment and Cash Payment Plan, Stock Purchase Plan and Stock Option Plan. In 2001 1.9 million shares were purchased in the open market for these plans.

Con Edison expects its utility subsidiaries to finance their operations, capital requirements and payment of dividends to Con Edison from internally generated funds and external borrowings. For information about the company's $950 million commercial paper programs and revolving credit agreements with banks, see Note C to the financial statements.

In December 2001 the NYPSC authorized Con Edison's utility subsidiaries to issue not more than $1.95 billion of debt securities prior to 2006. The NYPSC also authorized the refunding of the utility subsidiaries' outstanding debt securities and preferred stock.

Con Edison's unregulated subsidiaries have financed their operations and capital requirements primarily with capital contributions from Con Edison, internally generated funds and external borrowings and off-balance sheet financing guaranteed by Con Edison. See Note J to the financial statements.

Con Edison's ratio of earnings to fixed charges for 2001, 2000 and 1999 and common equity ratio at December 31, 2001, 2000 and 1999 were:

	2001	2000	1999
Earnings to fixed charges (SEC basis)	3.49	3.10	4.04
Common equity ratio	49.6	49.1	53.1

The changes in interest coverage in these years reflect changes in pre-tax income and changes in interest charges due to debt issuances and refundings. Excluding a $130 million charge for replacement power costs (see Note G to the financial statements) and the $32.1 million charge for merger-related expenses (see Note P to

the financial statements), Con Edison's ratio of earnings to fixed charges for 2000 would have been 3.47. The changes in the equity ratio reflect the issuance of debt.

The commercial paper of Con Edison and its utility subsidiaries is rated P-1 and A-1, respectively, by Moody's Investors Service, Inc. (Moody's) and Standard & Poor's Rating Services (S&P). S&P has assigned an issuer rating of A to Con Edison, which has not yet issued any long-term debt. The senior unsecured debt of Con Edison's utility subsidiaries is rated A1 and A+, respectively, by Moody's and S&P.

CAPITAL REQUIREMENTS

The following table compares Con Edison's capital requirements relating to its regulated and unregulated subsidiaries for the years 1999 through 2001 and estimated amounts for 2002 and 2003:

(Millions of Dollars)	1999	2000	2001	2002	2003
Regulated utility construction expenditures	$ 678	$ 959	$1,042	$1,307	$1,388
Investment in unregulated subsidiaries	165	121	164	307	257
Sub-total	843	1,080	1,206	1,614	1,645
Retirement of long-term securities at maturity	225	395	638	337	185

--------- -

--- -------
-------- --

---- ------

Total
$1,068
$1,475
$1,844
$1,951
$1,830

The increased regulated utility construction expenditures in 2002 and 2003 reflect expenditures for permanent electric, gas and steam system restoration following the World Trade Center attack, incremental electric load growth and reliability programs, an increased level of gas infrastructure expenditures and the cost to repower Con Edison of New York's East River steam-electric generating plant.

The investment in unregulated subsidiaries reflects Con Edison's funding to the unregulated subsidiaries as well as the subsidiaries' own investments. At December 31, 2001 and 2000, Con Edison's investment in these subsidiaries, on an unconsolidated basis, was $473.5 million and $405.6 million, respectively.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

In the normal course of business, companies enter into contracts and make commitments. Accounting principles generally accepted in the United States of America do not require every obligation undertaken by a company to be included as a liability on its balance sheet. However, material off-balance sheet obligations are required to be disclosed in the footnotes to the financial statements.

The following tables summarize Con Edison's material contractual obligations to make payments. Long-term debt and capital lease obligations are included on Con Edison's balance sheet. Operating leases and non-utility generator contracts (for which undiscounted future annual payments are shown) are disclosed in the footnotes to the financial statements.

(Millions
of
Dollars)
Payments
Due by
Period
Less than
1
Contractual
Obligations
Total year
1-3 years
4-5 years
After 5
years ----

--- Long-
term debt
(Note B) $
5,839 $311
$ 785 $
350 $
4,393
Capital
lease
obligations
(Note J)
79 8 15 14

Operating leases (Note J)	412	50	135	77	150
Non-utility generator contracts (Note H)	8,679	541	1,082	1,054	6,002
Total	$15,009	$910	$2,017	$1,495	$10,587

Con Edison's material commercial commitments to make payments in addition to these contractual commitments are its guarantees of certain obligations of its subsidiaries. Con Edison estimates that, at December 31, 2001, the maximum aggregate amount of these guarantees, most of which expire or can be terminated within one year, totaled approximately $1.1 billion, of which approximately $456.2 million of underlying obligations to which guarantees relate were outstanding. The guarantees include Con Edison's guarantee in an amount not to exceed $239.7 million, of the residual value for an electric generating project leased by Con Edison Development (see Note J to the financial statements). In addition to the guarantees listed above, Con Edison Development has $51.3 million of guarantees outstanding for obligations of its subsidiaries.

NON-EXCHANGE TRADED CONTRACTS ACCOUNTED FOR AT FAIR VALUE

Con Edison Energy is engaged in energy trading activities, in relation to which Con Edison recognized in income in 2001 unrealized mark-to-market pre-tax net gains of $9.6 million, reflecting changes in the fair value of derivative financial and commodity instruments. See "Financial Market Risks," below and Note O to the financial statements.

ELECTRIC POWER PURCHASES

In 2001 Con Edison's utility subsidiaries purchased substantially all of the energy they sold to customers pursuant to firm contracts with non-utility generators and others or through the NYISO's wholesale electricity market.

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

To reduce the volatility of electric energy costs, Con Edison's utility subsidiaries have firm contracts to purchase electric energy (including the output of the nuclear generating unit divested in 2001) and have entered into derivative transactions to hedge the costs of expected purchases for a substantial portion of the electric energy expected to be sold to customers in summer 2002. See Notes H and O to the financial statements.

Con Edison's utility subsidiaries do not expect to add long-term electric generation resources other than in connection with the re-powering of Con Edison of New York's East River generating plant, which will add incremental electric capacity of approximately 200 MW. In a July 1998 order, the NYPSC indicated that it "agree(s) generally that Con Edison of New York need not plan on constructing new generation as the competitive market develops," but considers "overly broad" and did not adopt Con Edison of New York's request for a declaration that, solely with respect to providing generating capacity, it will no longer be required to engage in long-range planning to meet potential demand and, in particular, that it will no longer have the obligation to construct new generating facilities, regardless of the market price of capacity.

REGULATORY MATTERS

ELECTRIC

In July 2001 the FERC concluded that the three independent system operators in the Northeastern United States, including the NYISO, should combine to form one regional transmission organization (RTO) and initiated a process with respect to issues associated with its formation. The terms and conditions pursuant to which an RTO for the Northeastern United States would be formed and operate have not been determined. FERC has, however, indicated that an RTO should have certain characteristics, including independence from market participants and operational authority for all transmission assets under its control, and perform certain functions, including tariff administration and design, congestion management, market monitoring, planning and expansion and interregional coordination. Con Edison's transmission facilities, other than those located underground, are currently controlled and operated by the NYISO.

In 1996 the NYPSC, 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 NYPSC approved a restructuring agreement among Con Edison of New York, the NYPSC staff and certain other parties (the 1997 Restructuring Agreement). Pursuant to the 1997 Restructuring Agreement, Con Edison of New York reduced electric rates on an annual basis by approximately $129 million in 1998, $80 million in 1999, $103 million in 2000 and $209 million in 2001, divested most of its electric generating capacity, and enabled all of its electric customers to be served by competitive energy suppliers. For additional information about the 1997 Restructuring Agreement, see Note A to the financial statements.

In November 2000 the NYPSC approved an October 2000 agreement (the 2000 Electric Rate Agreement) that, among other things, revises and extends the electric rate plan provisions of the 1997 Restructuring Agreement and addresses certain generation divestiture-related issues.

The electric rate plan provisions of the 2000 Electric Rate Agreement cover the five-year period ending March 2005. Pursuant to the 2000 Electric Rate Agreement, Con Edison of New York reduced the distribution component of its electric rates by $170 million on an annual basis, effective October 2000.

The 2000 Electric Rate Agreement continues the rate provisions pursuant to which Con Edison of New York recovers prudently incurred purchased power and fuel costs from customers. See "Recoverable Energy Costs" in Note A to the financial statements.

For additional information about the 2000 Electric Rate Agreement, see "Rate and Restructuring Agreements" in Note A to the financial statements.

O&R has entered into settlement agreements or similar arrangements with the NYPSC and the New Jersey and Pennsylvania public utility commissions, that provide for a transition to a competitive electric market and address customer/shareholder sharing of net synergy savings from Con Edison's July 1999 acquisition of O&R. See "Rate and Restructuring Agreements" in Note A to the financial statements.

GAS

In November 2000 the NYPSC approved an agreement between Con Edison of New York, the NYPSC staff and certain other parties that revised and extended the 1996 gas rate settlement agreement through September 2001. The 1996 agreement, with limited exceptions, continued base rates at September 1996 levels through September 2000.

On February 15, 2002, Con Edison of New York, the Staff of the NYPSC and several other participants in the current Con Edison of New York gas rate proceeding, submitted to the NYPSC for approval a settlement of various gas rate and restructuring issues for the three-year period ending September 30, 2004. The rate agreement reduces retail sales and transportation rates by approximately $25 million, on an annual basis.

In November 2000 the NYPSC also approved a gas rate settlement agreement between O&R, NYPSC Staff, and certain other parties covering the three-year period November 2000 through October 2003.

For additional information about the new gas rate agreements, see Note A to the financial statements.

STEAM

In November 2000 the NYPSC approved an agreement between Con Edison of New York, the NYPSC staff and certain other parties with respect to the steam rate plan filed by Con Edison in November 1999. The agreement provides for a $16.6 million steam rate increase, which took effect October 2000 and, with limited exceptions, for no further changes in steam rates prior to October 2004.

For additional information about the agreement, see Note A to the financial statements.

NUCLEAR GENERATION

In September 2001 Con Edison of New York completed the sale of its nuclear generating unit and related assets. For information about the sale, the NYPSC proceeding related to the outage of the unit in 2000 and additional information, see Note G and I to the financial statements.

FINANCIAL MARKET RISKS

Con Edison'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 utility construction expenditures and maturing debt securities, and to variable rate debt. See "Liquidity and Capital Resources - Capital Requirements," above.

In general the rates Con Edison's utility subsidiaries charge customers for electric, gas and steam service are not subject to change for fluctuations in the cost of capital during the respective terms of the current rate agreements. The utility subsidiaries manage interest rate risk through the issuance of mostly fixed-rate debt with varying maturities and through opportunistic refundings of debt through optional redemptions and tender offers. In addition Con Edison and its subsidiaries, from time to time, have entered into derivative financial instruments to hedge interest rate risk.

In general the rates Con Edison's utility subsidiaries charge customers for electric, gas and steam service are subject to change for fluctuations in the cost of purchased power or gas during the respective terms of the current rate agreements. See "Electric Power Purchases," above and "Recoverable Energy Costs" in Note A to the financial statements. Con Edison's subsidiaries use derivative instruments to hedge purchases of electricity, gas and gas in storage.

At December 31, 2001 neither the fair value of the hedged positions 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 Con Edison. See Note O to the financial statements.

ENVIRONMENTAL MATTERS

For information concerning potential liabilities arising from laws and regulations protecting the environment, including the Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 (Superfund), and from claims relating to alleged exposure to asbestos, see Note F to the financial statements.

IMPACT OF INFLATION

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

FORWARD-LOOKING STATEMENTS

This discussion and analysis includes forward-looking statements, which are statements of future expectation and not facts. Words such as "estimates," "expects," "anticipates," "intends," "plans" and similar expressions identify forward-looking statements. Actual results or developments might differ materially from those included in the forward-looking statements because of factors such as competition and industry restructuring, the outages at the nuclear generating unit sold in 2001 (see Note G to the financial statements), the Northeast Utilities litigation (see Note P to the financial statements), developments in energy and capital markets, technological developments, changes in economic conditions, changes in historical weather patterns, changes in laws, regulations or regulatory policies, developments in legal or public policy doctrines, and other presently unknown or unforeseen factors.

RESULTS OF OPERATIONS

Con Edison's earnings per share in 2001 were $3.22 ($3.21 on a diluted basis). Earnings per share in 2000 and 1999 were $2.75 ($2.74 on a diluted basis) and $3.14 ($3.13 on a diluted basis), respectively. Excluding a $130 million charge relating to replacement power costs (see Note G to the financial statements) and a $32.1 million charge for merger-related expenses (see Note P to the financial statements), earnings per share in 2000 would have been $3.24 ($3.23 on a diluted basis).

Earnings for the years ended December 31, 2001, 2000 and 1999 were as follows:

(MILLIONS OF DOLLARS)	2001	2000	1999
Con Edison of New York	$649.5	$570.1*	$698.3
O&R	40.2	39.1	22.2**
Unregulated subsidiaries	11.5	7.7	(10.9)
Other***	(19.0)	(34.1)	(9.0)
Con Edison	$682.2	$582.8	$700.6

* Includes a charge for the possible disallowance of $130 million of replacement power expenses.
** O&R earnings are for the period subsequent to its acquisition July 1999.
*** Includes parent company expenses, goodwill amortization and inter-company eliminations and a $32.1 million charge in 2000 for merger-related expenses.

Con Edison's earnings for 2001 increased $99.4 million compared with 2000, reflecting principally the effects of warmer than normal summer weather in 2001 ($76.3 million), a decrease in nuclear production expenses relating to the nuclear generating unit ($98.4 million), lower depreciation expenses ($60.2 million), increased pension credits ($53.1 million), gain on generation divestiture ($37.5 million), recognition of revenue related to previously deferred NYPA rate increases ($35.2 million), non-recurring charges in 2000 relating to Con Edison of New York's replacement power costs ($130 million) and merger related expenses ($32.1 million), and a net increase in earnings from the unregulated subsidiaries ($3.8 million), offset by electric rate reductions of approximately $375.6 million.

Con Edison's earnings for 2000 decreased $117.8 million compared with 1999, reflecting principally the effects of cooler than normal summer weather in 2000 as compared with warmer than normal summer weather in 1999 ($59.3 million), electric rate reductions of $139.3 million, higher distribution expenses of $19.7 million for the relocation of company facilities to avoid interference with municipal infrastructure projects, $48.3 million of increased interest charges and non-recurring charges of $130 million for replacement power costs and $32.1 million of merger-related expenses, offset in part by increased revenues resulting from the favorable economy of $26.1 million, $157.1 million of increased pension credits, an increase in earnings of $12.3 million from the unregulated subsidiaries and $16.9 million of increased O&R earnings.

Earnings reflect the levels of electric, gas and steam sales discussed below.

Con Edison's operating revenues in 2001 compared with 2000 increased by $202.6 million, and its operating income increased by $111.3 million. Operating revenues in 2000 compared with 1999 increased by $1.9 billion, and operating income decreased by $3.7 million.

A discussion of Con Edison's operating revenues and operating income by business segment follows. Con Edison's principal business segments are its electric, gas and steam utility businesses of its regulated utility

subsidiaries and the businesses of its unregulated subsidiaries. For additional information about Con Edison's business segments, see Note N to the financial statements.

ELECTRIC

Con Edison's electric operating revenues in 2001 decreased $50.3 million from 2000 and in 2000 increased $1.1 billion from 1999. The decrease in 2001 reflects decreased purchased power costs (see "Recoverable Energy Costs" in Note A to the financial statements) and electric rate reductions of $375.6 million in 2001, offset by the effects of the warmer than normal summer weather when compared to cooler than normal weather for the 2000 period. The increase in 2000 reflects increased purchase power costs, offset in part by decreased sales resulting from the cooler summer weather in 2000 as compared with 1999, and electric rate reductions of approximately $139.3 million in 2000. Also, O&R's financial results are not included in earnings for the periods prior to its July 1999 acquisition by Con Edison.

Electricity sales volume for Con Edison's utility subsidiaries increased 3.1 percent in 2001 compared with 2000 and increased 1.7 percent in 2000 compared with 1999.

The increase in sales volume in 2001 reflects the warmer than normal summer weather and economic growth. Con Edison's electric sales vary seasonally in response to weather, and peak in the summer.

After adjusting for variations, weather and billing days, in each period, electricity sales volume for Con Edison of New York increased 2.4 percent in 2001 compared with 2000 and increased 3.6 percent in 2000 compared with 1999. For O&R weather adjusted electric sales increased 3.3 percent in 2001 compared with 2000 and increased 0.5 percent in 2000 compared with 1999.

Con Edison's electric operating income increased $93.2 million in 2001 compared with 2000. The increase in Con Edison's electric operating income reflects an increase in net revenues (operating revenues less fuel and purchased power) of $73 million. The increase in net revenues reflects principally increased sales ($76.3 million), recognition of revenue related to previously deferred NYPA rate increases ($35.2 million), gains on the sale of divested generation plants ($37.5 million), increased system benefit charges ($41 million), recovery of incremental non-utility generators cost ($31 million), reconciliation of state income tax and gross receipts tax ($110.8 million; see "Income Tax," below) and the reduction in net revenues in 2000 for replacement power costs ($130 million), offset by electric rate reductions of $375.6 million in 2001. Electric operating income also increased due to decreased other operations and maintenance expenses of $107.9 million and decreased depreciation and amortization expense of $69.1 million, offset in part by increased property taxes of $33.7 million, Federal income tax of $42.3 million and State income tax of $99.1 million (see "Income Tax," below).

The $107.9 million decrease in other operations and maintenance expenses reflects principally lower expenses related to Con Edison of New York's nuclear generating unit which was sold in September 2001 ($98.4 million), increased pension credits ($42.5 million) and decreased transmission expenses ($11.3 million), offset in part by higher distribution expenses ($13.4 million) for the relocation of company facilities to avoid interference with municipal infrastructure projects and increased system benefit charges ($41 million).

Con Edison's electric operating income decreased $57.6 million in 2000 compared with 1999, reflecting a decrease in Con Edison of New York's electric operating income of $76.7 million. The decrease in Con Edison of New York's electric operating income includes a reduction in net revenues (operating revenues less fuel and purchased power costs) of $325.3 million, (reflecting $59.3 million resulting from cooler than normal summer weather), $139.3 million of electric rate reductions and a $130 million charge for replacement power cost, offset in part by increased pension credits ($124.5 million) and decreased property taxes ($18.1 million),

dividend and subsidiary capital taxes ($13.8 million) and income tax ($100.6 million). Electric operating income also reflects an increase in O&R's electric operating income of $19.2 million. O&R's electric operating income in 2000 was $47.5 million compared to $28.4 million recognized in the 1999 period following Con Edison's July 1999 acquisition of O&R.

GAS

Con Edison's gas operating revenues increased $204.0 million in 2001 compared with 2000, reflecting an increased cost of purchased gas, offset in part by a reduction in customers' bills of $20.0 million, reflecting a refund of previously deferred credits and other provisions of the gas rate agreement approved by the NYPSC in November 2000. The increase in operating income of $3.7 million reflects principally an increase in net revenues (operating revenues less gas purchased for resale) of $5.4 million and increased pension credits of $8.2 million, and the recognition in income in the 2001 period of previously deferred gas credits ($7.0 million), offset in part by increased depreciation and amortization expense ($5.3 million), increased state income tax ($8.7 million; see "Income Tax" below) and higher distribution expenses of $3.0 million for the relocation of company facilities to avoid interference with municipal infrastructure projects.

Con Edison's gas operating revenues and gas operating income increased $261.9 million and $32.3 million, respectively, in 2000. These changes reflect changes in gas sales and transportation volumes. The changes in gas operating revenues also reflect increases in the cost of gas (see "Recoverable Energy Costs" in Note A to the financial statements). In addition the changes reflect O&R's gas operating revenues of approximately $183.4 million and O&R's gas operating income of approximately $11.1 million for 2000, compared to gas operating revenues of $56.4 million and $0.5 million of gas operating income recognized in the 1999 period following Con Edison's July 1999 acquisition of O&R.

Firm gas sales and transportation volume for Con Edison's utility subsidiaries decreased 2.0 percent in 2001 compared with 2000 and increased 8.0 percent in 2000 compared with 1999.

Con Edison's gas sales and transportation vary seasonally in response to weather, and peak in the winter. The decrease in volume in 2001 compared with 2000 reflects the warmer 2001 winter compared with 2000. The increase in 2000 compared with 1999 reflects the colder 2000 winter compared to 1999.

After adjusting for variations, principally weather and billing days, in each period, gas sales and transportation volume to firm customers for Con Edison of New York increased 2.8 percent in 2001 compared with 2000 and increased 2.0 percent in 2000 compared with 1999. For O&R weather adjusted gas sales decreased 0.1 percent in 2001 compared with 2000 and increased 3.7 percent in 2000 compared with 1999.

A weather-normalization provision that applies to the gas businesses of Con

Edison's utility subsidiaries operating in New York moderates, but does not eliminate, the effect of weather-related changes on gas operating income.

STEAM

Con Edison of New York's steam operating revenues increased $51.6 million in 2001 compared to 2000, reflecting primarily increased purchased steam and fuel costs (see "Recoverable Energy Costs" in Note A to the financial statements). Steam operating income increased $2.3 million in 2001 compared with 2000, reflecting an October 2000 rate increase of $16.6 million. Steam operating revenues and operating income increased $112.1 million and $6.1 million, respectively, in 2000 compared with 1999, primarily because of increases in purchased steam and fuel costs and the October 2000 rate increase.

Steam sales volume decreased 5.3 percent in 2001 and increased 0.8 percent in 2000. The decrease in 2001 reflects the warmer winter weather compared with 2000.

After adjusting for variations, principally weather and billing days, in each period, steam sales volume decreased 2.7 percent in 2001 and decreased 0.7 percent in 2000.

UNREGULATED BUSINESS

Operating revenues of Con Edison's unregulated subsidiaries decreased $8.0 million in 2001 compared to 2000, reflecting lower gas revenues of $140.8 million as a result of lower gas sales and commodity prices in the 2001 period compared to 2000, offset by higher revenues from energy trading of $84.4 million and the full-year ownership of the Lakewood Project of $33.3 million.

The unregulated subsidiaries' operating income increased $11.6 million in 2001 compared to 2000 due principally to lower gas costs and higher wholesale energy trading volumes.

The unregulated subsidiaries operating revenues increased $435.2 million in 2000 compared to 1999, reflecting higher wholesale energy trading activities. Operating income increased $27.3 million, due primarily to higher revenues from energy trading activities and lower operation and maintenance expenses.

TAXES, OTHER THAN INCOME TAXES

At $1.1 billion, taxes other than income taxes remain one of Con Edison's largest operating expenses.

The principal components of and variations in operating taxes were:

Increase /
(Decrease)
- --------

2001 over
2000 over
(Millions
of
Dollars)
2001
Amount
2000 1999
- --------

Property
taxes $
648.8 $

34.6 $
10.1 State
and local
taxes
related to
revenue
receipts
403.4
(22.1)
(72.2)
Payroll
taxes 60.6
1.4 1.1
Other
taxes 26.3
3.4 3.0 -

---- Total
$ 1,139.1*
$ 17.3 $
(58.0) - -

---

* Including sales taxes on customers' bills, total taxes, other than income taxes, billed to customers in 2001 were $1,519.9 million.

OTHER INCOME

Other income increased $11.5 million in 2001 compared with 2000, due principally to reduced federal income tax expense and the recognition in 2000 of $32.1 million of merger-related expenses, offset by the write-off in 2001 of an investment of $10.2 million in the New York City Discovery Fund, which invested in New York City based firms engaged in advanced technology. Other income decreased $44.2 million in 2000 compared with 1999, due principally to the recognition in 2000 of $32.1 million of merger-related expenses (see Note P to the financial statements) and the recognition in 1999 of $29 million of deferred federal income tax credits relating to generation divestiture (see Note I to the financial statements).

NET INTEREST CHARGES

Net interest charges increased $23.4 million in 2001 compared with 2000, reflecting $28.4 million of increased interest expense for Con Edison of New York related to long-term borrowings and $5.7 million of interest expense related to long-term borrowing for the Lakewood Project (which was purchased in June 2000 by Con Edison Development), offset in part by $10.6 million in 2000 for interest accrued on the net-after tax gain from Con Edison of New York's 1999 generation divestiture, prior to the disposition of this gain in 2000. See Note I to the financial statements.

Net interest charges increased $69.9 million in 2000 compared with 1999, reflecting increased interest expense for Con Edison of New York related to short-term and long-term borrowings ($11.3 million and $26.2 million, respectively), and $10.6 million related to the 1999 generation divestiture. The increase also reflects $9.6 million of interest expense related to long-term borrowing for the Lakewood Project and $25.4 million of O&R's interest expense for 2000, compared with $15.4 million of O&R's interest recognized in the 1999 period following Con Edison's July 1999 acquisition of O&R.

INCOME TAX

Federal income tax increased $14.9 million in 2001 and decreased $89.3 million in 2000, reflecting the changes each year in income before tax, deductions related to removal costs and tax credits. In 2000 New York State implemented a tax law change that reduced or repealed certain revenue-based taxes and replaced them with the imposition of a net income based tax. As a result, state income taxes increased $120.6 million in 2001 compared with 2000, offset by a corresponding increase in other operating revenues for taxes no longer applicable but still being recovered through rates. The new state income tax expense is offset against the savings from the eliminated or reduced revenue taxes. Any over-collection or under-collection of these taxes is deferred for return to or recovery from customers. See Notes A and L to the financial statements.

Solid Company
Timely Investment

Financial Community Update
New York City

Eugene R. McGrath
Chairman, President and Chief Executive Officer

March 8, 2002

[CONEDISON LOGO]

This presentation contains forward-looking statements, which are statements of future expectations and not facts. Actual results or developments might differ materially from those included in the forward-looking statements because of factors such as competition and industry restructuring, changes in economic conditions, changes in historical weather patterns, changes in laws, regulations or regulatory policies, developments in legal or public policy doctrines, technological developments and other presently unknown or unforeseen factors. Other risk factors are detailed from time to time in the company's SEC reports.

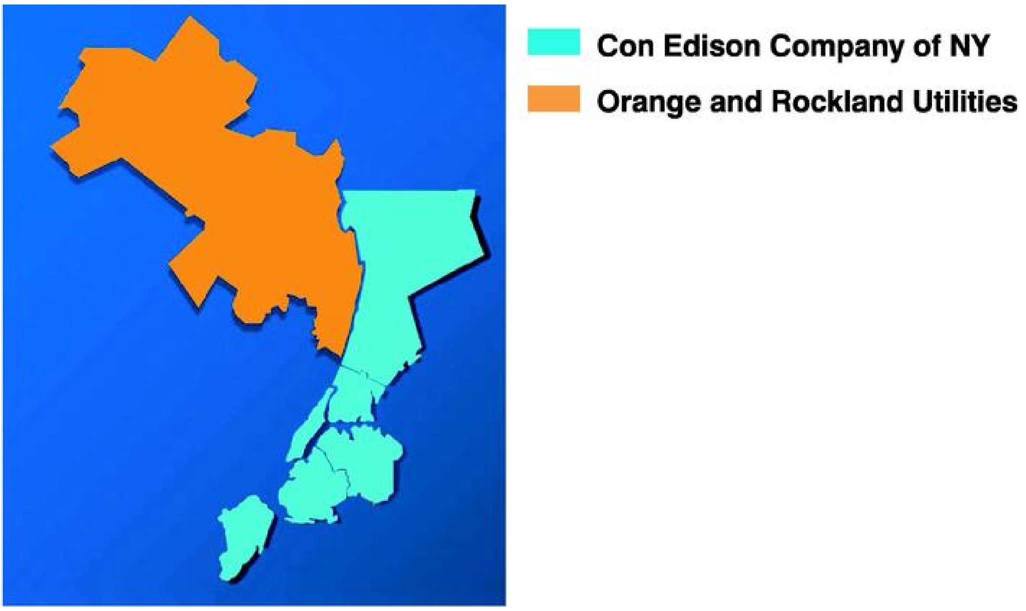
[CONEDISON LOGO]

Consolidated Edison, Inc.

Business Profile
Long-term Strategy
Financial Strength
Supply/Demand Outlook
Recovery from WTC

[CONEDISON LOGO]

Our Business Profile
Regulated Business Service Area



Con Edison Company of NY

3.2 million electric customers
1.1 million gas customers
1,850 steam customers

Orange and Rockland Utilities

280,000 electric customers
120,000 gas customers

[CONEDISON LOGO]

Our Business Profile

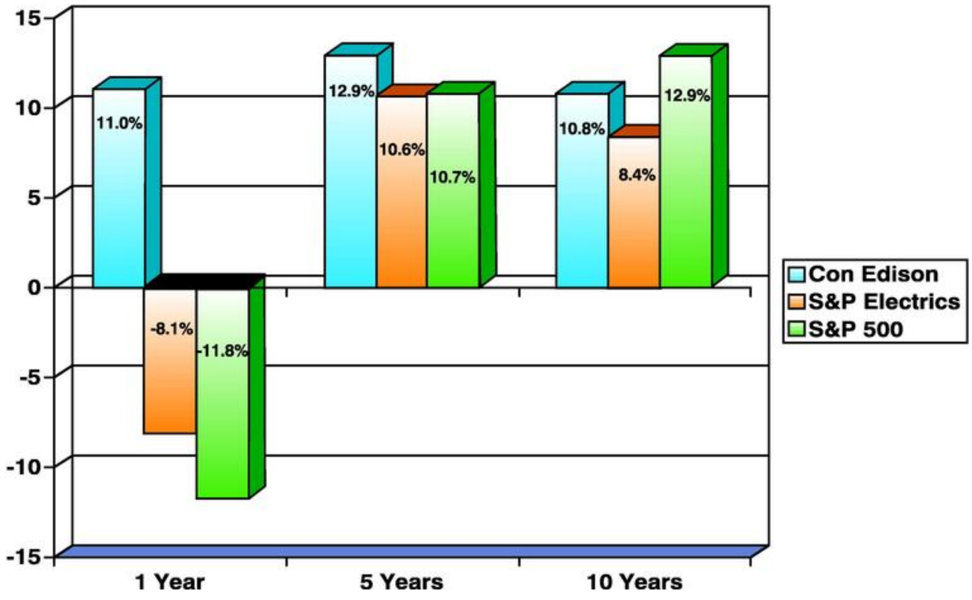
A Compelling Investment

Strong financial base
A+ bond rating
Dependable, growing dividend
Good regulatory relations
Solid management team
Experienced, knowledgeable field force
Consistent, disciplined business strategy

[CONEDISON LOGO]

Total Return to Shareholders

Average annual total returns for periods ending December 31, 2001



[CONEDISON LOGO]

Our Long-term Strategy

Maximize value of regulated T&D assets

Focus on infrastructure needs

Leverage strong expertise to create unregulated opportunities

Conservative and disciplined growth strategy

[CONEDISON LOGO]

Long-term Annual Growth Target

3%-5% Growth Target

- **Maximize Value of T&D Assets**
- **Economic Recovery**
- **Efficiencies**
- **Unregulated Businesses**

[CONEDISON LOGO]

Maximizing the Value of Our Regulated Assets

More than $1 billion in annual infrastructure investment
East River repowering
  Net addition of 200 MW of in-city generation
  Completion expected in 2003
Sale of First Avenue properties
  Net cash proceeds of $396 million

[CONEDISON LOGO]

Rate Agreements Provide Long-term Regulatory Stability

Rate Agreements Ending:

Con Edison Electric	**March 2005**
Con Edison Gas	**September 2004***
Con Edison Steam	**September 2004**
O&R Electric	**December 2002**
O&R Gas	**September 2003**

*Currently before Administrative Law Judge for approval

[CONEDISON LOGO]

Managing Business Risk

Indian Point sold

Reduced risk from ownership

Attractive energy contract for 3 years

New York supply situation stable

Power prices less volatile

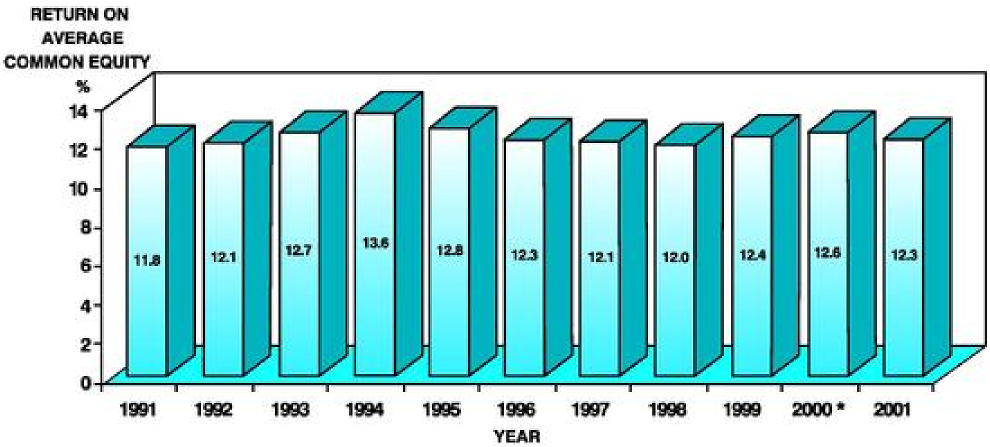
Recovery of purchased power costs

Moderate unregulated investments

[CONEDISON LOGO]

Consolidated Edison, Inc.

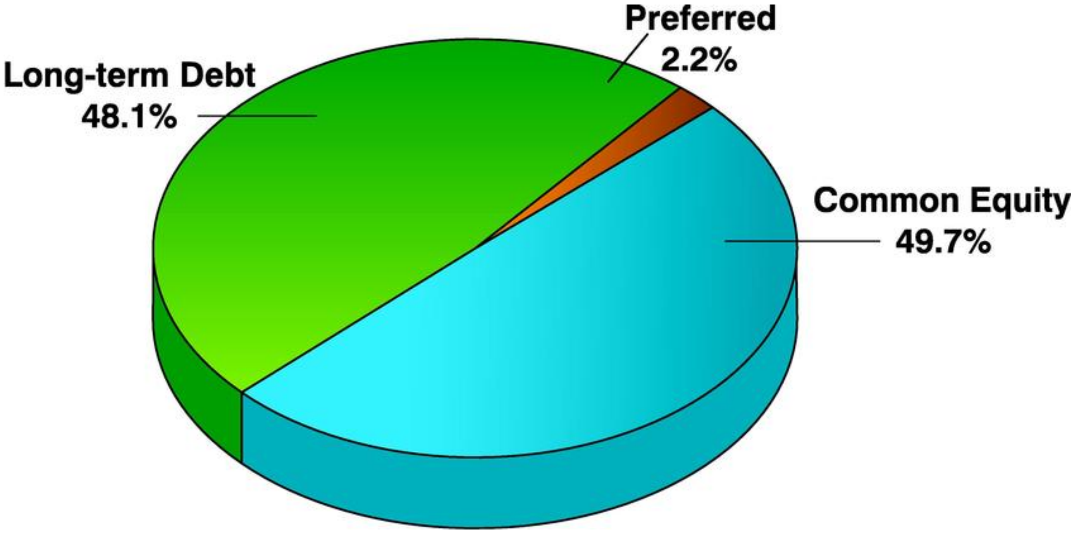
Return on Equity



* Excludes one-time merger-related and replacement power charges.

Our Financial Strength

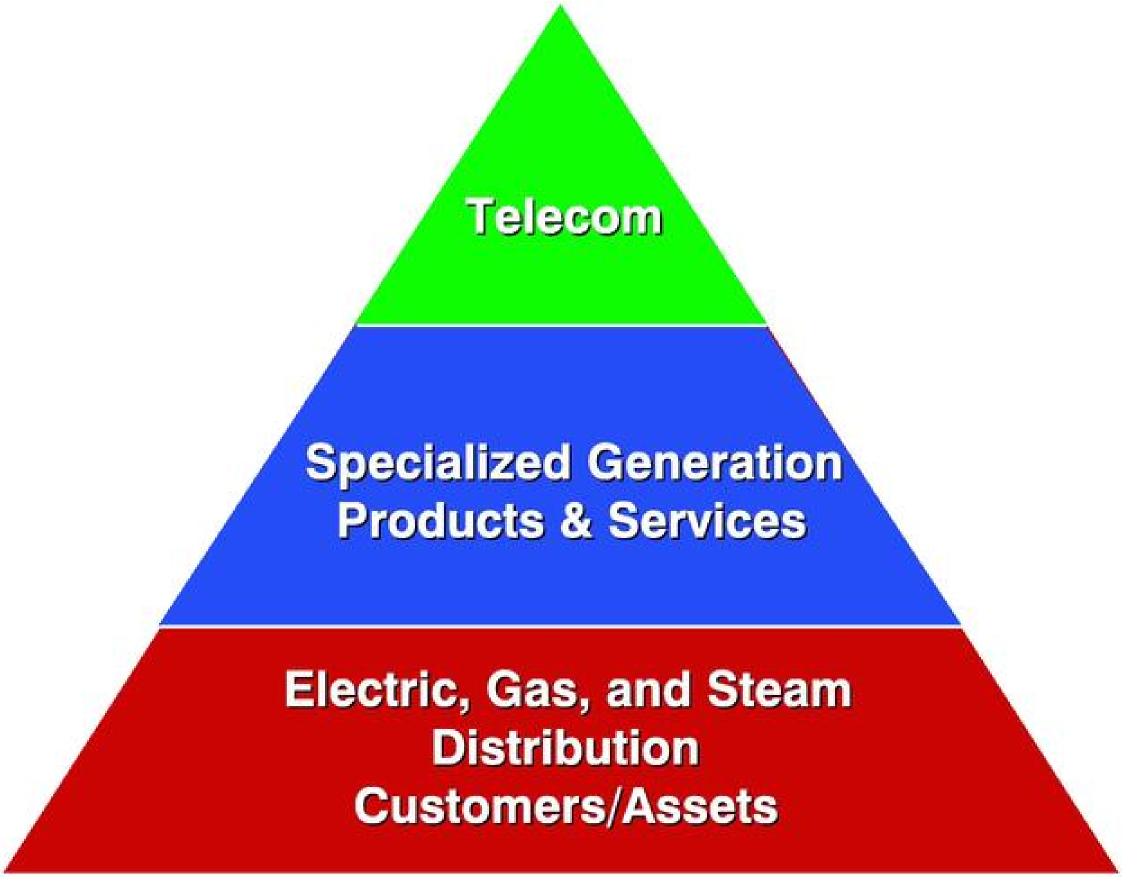
Utilize Strong Capital Structure



[CONEDISON LOGO]

Our Strategy

Our "Wires and Pipes" Businesses Provide a Strong Foundation for Future Growth



[CONEDISON LOGO]

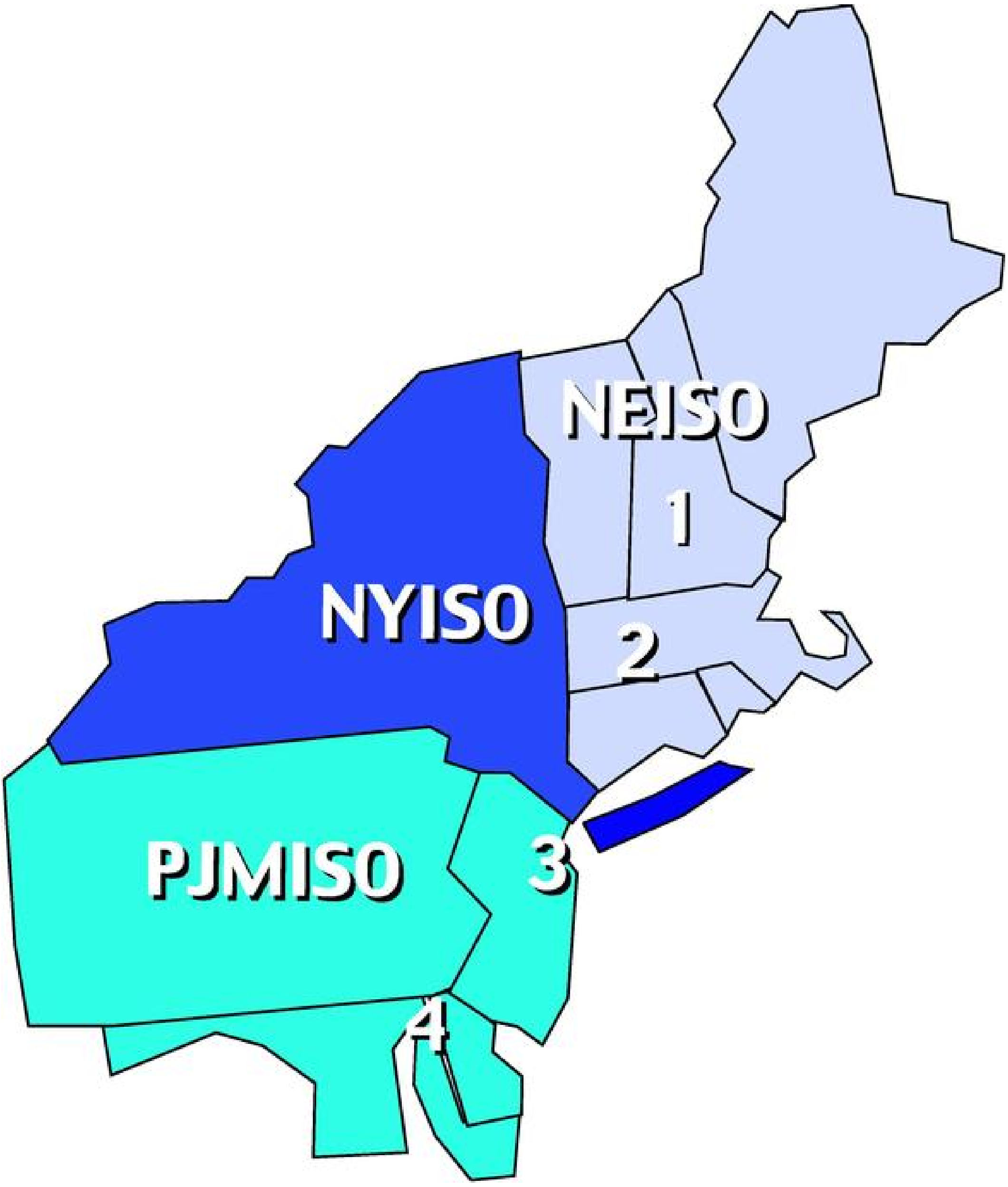
Strategic Plant Locations

1. Newington, NH

2. Springfield, MA

3. Lakewood, NJ

4. Rock Springs, MD



[CONEDISON LOGO]

CEC Network Map—1Q2002

1. 60 buildings connected to the network

2. 106 miles of fiber installed

3. 50 miles of fiber acquired through swaps

4. Jersey City ring

[CONEDISON LOGO]

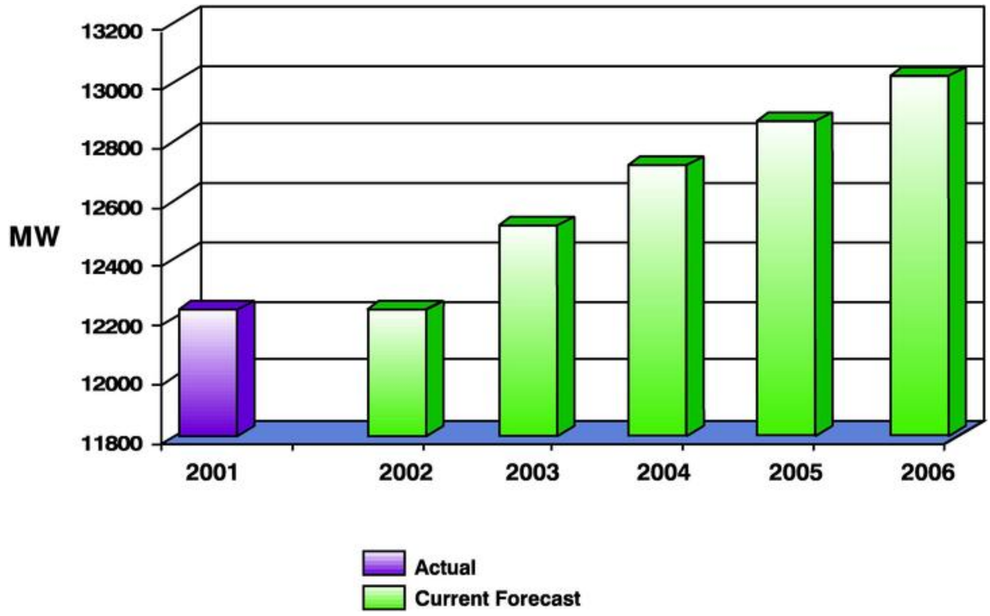
Our Supply/Demand Outlook

New York State
- **18% capacity reserve in excess of peak load**
- **Status for summer of 2002—adequate**

New York City
- **80% of peak load from in-city supply**
- **Additional 20% plus 18% reserve can be from outside NYC**
- **Status for summer of 2002—tight but adequate**

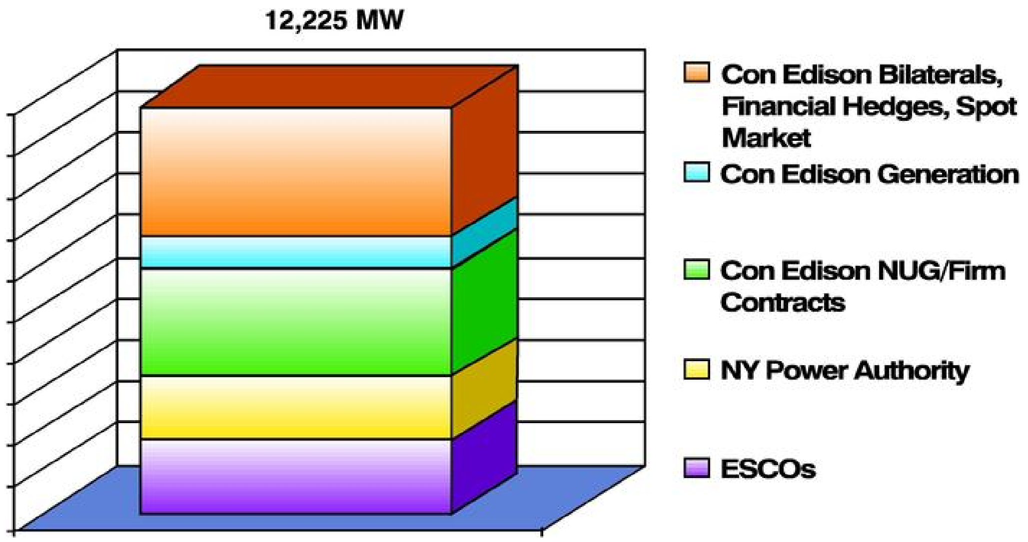
[CONEDISON LOGO]

Our Supply/Demand Outlook
Service Area Peak Load Forecast

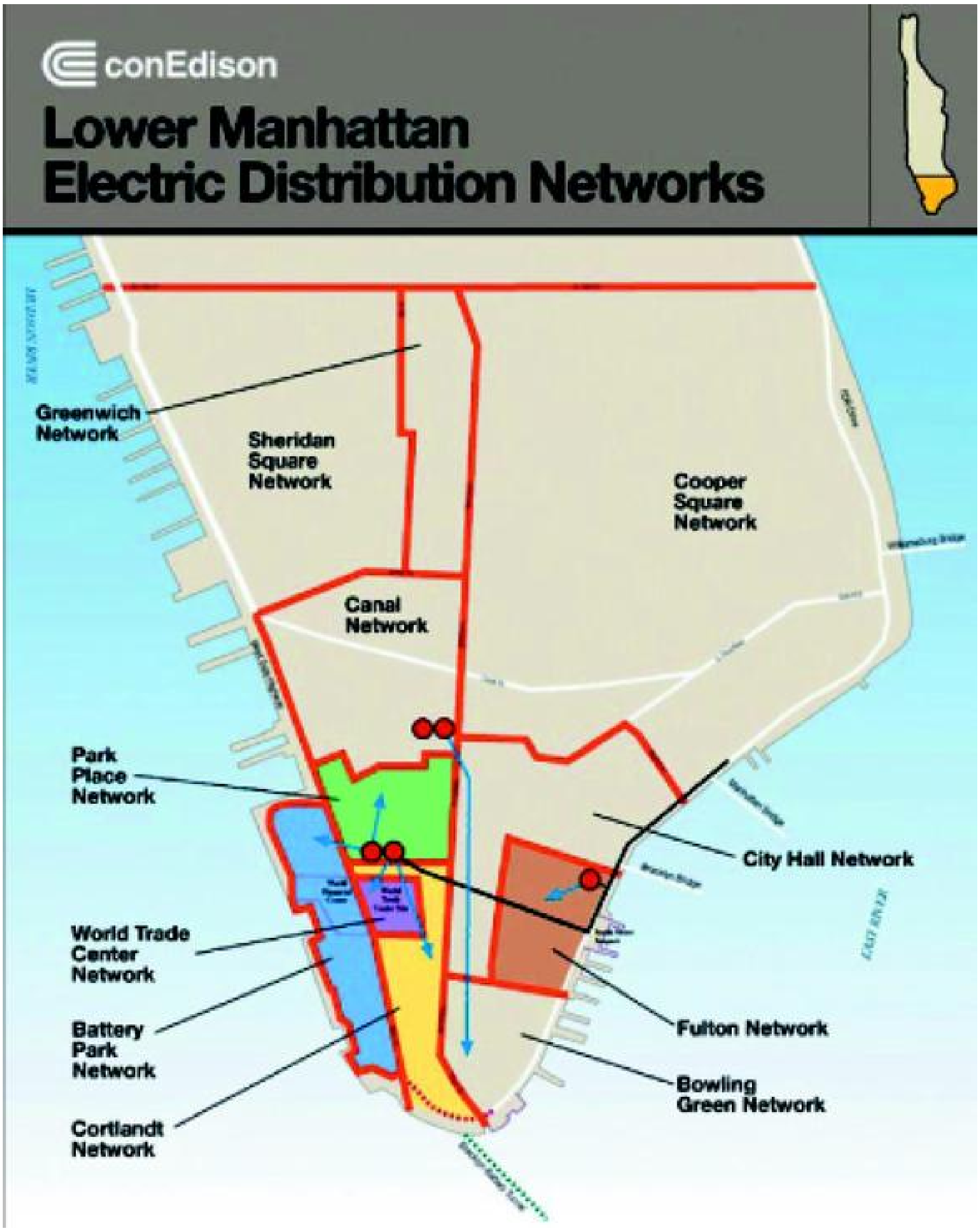


[CONEDISON LOGO]

Customer Supply Responsibilities On 2002 Peak Day



[CONEDISON LOGO]



[CONEDISON LOGO]

Temporary Restoration Work

[CONEDISON LOGO]

Permanent Restoration Challenges

[CONEDISON LOGO]

Lower Manhattan Network
Long-term Configuration

[CONEDISON LOGO]

Working 24/7 to Meet Targets

[CONEDISON LOGO]

Response to September 11
Cost of Restoration

$400 million—mostly capital—includes:

Emergency response, temporary restoration and permanent replacement of facilities

Seeking Federal reimbursement
At December 31, 2001:

$55 million capitalized
$32 million deferred as regulatory asset

[CONEDISON LOGO]

Our Value
Con Edison's Track Record

Delivered on expectations
28 consecutive years of dividend increases
Most reliable electric delivery system
Accretive acquisition of O&R
Successful transition to restructured marketplace
Disciplined management

[CONEDISON LOGO]

[CONEDISON LOGO]
