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Consolidated Edison Co. of New York Inc.

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Consolidated Edison Co. of New York Inc.

Major Rating Factors

Corporate Credit Rating

A-/Stable/A-2

Strengths:

- Supportive regulatory regime;
- Low risk distribution business;
- Minimal competition; and
- Limited unregulated business.

Weaknesses:

- High cost operating environment;
- Large capital program; and
- Weak financial ratios for the current rating.

Rationale

The ratings on Consolidated Edison Inc. (Con Edison) reflect the consolidated rating of Consolidated Edison Co. of New York Inc. (CECONY) subsidiary, regulated utility Orange and Rockland Utilities Inc. (O&R), and Con Edison's nonregulated activities, which include retail and wholesale services and operation of infrastructure projects.

Con Edison's, CECONY's, and O&R's business risk profiles are excellent. The strength of the business profile stems from a historically supportive regulatory environment and a conservative strategy as a transmission and distribution (T&D) company. The firm's financial profile is deemed intermediate at present, and is burdened by the company's large capex program.

CECONY accounts for about 90% of Con Edison's total assets, revenues, and operating income. CECONY's electric and gas operations are low risk, reflecting Con Edison's strategy to own and operate electric and gas T&D assets in the Northeast. CECONY provides electric service to about 3.2 million customers and gas service to about 1.1 million customers in New York City and Westchester County. The company also provides steam service in parts of Manhattan. O&R and subsidiary Rockland Electric provide electric service to about 300,000 customers in southeastern New York and adjacent sections of New Jersey and northeastern Pennsylvania and gas service to about 125,000 customers in southeastern New York and northeastern Pennsylvania. Pursuant to restructuring agreements, the utilities have sold most of their electric generating capacity and provide their customers the opportunity to buy electricity and gas directly from other suppliers through retail access programs. In addition to delivering energy, the utilities supply about half of the energy that they deliver. Substantially all of the energy they supply to customers is purchased through firm contracts or wholesale energy markets.

CECONY's mostly underground service network and the capability of each of its independent networks to operate without two primary feeders enable CECONY to have some of the industry's lowest power interruption metrics. Con Edison's nonregulated activities will decline to less than 5% of cash flow with the sale of 1,706MW of merchant generation capacity.

As of Dec. 30, 2008, Con Edison had adjusted debt to capital of about 58%, adjusted funds from operations (FFO) interest coverage of 3.4x, and adjusted FFO to total debt of 11%. We consider the decline in financial ratios to be temporary, as they reflect the company's $915 million prepayment of its tax bill, made in the third quarter of 2008 and its pension and OPEB underfunding for the year end. The financial profile is expected recover as the company exits the heating season and receives a new rate order in April 2009. Although Con Edison recovers its underfunded pension and post-retirement benefit obligations through regulatory deferrals, the utility's combined pension and other postretirement obligations were underfunded by about $2.9 billion ($2.6 billion at CECONY).

Short-term factors
The short-term rating on Con Edison and its subsidiaries is 'A-2', reflecting the company's adequate liquidity and the expectation of continued stable cash flows to fund dividends and capital spending. As of Dec. 30, 2008, Con Edison and its subsidiaries had $74 million of unrestricted cash ($37 million at CECONY) and about $1.6 billion available under its $2.25 billion revolving credit facility, which matures in June 2011. Con Edison's borrowings under the revolving credit facility are limited to $1 billion, and CECONY may borrow up to the full amount of the line. Con Edison primarily uses the revolving credit facility to support its commercial paper obligations, of which $363 million was outstanding as of Dec. 31, 2008.

Future debt and equity issuances will be required to fund annual capital spending of about $2.5 billion (2009 estimate), common dividends of more than $500 million per year ($350 million to $400 million of dividends paid annually to Con Edison from CECONY), and debt maturities of $482 million in 2009. Standard & Poor's expects Con Edison to fund acquisitions of nonregulated business opportunities conservatively, and that these investments will account for only a small percentage of consolidated cash flows and capital commitments.

Outlook

The stable outlook on Con Edison and its affiliates is based on an expectation of a reliable and sustainable cash flow stream from the company's predominantly regulated business strategy. Ratings incorporate constructive regulation, sizable recovery of deferred costs associated with incurred environmental and reliability improvements, and notable progress on debt reduction. Importantly, any deviation in expected cash flows, delays in reducing leverage, or difficulty recovering environmental and stranded costs in a timely manner may weaken the financial profile, heightening the potential for outlook revision to negative or a downgrade. The company's substantial capital program and current debt leverage position preclude the potential for upward credit momentum at this time.

Analytical Note

To improve the transparency of our rating process, we continue to explore various ways to show how we develop a company's adjusted ratios from its reported financial data. The tables below include financial statements for the past five fiscal years and a reconciliation table that bridges the company's reported financial statements to Standard & Poor's adjusted measures.

Changes from previously reported figures are primarily due to adjustments from pensions, other post-retirement obligations, purchased-power agreements, operating leases, asset-retirement obligations, deferred power costs, and/or company restatements. The largest adjustment is related to pensions and other post-retirement obligations, which adds $2.9 billion to 2008 debt. Similar changes are reflected in the historical financials.

Based on the regulatory framework in New York, which required utilities to sell their generation assets, and the company's role as an intermediary between retail customers and the electricity suppliers, Standard & Poor's revised its purchased-power adjustment factor for Consolidated Edison and its subsidiaries to 0%.

Please refer to "Credit FAQ: S&P Introduces Reconciliation Tables To Show Analytical Adjustments To Global Utilities' Financial Statements" published on Oct, 11, 2006 on RatingsDirect and "Credit FAQ: The Effect Of Regulatory Assets On North American Utilities' Credit Quality" published on Oct. 12, 2005 on RatingsDirect for more information.

Table 1.

Consolidated Edison Co. of New York Inc. -- Peer Comparison*

Industry Sector: Combo

	Consolidated Edison Co. of New York Inc.	Consolidated Edison Inc.	NSTAR	National Grid USA
Rating as of March 24, 2009	A-/Stable/A-2	A-/Stable/A-2	A+/Stable/A-1	A-/Stable/A-2
	--Average of past three fiscal years--			
(Mil. $)				
Revenues	9,865.7	12,946.7	3,206.9	9,930.7
Net income from cont. oper.	782.0	861.7	221.9	547.9
Funds from operations (FFO)	1,364.3	1,404.6	525.1	1,478.2
Capital expenditures	1,926.4	2,032.3	405.8	850.6
Debt	9,695.2	11,194.6	2,794.1	7,550.2
Equity	8,117.2	8,697.6	1,720.2	10,593.5
Adjusted ratios				
Oper. income (bef. D&A)/revenues (%)	21.6	18.0	22.8	23.5
EBIT interest coverage (x)	3.0	2.9	3.6	3.5
EBITDA interest coverage (x)	4.2	4.0	5.2	6.1
Return on capital (%)	7.6	7.4	9.3	7.6
FFO/debt (%)	14.1	12.5	18.8	19.6
Debt/EBITDA (x)	4.6	4.8	3.8	3.2

*Fully adjusted (including postretirement obligations).

Table 2.

Consolidated Edison Inc. -- Financial Summary*

Industry Sector: Combo

	--Fiscal year ended Dec. 31--				
	2008	**2007**	**2006**	**2005**	**2004**
Rating history	A-/Stable/A-2	A/Negative/A-2	A/Negative/A-2	A/Stable/A-1	A/Stable/A-1
(Mil. $)					
Revenues	13,583.0	13,120.0	12,137.0	11,641.0	9,730.0
Net income from continuing operations	922.0	925.0	738.0	732.0	549.0
Funds from operations (FFO)	1,380.2	1,451.3	1,382.2	1,498.1	1,587.5
Capital expenditures	2,314.1	1,935.8	1,847.0	1,870.2	1,408.3
Cash and short-term investments	74.0	210.0	112.0	96.0	44.0
Debt	13,558.2	10,307.5	9,718.2	9,481.7	7,788.3

Table 2.

Consolidated Edison Inc. -- Financial Summary* (cont.)					
Preferred stock	106.5	106.5	106.5	106.5	106.5
Equity	9,804.5	8,615.8	7,672.5	5,858.9	6,080.2
Debt and equity	23,362.7	18,923.3	17,390.7	15,340.5	13,868.5
Adjusted ratios					
EBIT interest coverage (x)	3.0	3.2	2.6	2.9	2.3
FFO int. cov. (x)	3.4	3.4	3.1	3.8	4.2
FFO/debt (%)	10.2	14.1	14.2	15.8	20.4
Discretionary cash flow/debt (%)	(17.7)	(8.0)	(9.3)	(15.4)	(5.6)
Net Cash Flow / Capex (%)	33.2	45.2	46.3	52.7	78.3
Debt/debt and equity (%)	58.0	54.5	55.9	61.8	56.2
Return on common equity (%)	9.5	10.6	9.5	10.0	7.5
Common dividend payout ratio (un-adj.) (%)	70.1	62.9	77.6	70.8	89.3

*Fully adjusted (including postretirement obligations).

Table 3.

Reconciliation Of Consolidated Edison Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)*

	--Fiscal year ended Dec. 31, 2008--									
Consolidated Edison Inc. reported amounts										
	Debt	**Shareholders' equity**	**Operating income (before D&A)**	**Operating income (before D&A)**	**Operating income (after D&A)**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Reported	10,094.0	9,911.0	2,376.0	2,376.0	1,659.0	544.0	629.0	629.0	618.0	2,318.0
Standard & Poor's adjustments										
Operating leases	211.2	--	43.5	12.8	12.8	12.8	30.7	30.7	--	4.1
Intermediate hybrids reported as equity	106.5	(106.5)	--	--	--	5.5	(5.5)	(5.5)	(5.5)	--
Postretirement benefit obligations	2,932.8	--	(46.0)	(46.0)	(46.0)	--	156.0	156.0	--	--
Accrued interest not included in reported debt	139.0	--	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	--	8.0	(8.0)	(8.0)	--	(8.0)
Share-based compensation expense	--	--	--	11.0	--	--	--	--	--	--
Asset retirement obligations	74.8	--	--	--	--	--	--	--	--	--
Reclassification of nonoperating income (expenses)	--	--	--	--	70.0	--	--	--	--	--

Table 3.

Reconciliation Of Consolidated Edison Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)* (cont.)

	Debt	Equity	Operating income (before D&A)	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Dividends paid	Capital expenditures
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	852.0	--	--
Other	--	--	--	--	--	--	(274.0)	(274.0)	--	--
Total adjustments	3,464.2	(106.5)	(2.5)	(22.2)	36.8	26.3	(100.8)	751.2	(5.5)	(3.9)

Standard & Poor's adjusted amounts

	Debt	Equity	Operating income (before D&A)	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Dividends paid	Capital expenditures
Adjusted	13,558.2	9,804.5	2,373.5	2,353.8	1,695.8	570.3	528.2	1,380.2	612.5	2,314.1

*Consolidated Edison Inc. reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts.

Ratings Detail (As Of March 26, 2009)*

Consolidated Edison Co. of New York Inc.	
Corporate Credit Rating	A-/Stable/A-2
Commercial Paper	
Local Currency	A-2
Preferred Stock (2 Issues)	BBB
Senior Secured (1 Issue)	A/Negative
Senior Unsecured (1 Issue)	A
Senior Unsecured (39 Issues)	A-
Senior Unsecured (13 Issues)	A/Negative
Senior Unsecured (4 Issues)	AA-/Watch Dev
Corporate Credit Ratings History	
25-Mar-2008	A-/Stable/A-2
06-Jun-2006	A/Negative/A-2
16-May-2003	A/Stable/A-1
Debt Maturities	
As of Dec. 31, 2008: 2009: $482 mil. 2010: $686 mil. 2011: $5 mil. 2012: $305 mil.	
Related Entities	
Consolidated Edison Inc.	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
Local Currency	A-2
Orange and Rockland Utilities Inc.	
Issuer Credit Rating	A-/Stable/A-2

Ratings Detail (As Of March 26, 2009)* **(cont.)**	
Commercial Paper	
Local Currency	A-2
Senior Unsecured (6 Issues)	A-
Senior Unsecured (2 Issues)	AA-/Watch Dev
Rockland Electric Co.	
Issuer Credit Rating	A-/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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