NOTES TO THE FINANCIAL STATEMENTS

General

These notes accompany and form an integral part of the financial statements of Consolidated Edison Company of New York, Inc, (the Company or Con Edison of New York) a New York corporation. The Company is a regulated Company, which is a wholly owned subsidiary of Con Edison, Inc. (Con Edison). The term "Company" is used in these notes to refer to Con Edison of New York.

Con Edison of New York provides electric service and gas service in New York City and Westchester County. The company also provides steam service in parts of Manhattan.

Note A – Summary of Significant Accounting Policies

Basis of Accounting

The financial statements are prepared in accordance with the accounting requirements of the FERC as set forth in its applicable Uniform System of Accounts (USOA) and published accounting releases. This is a comprehensive basis for accounting other than accounting principles generally accepted in the United States (GAAP). Differences from GAAP include:

a. the presentation of bank overdrafts as a negative current asset under the FERC USOA, while GAAP requires such amounts to be presented as a current liability;
b. the absence of a requirement under the FERC USOA to present the current portion of long-term debt separately from the non-current portion of long–term debt, as required by GAAP;
c. the accounting for investments in majority-owned subsidiary Company under the equity method in accordance with the FERC USOA, rather than under the consolidation method as is typically required by GAAP;
d. the presentation of environmental costs as a current liability under the FERC USOA, while such amounts are considered a non-current liability under GAAP;
e. the presentation of deferred tax assets and liabilities on a gross basis in accordance with the FERC USOA, while such amounts are netted by jurisdiction and classification under GAAP;
f. the presentation of amounts collected through customer rates for future costs of removal for property as a component of accumulated depreciation in accordance with the FERC USOA, as opposed to a regulatory liability or asset retirement obligation under GAAP;
g. the liability for uncertain income taxes in accordance with FIN 48 is reported in the applicable accounts under the FERC USOA, while such amounts are separately disclosed in the financial statements prepared in compliance with GAAP;
h. the absence of a requirement under FERC USOA to combine inventory purchases and sales transactions with the same counterparty for accounting purposes if they are entered into in contemplation of each other, as required by GAAP;

i. the presentation of income taxes for operating expenses and non-operating expense as part of operating income and other income and deductions, respectively while such amounts are considered separately under operating income and other income and deduction for GAAP;
j. the presentation of interdepartmental rents credited to the service departments on account of rental charges made against other departments of the Company, which such amounts are eliminated under GAAP.

Accounting Policies

The accounting policies of Con Edison of New York conform to accounting principles generally accepted in the United States of America. For the Company, these accounting principles include the accounting rules for regulated operations and the accounting requirements of the Federal Energy Regulatory Commission (FERC) and the state public Company regulatory commissions having jurisdiction.

The accounting rules for regulated operations specify the economic effects that result from the causal 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 recorded as deferred charges or “regulatory assets” under the accounting rules for regulated operations. If revenues are recorded for costs that are expected to be incurred in the future, these revenues would be recorded as deferred credits or “regulatory liabilities” under the accounting rules for regulated operations.

The Company’s principal regulatory assets and liabilities are detailed in Note B. The Company is receiving or being credited with a return on all of their regulatory assets for which a cash outflow has been made, and are paying or being charged with a return on all of their regulatory liabilities for which a cash inflow has been received. The Company’s regulatory assets and liabilities will be recovered from customers, or applied for customer benefit, in accordance with rate provisions approved by the applicable public Company regulatory commission.

Other significant accounting policies of the Companies are referenced below in this Note A and in the notes that follow.

Plant and Depreciation

Company Plant

Company plant is stated at original cost. The cost of repairs and maintenance is charged to expense and the cost of betterments is capitalized. The capitalized cost of additions to Company 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 is charged to expense over the estimated useful lives of the assets. Upon retirement, the original cost of property is charged to accumulated depreciation. See Note Q.

Rates used for AFDC include the cost of borrowed funds and a reasonable rate of return on the Company's own funds when so used, determined in accordance with regulations of the FERC or the state public Company regulatory authority having jurisdiction. The rate is compounded semiannually, and the amounts applicable to borrowed funds are treated as a reduction of interest charges, while the amounts applicable to the Company's own funds are credited to other income (deductions). The AFDC rates were 6.5 percent, 6.9 percent and 5.3 percent for 2012, 2011, and 2010, respectively.

The Company generally computes annual charges for depreciation using the straight-line method for financial statement purposes, with rates based on average service lives and net salvage factors. The average depreciation rate for Con Edison of New York was 3.1 percent for 2012, 2011, and 2010.

The estimated lives for Company plant range from 5 to 80 years for electric, 5 to 85 years for gas, 5 to 70 years for steam and 5 to 50 years for general plant.

At December 31, 2012 and 2011, the capitalized cost of the Companies' Company plant, net of accumulated depreciation, was as follows:

	Con Edison of New York	
(Millions of Dollars)	2012	2011
Electric	$16,579	$15,733
Gas*	3,403	3,150
Steam	1,658	1,634
General	1,512	1,234
Held for future use	62	62
Construction work in progress	946	1,165
Net Company Plant	$24,160	$22,978

* Primarily distribution.

Under the Company's current rate plans, the aggregate annual depreciation allowance in effect at December 31, 2012 was $888 million under the electric, gas and steam rate plans that have been approved by the New York State Public Service Commission (NYSPSC).

Non-Company Plant

Non-Utility plant is stated at original cost and consists primarily of land, gas storage and solar facilities that are currently not used within electric, gas or steam Company operations. Depreciation on these assets is computed using the straight-line method for financial statement purposes over their estimated useful lives, which range from 3 to 30 years.

Impairments

In accordance with the accounting rules for impairment or disposal of long-lived assets, the Company evaluates the impairment of long-lived assets, based on projections of undiscounted future cash flows, whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. In the event an evaluation indicates that such cash flows cannot be expected to be sufficient to fully recover the assets, the assets are written down to their estimated fair value. No impairment charges were recognized in 2012, 2011 or 2010.

Revenues

Con Edison of New York recognizes revenues for energy service on a monthly billing cycle basis. The Company defers over a 12-month period net interruptible gas revenues, other than those authorized by the NYSPSC to be retained by the Company, for refund to firm gas sales and transportation customers. The Company accrues revenues at the end of each month for estimated energy service not yet billed to customers.

The Company's electric and gas rate plans each contain a revenue decoupling mechanism under which the company's actual energy delivery revenues are compared on a periodic basis, with the authorized delivery revenues and the difference accrued, with interest, for refund to, or recovery from, customers, as applicable. See "Rate Agreements" in Note B.

The NYSPSC requires Company to record gross receipts tax revenues and expenses on a gross income statement presentation basis (i.e., included in both revenue and expense). The recovery of these taxes is generally provided for in the revenue requirement within each of the respective NYSPSC approved rate plans.

Recoverable Energy Costs

The Company generally recovers all of their prudently incurred fuel, purchased power and gas costs, including hedging gains and losses, in accordance with rate provisions approved by the applicable state public Company commissions. If the actual energy supply costs for a given month are more or less than the amounts billed to customers for that month, the difference in most cases is recoverable from or refundable to customers. Differences between actual and billed electric and steam supply costs are generally deferred for charge or refund to customers during the next billing cycle (normally within one or two months). In addition, Con Edison of New York recovers the costs of its electric demand management program, in excess of the costs reflected in rates, as part of recoverable energy costs. For the Company's gas costs, differences between actual and billed gas costs during the 12-month period ending each August are charged or refunded to customers during a subsequent 12-month period.

New York Independent System Operator (NYISO)

Con Edison of New York purchases electricity through the wholesale electricity market administered by the NYISO. The difference between purchased power and related costs initially billed to the Company by the NYISO and the actual cost of power subsequently calculated by the NYISO is refunded by the NYISO to the Company, or paid to the NYISO by the Company. The reconciliation payments or receipts are recoverable from or refundable to the Company's customers.

Certain other payments to or receipts from the NYISO are also subject to reconciliation, with shortfalls or amounts in excess of specified rate allowances recoverable from or refundable to customers. These include proceeds from the sale through the NYISO of transmission rights on Con Edison of New York's transmission system (transmission congestion contracts or TCCs).

Temporary Cash Investments

Temporary cash investments are short-term, highly-liquid investments that generally have maturities of three months or less at the date of purchase. They are stated at cost, which approximates market. The Company considers temporary cash investments to be cash equivalents.

Investments

Company investments are recorded at fair value and include the deferred income plan and supplemental retirement income plan trust owned life insurance assets.

Pension and Other Postretirement Benefits

The accounting rules for retirement benefits require an employer to recognize an asset or liability for the overfunded or underfunded status of its pension and other postretirement benefit plans. For a pension plan, the asset or liability is the difference between the fair value of the plan's assets and the projected benefit obligation. For any other postretirement benefit plan, the asset or liability is the difference between the fair value of the plan's assets and the accumulated postretirement benefit obligation. The accounting rules generally require employers to recognize all unrecognized prior service costs and credits and unrecognized actuarial gains and losses in accumulated other comprehensive income (OCI), net of tax. Such amounts will be adjusted as they are subsequently recognized as components of net periodic benefit cost or income pursuant to the current recognition and amortization provisions.

For the Company's pension and other postretirement benefit plans, regulatory accounting treatment is generally applied in accordance with the accounting rules for regulated operations. Unrecognized prior service costs or credits and unrecognized actuarial gains and losses are recorded to regulatory assets or liabilities, rather than OCI. See Notes E and F.

The net periodic benefit costs are recognized in accordance with the accounting rules for retirement benefits. Investment gains and losses are recognized in expense over a 15-year period and other actuarial gains and losses are recognized in expense over a 10-year period, subject to the deferral provisions in the rate plans.

In accordance with the Statement of Policy issued by the NYSPSC and its current electric, gas and steam rate agreements, Con Edison of New York defers for payment to or recovery from customers the difference between such expenses and the amounts for such expenses reflected in rates. See Note B – Regulatory Matters.

The Company calculates the expected return on pension and other postretirement benefit plan assets by multiplying the expected rate of return on plan assets by the market-related value (MRV) of plan assets at the beginning of the year, taking into consideration anticipated contributions and benefit payments that are to be made during the year. The accounting rules allow the MRV of plan assets to be either fair value or a calculated value that recognizes changes in fair value in a systematic and rational manner over not more than five years. The Company uses a calculated value when determining the MRV of the plan assets that adjusts for 20 percent of the difference between fair value and expected MRV of plan assets. This calculated value has the effect of stabilizing variability in assets to which the Company applies the expected return.

Federal Income Tax

In accordance with the accounting rules for income taxes, the Company has recorded an accumulated deferred federal income tax liability for temporary differences between the book and tax basis of assets and liabilities at current tax rates. In accordance with rate agreements, the Company has recovered amounts from customers for a portion of the tax liability they will pay in the future as a result of the reversal or "turn-around" of these temporary differences. As to the remaining tax liability, in accordance with the accounting rules for regulated operations, the Company have established regulatory assets for the net revenue requirements to be recovered from customers for the related future tax expense. See Notes B and K. In 1993, the NYSPSC issued a Policy Statement approving accounting procedures consistent with the accounting rules for income taxes and providing assurances that these future increases in taxes will be recoverable in rates. See Note K.

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.

The Company's federal income tax returns reflect certain tax positions with which the Internal Revenue Service (IRS) does not or may not agree. See "Lease In/Lease Out Transactions" in Note J and "Uncertain Tax Positions" in Note K.

The parent company of Con Edison of New York files a consolidated federal income tax return. The consolidated income tax liability is allocated to each member of the consolidated group using the separate return method. Each member pays or receives an amount based on its own taxable income or loss in accordance with tax sharing agreements among the members of the consolidated group. Tax loss carry-forwards are allocated in accordance with consolidated tax return regulations.

State Income Tax

The parent company of Con Edison of New York files a New York State Corporation Business Franchise Tax Return. Similar to a federal consolidated income tax return, the income of all entities in the combined group is subject to New York State taxation, after adjustments for differences between federal and New York law and apportionment of income among the states in which the company does business. Each member of the group pays or receives an amount based on its own New York State taxable income or loss.

Research and Development Costs

Generally research and development costs are charged to operating expenses as incurred. Research and development costs were as follows:

	For the Years Ended December 31,		
(Millions of Dollars)	2012	2011	2010
Con Edison of New York	19	21	21

Reclassification

Certain prior year amounts have been reclassified to conform within the current year presentation.

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 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 – Regulatory Matters

Rate Agreements

Electric

The NYSPSC's March 2008 order and, as discussed below, its April 2009 order and the November 2009 Joint Proposal covering CON EDISON OF NEW YORK's electric rates provided for the collection of a portion of the company’s electric revenues ($254 million for the rate year ended March 2010 and, rate year ended March 2011, $249 million on an annual basis) subject to potential refund to customers following NYSPSC review and completion of an investigation by the NYSPSC staff of the company's capital expenditures during the April 2005 through March 2008 period for transmission and distribution Company plant (the 2005-2008 Capital Expenditure Review). In December 2009, the company established a $24 million regulatory liability for refund to customers with respect to this matter and recognized a $14 million (after-tax) charge in its 2009 consolidated financial statements. In March 2010, the NYSPSC issued an order approving a February 2010 Joint Proposal by the company and the NYSPSC staff relating to this matter pursuant to which the company, among other things, provided a $36 million credit to customer bills in 2010.

In April 2009, the NYSPSC adopted an order granting Con Edison of New York an electric rate increase, effective April 6, 2009, of $523 million. The NYSPSC ruling reflects the following major items:

- A return on common equity of 10.0 percent, based on certain assumptions, including a common equity ratio of 48 percent and achievement by the company of unspecified austerity measures required by the NYSPSC that would result in avoided revenue requirements of $60 million;

- continuation of the revenue decoupling mechanism (in 2009, the company increased revenues by $122 million pursuant to this mechanism and the corresponding provision of the March 2008 rate order);

- a decrease to $120 million from $150 million in the level of annual revenues that, for purposes of setting rates, it is assumed the company will receive and retain from the sale of transmission rights on the company's transmission system, with the difference between such actual revenues for the rate year and $120 million to be recoverable from or refundable to customers, as the case may be (in 2009, the company accrued $7 million of revenues under this provision and the corresponding provision of the March 2008 rate order);

- reconciliation of the actual amount of pension and other postretirement benefit costs, environmental remediation expenses, property taxes and the cost of long-term debt to amounts reflected in rates (in 2009, the company deferred recognition of $36.4 million of expenses under these provisions and the corresponding provisions of the March 2008 rate order);

- if actual generation, transmission, distribution and shared service plant expenditures (other than removal costs) and capital costs incurred to relocate facilities to accommodate government projects are less than amounts reflected in rates for the respective category of expenditures, the company will accrue a regulatory liability and reduce its revenues by the revenue requirement impact of the difference (i.e., return on investment, depreciation and income taxes) (in 2009, the company did not reduce revenues under these provisions and the corresponding provisions of the March 2008 rate order);

- collection of a surcharge (in addition to the electric rate increase) from customers in connection with an increase (estimated at $198 million), effective April 2009, in a New York State assessment;

- continuation of provisions for potential operations penalties of up to $152 million annually if certain customer service and system reliability performance targets are not met (in 2009, the company did not reduce revenues under these provisions and the corresponding provisions of the March 2008 rate order);

- continuation of the collection of a portion (increased, to reflect higher capital costs, from $237 million collected in the rate year ended March 2009 to $254 million for the rate year ending March 2010) of an April 2008 rate increase subject to potential refund to customers following the 2005-2008 Capital Expenditure Review (see discussion above in this Note B of the February 2010 Joint Proposal). The portion collected is also subject to refund in the event the NYSPSC determines that some disallowance of costs the company has recovered is warranted to address potential impacts of alleged unlawful conduct by arrested employees and contractors (see "Other Regulatory Matters" below in this Note B); and

- continuation of the rate provisions pursuant to which the company recovers its purchased power and fuel costs from customers.

In May 2009, the company filed with the NYSPSC the company's plan with respect to austerity measures that would reduce the company's revenue requirements during the rate year ending March 31, 2010 by $60 million. The company's austerity plans include reductions in labor costs, including compensation and other employee benefits, deferral of expenditures for capital projects and operating and maintenance programs and other initiatives. These reductions collectively represent $47 million of the $60 million reduction sought by the NYSPSC. In May 2009, the company filed with the NYSPSC a request for rehearing of the NYSPSC's April 2009 order with respect to its austerity provisions and certain other matters. Pursuant to the February 2010 Joint Proposal (discussed above in Note B), the company withdrew this request.

In November 2009, Con Edison of New York, the NYSPSC staff and other parties entered into a Joint Proposal with respect to the company's May 2009 request to the NYSPSC for an increase in the rates the company can charge its customers for electric delivery service. The Joint Proposal, which was approved in March 2010, covers the three-year period April 2010 through March 2013 and provides for electric base rate increases of $420 million, effective April 2010 and 2011, and $287 million, effective April 2012, with an additional $134 million to be collected through a surcharge in the rate year ending March 2013. In March 2012, the NYSPSC issued an order requiring that the $134 million surcharge that was to have been collected from customers during the rate year ending March 2013 instead be offset using certain Con Edison of New York regulatory liabilities that would have otherwise been refundable to or applied for the benefit of customers after the rate year.

The Joint Proposal reflects the following major items:

- A weighted average cost of capital of 7.76 percent, reflecting:
    - return on common equity of 10.15 percent, assuming achievement by the company of unspecified austerity measures that would result in reductions in operations and maintenance expenses of $27 million, $20 million and $13 million in the rate years ending March 2011, 2012 and 2013, respectively (the company did not achieve the unspecified austerity measures in the rate years ending March 2011 and 2012);
    - cost of long-term debt of 5.65 percent;
    - common equity ratio of 48 percent; and
    - average rate base of $14,887 million, $15,987 million and $16,826 million for the rate years ending March 2011, 2012 and 2013, respectively.
- Deferral as a regulatory liability of the revenue requirement impact (i.e., return on investment, depreciation and income taxes) of the amount, if any, by which (A) actual average net plant balances allocable to the company's electric business for (i) transmission and distribution, excluding municipal infrastructure support (T&D), (ii) generation, shared services and, subject to certain adjustments, municipal infrastructure support (Other) and (iii) a finance and supply chain enterprise resource project (ERP) are less than (B) amounts reflected in rates for the respective category for each rate year. The amounts reflected in rates are:

	Rate Year Ending March 31,		
(Millions of Dollars)	2011	2012	2013
T&D	$13,818	$14,742	$15,414
Other	1,487	1,565	1,650
ERP	-	25	115

    - Any deferral for T&D and Other for the rate year ending March 2011 will be based on average net plant balances for the year and for the rate years ending March 2012 and 2013 will be based on average net plant balances over the term of the Joint Proposal. The company deferred $8 million and $0.1 million as a regulatory liability pursuant to this provision in 2011 and 2012, respectively.

    - Any deferral for ERP would be based on average net plant balances for ERP over the term of the Joint Proposal.

- During the term of the Joint Proposal, the company will not accrue any additional revenue for carrying charges on any capital expenditures allocable to its electric business in excess of specified limits (which limits exclude certain expenditures, including expenditures for projects for which the company has been selected to receive grants under the American Recovery and Reinvestment Act of 2009):

    - T&D capital expenditures - $1,200 million for the rate year ending March 2011 and an aggregate $2,300 million for the period from April 2011 through March 2013 (such capital expenditures for the rate year ended March 2011 were less than $1,200 million);

    - Other capital expenditures - $220 million for the rate year ending March 2011 and an aggregate $402 million for the period from April 2011 through March 2013 (such capital expenditures for the rate year ended March 2011 were less than $220 million); and

    - ERP capital expenditures - $125 million (such capital expenditures for the rate year ended March 2011 were less than $125 million).

- The company is not precluded from seeking to recover in rates effective after March 2013 the annual revenue requirement for T&D and Other capital expenditures made during the term of the Joint Proposal in excess of the applicable capital expenditure limit; provided that:

    - the company can justify the need for and reasonableness of, and the company's inability to reasonably avoid, such excess capital expenditures; and

    - the return on investment for any such excess T&D or Other capital expenditures made during the rate year ending March 2011 will be calculated based on the company's overall cost of debt. There were no such excess expenditures for the rate years ended March 2011 and 2012.

- Sharing with electric customers of any actual earnings, excluding the effects of any penalties and certain other items, above specified percentage returns on equity (based on actual average common equity ratio, subject to a 50 percent maximum) as follows:

    - for the rate year ending March 2011, the company will allocate to customers the revenue requirement equivalent of 50 percent of earnings above 11.15 percent up to and including 12.149 percent, 75 percent of earnings equal to or in excess of 12.15 percent up to and including 13.149 percent and 90 percent of earnings equal to or in excess of 13.15 percent (earnings were not above 11.15 percent for the rate year ended March 2011);

    - for the rate years ending March 2012 and 2013, the company will allocate to customers the revenue requirement equivalent of 60 percent of the earnings, calculated on a cumulative basis for such years, in excess of 10.65 percent up to and including 12.149 percent, 75 percent of such cumulative earnings equal to or in excess of 12.15 percent up to and including 13.149 percent and 90 percent of such cumulative earnings equal to or in excess of 13.15 percent (earnings were not above 10.65 percent for the rate year ended March 2012);

    - the customers' share of any such earnings and 50 percent of the company's share would be applied to reduce regulatory assets for pensions and other postretirement benefits and other costs; and

    - because the company did not file for a rate increase to take effect in April 2013, the earnings sharing levels for the rate year ending March 2013 will continue in effect until base rates are reset by the NYSPSC.

- Deferral as a regulatory asset or liability, as the case may be, of differences between the actual level of certain expenses, including, among others, expenses for pension and other postretirement benefits, environmental remediation, relocation of facilities to accommodate government projects, property taxes and (for the rate years ending March 2012 and 2013) long-term debt, and amounts for those expenses reflected in rates (with deferral for the difference in property taxes limited to 80 percent of the difference, subject to annual maximum for the remaining 20 percent of the difference of not more than a 10 basis point impact on return on common equity and deferral of facility relocation expenses in excess amounts reflected in rates subject to certain limitations). In 2010 and 2011, the company deferred $264 million as a net regulatory asset and $39 million as a net regulatory liability, respectively, under these provisions and the corresponding provisions of the April 2009 rate order.

- Continuation of the provisions in the April 2009 order relating to revenues from the sale of transmission rights on the company's transmission system. In 2010, 2011 and 2012, the company accrued $9 million, $26 million and $45 million of revenues, respectively, under this provision and the corresponding provision of the April 2009 rate order.

- Continuation of the revenue decoupling mechanism under which the company's actual electric delivery revenues would be compared, on a periodic basis, with the delivery revenues reflected in rates, and the difference accrued as a regulatory liability (for refund to electric customers) or a regulatory asset (for recovery from electric customers), as the case may be. In 2010, 2011 and 2012, the company deferred for customer benefit of $124 million, $90 million and $59 million of revenues, respectively, under this provision and the corresponding provision of the April 2009 rate order.

- Continuation of the rate provisions pursuant to which the company recovers its purchased power and fuel costs from electric customers.

- Continuation of provisions for potential operations penalties of up to $152 million annually if certain electric customer service and system reliability performance targets are not met. In 2010 and 2012, the company did not recognize any expenses under these provisions and the corresponding provisions of the April 2009 order. In 2011, the company recognized a $5 million system reliability penalty..

Collection from electric customers of $249 million on an annual basis subject to potential refund following the 2005-2008 Capital Expenditure Review (see discussion above in this Note B of the February 2010 Joint Proposal). The amount to be collected would also be subject to refund in the event the NYSPSC determined that some disallowance of costs the company has recovered is warranted to address potential impacts of alleged unlawful conduct by arrested employees and contractors (see "Other Regulatory Matters" below in this Note B).

In January 2013, Con Edison of New York filed a request with the NYSPSC for an electric rate increase of $375 million, effective January 2014. The filing reflects a return on common equity of 10.35 percent and a common equity ratio of approximately 50 percent.

The company is requesting the implementation of programs to strengthen the storm resiliency of its electric infrastructure, as well as implementation of a surcharge mechanism to facilitate cost recovery for additional hardening programs as they may arise in the future. The company also is requesting continuation of provisions pursuant to which expenses for pension and other postretirement benefits, long-term debt, storms, the impact of new laws and environmental site investigation and remediation are reconciled to amounts reflected in rates.

In addition, the company is requesting reconciliation of property taxes and municipal infrastructure support costs which, unlike the current provisions, would provide for full reconciliation of such costs. The filing also reflects continuation of the revenue decoupling mechanism and the provisions pursuant to which the company recovers its purchased power and fuel costs from customers.

The filing includes supplemental information regarding electric rate plans for 2015 and 2016, which the company is not requesting but would consider through settlement discussions. For purposes of illustration, rate increases of $195 million and $270 million effective January 2015 and 2016, respectively, were calculated based upon an assumed return on common equity of 10.85 percent and a common equity ratio of approximately 50 percent.

Gas

In September 2007, the NYSPSC approved the Joint Proposal that Con Edison of New York had entered into in June 2007 with the staff of the NYSPSC and other parties with respect to the rates the company can charge its customers for gas service. The Joint Proposal had provided for rate increases of $84.6 million, $32.7 million and $42.7 million, effective October 1, 2007, 2008 and 2009, respectively, along with annual funding for new energy efficiency programs of $14 million. The NYSPSC modified the Joint Proposal to provide for levelized annual rate increases of $67.5 million in each year of the three year rate plan.

The Joint Proposal continues the previous gas rate plan provisions with respect to recovery from customers of the cost of purchased gas and environmental remediation expenses and corresponding provisions pursuant to which the effects of weather on gas income are moderated and for the reconciliation of actual expenses allocable to the gas business to the amounts for such costs reflected in gas rates for pension and other postretirement benefit costs, property taxes and interference costs. Additional provisions of the gas rate plan include: a revenue decoupling mechanism (pursuant to which the company accrued $24 million, $25 million, and $17 million of revenues in 2010, 2009, and 2008, respectively) and equal sharing with customers of earnings above a 10.7 percent return on common equity (earnings for the rate years ended September 30, 2010, 2009 and 2008 were reduced $6 million, $0 and $9 million, respectively, for earnings above the 10.7 percent threshold).

In September 2010, the NYSPSC adopted the Joint Proposal among Con Edison of New York, the staff of the NYSPSC and other parties, with respect to the company's rates for gas delivery service. The Joint Proposal provides for gas base rate increases of $47.1 million, $47.9 million and $46.7 million, effective October 2010, 2011 and 2012, respectively. The Joint Proposal reflects the following major items:

- A weighted average cost of capital of 7.46 percent, reflecting:

- return on common equity of 9.6 percent, assuming achievement by the company of cost avoidance for productivity and "austerity". The unspecified austerity measures assume reductions in costs of $6 million, $4 million and $2 million in the rate years ending September 2011, 2012 and 2013, respectively;
- cost of long-term debt of 5.57 percent;
- common equity ratio of 48 percent; and
- average rate base of $3,027 million, $3,245 million and $3,434 million for the rate years ending September 2011, 2012 and 2013, respectively.

- Deferral as a regulatory liability of the revenue requirement impact (i.e., return on investment, depreciation and income taxes) of the amount, if any, by which actual average net plant balances allocable to the company's gas business are less than the amounts reflected in rates: $2,934 million, $3,148 million and $3,346 million for the rate years ending September 2011, 2012 and 2013, respectively. No such deferral was required for the rate years ended September 2011 and 2012.

- Sharing with gas customers of any actual earnings, excluding the effects of any penalties and certain other items, above specified percentage returns on equity (based on actual average common equity ratio, subject to a 50 percent maximum), on a cumulative basis over the term of the Joint Proposal, calculated as follows:
    - for the rate year ending September 2011, the company will allocate to customers the revenue requirement equivalent of 60 percent of earnings above 10.35 percent up to and including 11.59 percent, 75 percent of earnings equal to or in excess of 11.6 percent up to and including 12.59 percent and 90 percent of earnings equal to or in excess of 12.6 percent (earnings were not above 10.35 percent for the rate year ended September 2011);
    - for the rate years ending September 2012 and 2013, the company will allocate to customers the revenue requirement equivalent of 60 percent of the earnings in excess of 10.1 percent up to and including 11.59 percent, 75 percent of such earnings equal to or in excess of 11.6 percent up to and including 12.59 percent and 90 percent of such earnings equal to or in excess of 12.6 percent (earnings were not above 10.1 percent for the rate year ended September 2012);
    - the customers' share of any such earnings and 50 percent of the company's share, appropriately adjusted for taxes, would be applied to reduce regulatory assets for pensions and other postretirement benefits and other costs; and because the company did not file for a

rate increase to take effect in October 2013, the earnings sharing levels for the rate year ending September 2013 will continue in effect until base rates are reset by the NYSPSC.

- Deferral as a regulatory asset or liability, as the case may be, of differences between the actual level of certain expenses, including, among others, expenses for pension and other postretirement benefits, environmental remediation, property taxes and long-term debt, and amounts for those expenses reflected in rates (with deferral for the difference in property taxes limited to 80 percent of the difference, subject to an annual maximum for the remaining 20 percent of the difference of not more than the equivalent in revenue requirement of a 10 basis point impact on return on common equity). In 2010, 2011 and 2012, the company deferred $67 million of net regulatory assets, $0.3 million of net regulatory liabilities and $46 million of net regulatory assets, respectively, under these provisions and the corresponding provisions of the September 2007 rate order.

- Continuation of provisions pursuant to which the company will retain net revenues from non-firm customer transactions. In each year of the rate plan, the company will retain up to $58 million of any such revenues and 25 percent of any such revenues above $58 million. If such revenues are below $58 million in a rate year, the company will accrue a regulatory asset equal to (A) the amount by which such revenues are less than $33 million plus (B) 80 percent of the difference between $58 million and the level of such revenues at or above $33 million. The company retained $40 million, $70 million and $57 million of such net revenues in 2010, 2011 and 2012, respectively, under these provisions and the corresponding provisions of the September 2007 rate order.

- Continuation of the provisions pursuant to which the effects of weather on gas delivery revenues during each billing cycle are reflected in customer bills for that billing cycle, and a revenue decoupling mechanism under which the company's actual gas delivery revenues, inclusive of any such weather adjustment, would be compared, on a periodic basis, with the delivery revenues reflected in rates, with the difference accrued as a regulatory liability (for refund to gas customers) or a regulatory asset (for recovery from gas customers), as the case may be. In 2010, 2011 and 2012, the company deferred $14 million of regulatory assets, $20 million of regulatory liabilities and $22 million of regulatory liabilities, respectively, under this provision and the corresponding provisions of the September 2007 rate order.

- Continuation of the rate provisions pursuant to which the company recovers its costs of purchased gas from gas customers.

- Continuation of provisions for potential penalties (up to $12.6 million annually) if certain gas customer service and system performance targets are not met. In 2010, 2011 and 2012, the company did not recognize any expenses under these provisions or the corresponding provisions of the September 2007 rate order.

- Continued collection from gas customers of $32 million on an annual basis subject to potential refund (see “Other Regulatory Matters” below).

In January 2013, Con Edison of New York filed a request with the NYSPSC for a gas rate increase of $25 million, effective January 2014. The filing reflects a return on common equity of 10.35 percent and a common equity ratio of approximately 50 percent.

The company is requesting the implementation of programs to strengthen the storm resiliency of its gas infrastructure, as well as implementation of a surcharge mechanism to facilitate cost recovery for additional hardening programs as they may arise in the future. The company is also requesting continuation of the current gas rate plan’s revenue decoupling mechanism and provisions with respect to recovery from customers of the cost of purchased gas and the reconciliation of actual expenses allocable to the gas business to the amounts for such expenses reflected in gas rates for pension and other postretirement benefits, long-term debt, the impact of new laws and environmental remediation expenses. In addition, the company is requesting reconciliation for property taxes and municipal infrastructure support costs (which, unlike the current provisions, would provide for full reconciliation of such costs) and the implementation of a gas storm cost reconciliation mechanism.

The filing includes supplemental information regarding gas rate plans for 2015 and 2016, which the company is not requesting but would consider through settlement discussions. For purposes of illustration, rate increases of $55 million and $63 million effective January 2015 and 2016, respectively, were calculated based upon an assumed return on common equity of 10.85 percent and a common equity ratio of approximately 50 percent.

Steam

In September 2008, the NYSPSC approved the June 2008 Joint Proposal among the company, the NYSPSC staff and other parties with respect to the rates the company can charge its customers for steam service. The Joint Proposal covers the period from October 1, 2008 through September 30, 2010. The Joint Proposal provides for steam rate increases of $43.7 million effective October 1, 2008 and 2009.

The Joint Proposal reflects the following major items:

- an annual return on common equity of 9.3 percent;

- any actual earnings above a 10.1 percent return on equity (based on actual average common equity ratio, subject to a 50 percent maximum) are to be shared as follows: half will be deferred for the benefit of customers and the other half is to be retained by the company (with half of the company's share subject to offset to reduce any regulatory assets for under-collections of property taxes) (earnings for the rate years ended September 30, 2009 and 2010 did not exceed a 10.1 percent return on equity);

- deferral as a regulatory asset or regulatory liability, as the case may be, of the difference between (i) actual costs for pension and other postretirement benefits, environmental remediation, property taxes, certain tax-exempt debt, municipal infrastructure support and certain other costs and (ii) amounts for those costs reflected in rates (90 percent of the difference in the case of property taxes and interference costs) (the company decreased expenses by $14.9 million and $14.4 million and increased expenses by $3.1 million under these provisions in 2010, 2009 and 2008, respectively);

- deferral as a regulatory liability of the revenue requirement impact (i.e., return on investment, depreciation and income taxes) of the amount, if any, by which the actual capital expenditures related to steam production plant are less than amounts reflected in rates (there was no regulatory liability recorded for the rate year ended September 30, 2009 and $4 million regulatory liability recorded for the rate year ended September 30, 2010);

- potential negative earnings adjustments (revenue reductions) of approximately $0.95 million to $1 million annually if certain business development, customer service and safety performance targets are not met (the company did not record any such adjustments for the rate years ended September 30, 2010, 2009 and 2008);

- amortization of certain regulatory assets and liabilities, the net effect of which will be a non-cash increase in steam revenues of $20.3 million over the two-year period covered by the Joint Proposal; and continuation of the rate provisions pursuant to which the company recovers its fuel and purchased steam costs from customers.

In May 2010, Con Edison of New York, the NYSPSC staff and other parties entered into a Joint Proposal, with respect to the company's rates for steam service. The Joint Proposal, which was approved by the NYSPSC in September 2010, covers the three-year period October 2010 through September 2013 and provides for rate increases of $49.5 million, effective October 2010 and 2011, and $17.8 million, effective October 2012, with an additional $31.7 million to be collected through a surcharge in the rate year ending September 2013. The Joint Proposal reflects the following major items:

- The same weighted average cost of capital, return on common equity (assuming, for the steam business, achievement of unspecified reductions in costs of $4.5 million, $3 million and $1.5 million in the rate years ending September 2011, 2012 and 2013, respectively), cost of long-term debt and common equity ratio provided for in the May 2010 Joint Proposal with respect to Con Edison of New York's gas business (discussed above) and average steam rate base of $1,589 million, $1,603 million and $1,613 million for the rate years ending September 2011, 2012 and 2013, respectively.

- Deferral as a regulatory liability of the revenue requirement impact of the amount, if any, by which actual average net plant balances allocable to the company's steam business are less than the amounts reflected in rates for the respective category for each rate year. The company deferred $0.3 million in 2011 and reduced its liability by $0.2 million in 2012. The amounts reflected in rates are:

	Rate Year Ending September 30,		
(Millions of Dollars)	2011	2012	2013
Steam production	$415	$426	$433
Steam distribution	521	534	543

- Earnings sharing, expense deferral and potential refund ($6 million annually for steam) provisions as discussed above with respect to Con Edison of New York's gas business. In 2011 and 2012, the company did not recognize any such earnings sharing, expense deferral or potential refund.

- Continuation of the rate provisions pursuant to which the company recovers its cost of fuel and purchased steam from its steam customers.

- Continuation of provisions for potential penalties (up to approximately $1 million annually) if certain steam customer service and system performance targets are not met. In 2011 and 2012, the company did not recognize any expense under these provisions.

In December 2012, as required by the NYSPSC order, Con Edison of New York proposed a phase-in over a period of not more than seven years of an increase in the allocation to steam customers of the fuel costs for the company's East River Repowering Project (ERRP, which cogenerates electricity and steam) that are above the market value of the electric energy generated by ERRP.

In January 2013, Con Edison of New York filed a request with the NYSPSC for a steam rate decrease of $5 million, effective January 2014. The filing reflects a return on common equity of 10.35 percent and a common equity ratio of approximately 50 percent.

The company is requesting the implementation of programs to strengthen the storm resiliency of its steam infrastructure, as well as implementation of a surcharge mechanism to facilitate cost recovery for additional hardening programs as they may arise in the future. The company is also requesting implementation of weather normalization of revenues for steam and the continuation of provisions with respect to recovery from customers of the cost of fuel and purchased steam and the reconciliation of actual expenses allocable to the steam business to the amounts for such expenses reflected in steam rates for pension and other postretirement benefits, long-term debt, the impact of new laws and environmental remediation expenses. In addition, the company is requesting reconciliation for property taxes and municipal infrastructure support costs (which, unlike the current provisions, would provide for full reconciliation of such costs) and the implementation of a steam storm cost reconciliation mechanism.

The filing includes supplemental information regarding steam rate plans for 2015 and 2016, which the company is not requesting but would consider through settlement discussions. For purposes of illustration, rate increases of $22 million and $18 million effective January 2015 and 2016, respectively, were calculated based upon an assumed return on common equity of 10.85 percent and a common equity ratio of approximately 50 percent.

Other Regulatory Matters

In February 2009, the NYSPSC commenced a proceeding to examine the prudence of certain Con Edison of New York expenditures following the arrests of employees for accepting illegal payments from a construction contractor. Subsequently, additional employees were arrested for accepting illegal payments from materials suppliers and an engineering firm. The arrested employees were terminated by the company and have pled guilty or been convicted. Pursuant to NYSPSC orders, a portion of the company's revenues (currently, $249 million, $32 million and $6 million on an annual basis for electric, gas and steam service, respectively) is being collected subject to potential refund to customers. The amount of electric revenues collected subject to refund, which was established in a different proceeding (the 2005-2008 Capital Expenditure Review discussed under "Rate Agreements – Con Edison of New York - Electric," above), and the amount of gas and steam revenues collected subject to refund were not established as indicative of the company's potential liability in this proceeding. At December 31, 2012, the company had collected an estimated $1,103 million from customers subject to potential refund in connection with this proceeding. In January 2013, a NYSPSC consultant reported its estimate, with which the company does not agree, of $208 million of overcharges with respect to a substantial portion of the company's construction expenditures from January 2000 to January 2009. The company is disputing the consultant's estimate, including its determinations as to overcharges regarding specific construction expenditures it selected to review and its methodology of extrapolating such determinations over a substantial portion of the construction expenditures during this period. The NYSPSC's consultant has not reviewed the company's other expenditures. The company and NYSPSC staff anticipates exploring settlement negotiations in this proceeding, the schedule for which may be coordinated with the schedule for consideration of the company's January 2013 request for new electric, gas and steam rate plans. At December 31, 2012, the company had a $14 million regulatory liability for refund to customers of amounts recovered from vendors, arrested employees and insurers relating to this matter. The company is unable to estimate the amount, if any, by which any refund required by the NYSPSC may exceed this regulatory liability.

In late October 2012, Super-storm Sandy caused extensive damage to the Company's electric distribution system and interrupted service to approximately 1.4 million customers. Super-storm Sandy also damaged Con Edison of New York's steam system and interrupted service to many of its steam customers. In 2012, Con Edison of New York incurred response and restoration costs for Super-storm Sandy of $363 million, respectively (including capital expenditures of $104 million). Most of the costs that were not capitalized were deferred for recovery as a regulatory asset under the Company's electric rate plans. See "Regulatory Assets and Liabilities" below. The Company's New York electric rate plans include provisions for revenue decoupling, as a result of which delivery revenues generally are not affected by changes in delivery volumes from levels assumed when rates were approved. The provisions of the Company's New York electric plans that impose penalties for operating performance provide for exceptions for major storms and catastrophic events beyond the control of the Company, including natural disasters such as hurricanes and floods. See "Rate Agreements - Electric" above. The NYSPSC, the New York State Attorney General and a commission appointed by the Governor of New York are investigating the preparation and performance of the Company in connection with Super-storm Sandy and other major storms.

Regulatory Assets and Liabilities

Regulatory assets and liabilities at December 31, 2012 and 2011 were comprised of the following items:

	Con Edison of New York	
(Millions of Dollars)	2012	2011
Regulatory assets		
Unrecognized pension and other postretirement costs	$5,407	$5,554
Future income tax	1,991	1,874
Environmental remediation costs	614	564
Deferred storm costs	308	80
Pension and other postretirement benefits deferrals	153	157
Revenue taxes	170	158
Net electric deferrals	102	121
Surcharge for New York State assessment	68	82
Deferred derivative losses – long-term	20	44
Preferred stock redemption	29	-
Recoverable energy costs – long-term	23	14
Workers' compensation	18	23
Property tax reconciliation	32	32
Other	158	149
Regulatory assets – long-term	9,093	8,852
Deferred derivative losses – current	60	140
Recoverable energy costs – current	101	116
Regulatory assets – current	161	256
Total Regulatory Assets	9,254	$9,108
Regulatory liabilities		
Property tax reconciliation	$218	$67
Net unbilled revenue deferrals	136	104
World Trade Center settlement proceeds	62	62
Long-term interest rate reconciliation	62	30
Carrying charges on T&D net plant – electric and steam	13	14
Gas line losses	14	21
Expenditure prudence proceeding	15	11
Energy efficiency programs	6	20
Future income tax	160	150
Other	162	193
Regulatory liabilities – long-term	848	672
Refundable energy costs – current	149	128
Revenue decoupling mechanism	68	66
Electric surcharge offset	29	-
Deferred derivative gains – current	-	1
Regulatory liabilities - current	246	195
Total Regulatory Liabilities	$1,094	$867

"Unrecognized pension and other postretirement costs" represents the net regulatory asset associated with the accounting rules for retirement benefits. See Note A.

"Deferred storm costs" represent response and restoration costs, other than capital expenditures, in connection with Super-storm Sandy and other major storms that were deferred by the Company under their New York electric rate plans. See "Other Regulatory Matters," above.

"Net electric deferrals" represents the remaining unamortized balance of certain regulatory assets and liabilities of Con Edison of New York that were combined effective April 1, 2010 and are being amortized to income over a ten year period, in accordance with Con Edison of New York's March 2010 rate plan.

“Revenue taxes” represents the timing difference between taxes collected and paid by the Company to fund mass transportation.

Effective March 31, 2009, the NYSPSC authorized Con Edison of New York to accrue unbilled electric, gas and steam revenues. At December 31, 2012, Con Edison of New York has deferred the net margin on the unbilled revenues for the future benefit of customers by recording a regulatory liability of $136 million for the difference between the unbilled revenues and energy cost liabilities.

Note C – Capitalization

Common Stock

At December 31, 2012 and 2011, Con Edison of New York owns 21,976,200 shares of Con Edison of New York stock, which it purchased prior to 2001 in connection with Con Edison’s stock repurchase plan. Con Edison of New York presents in the financial statements the cost of the Con Edison of New York stock it owns as a reduction of common shareholder’s equity.

Preferred Stock of Con Edison of New York

In May 2012, Con Edison of New York redeemed all of its outstanding shares of $5 Cumulative Preferred Stock and Cumulative Preferred Stock ($100 par value).

Dividends

In accordance with NYSPSC requirements, the dividends that the Company generally pay are limited to not more than 100 percent of its respective 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.

Long-term Debt

Long-term debt maturing in the period 2013-2017 is as follows:

(Millions of Dollars)	Con Edison of New York
2013	$700
2014	475
2015	350
2016	650
2017	-

The Company issued $494 million of tax-exempt debt through the New York State Energy Research and Development Authority (NYSERDA) that currently bear interest at a rate determined weekly and is subject to tender by bondholders for purchase by the Company.

The carrying amounts and fair values of long-term debt are:

	December 31,			
(Millions of Dollars)	2012		2011	
Long-Term Debt (including current portion)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Con Edison of New York	$ 9,845	$11,751	$ 9,745	$11,593

Fair values of long-term debt have been estimated primarily using available market information. For Con Edison of New York, $11,115 million and $636 million of the fair value of long-term debt at December 31, 2012 are classified as Level 2 and Level 3, respectively. The $636 million of long-term debt classified as Level 3 is Con Edison of New York's tax-exempt, auction-rate securities for which the market is highly illiquid and there is a lack of observable inputs.

Significant Debt Covenants

The significant debt covenants under the financing arrangements for the notes and the debentures of Con Edison of New York are obligations to pay principal and interest when due, covenants not to consolidate with or merge into any other corporation unless certain conditions are met and, covenants that Con Edison of New York shall continue its Company business in New York City and shall not permit. Con Edison of New York's debentures have no cross default provisions. The tax-exempt financing arrangements of the Company are subject to covenants for the Con Edison of New York debentures discussed above and the covenants discussed below. The Company believes that it was in compliance with its significant debt covenants at December 31, 2012.

The tax-exempt financing arrangements involved the issuance of uncollateralized promissory notes of the Company to NYSERDA in exchange for the net proceeds of a like amount of tax-exempt bonds with substantially the same terms sold to the public by NYSERDA. The tax-exempt financing arrangements include covenants with respect to the tax-exempt status of the financing, including covenants with respect to the use of the facilities financed. The arrangements include provisions for the maintenance of liquidity and credit facilities, the failure to comply with which would, except as otherwise provided, constitute an event of default with respect to the debt to which such provisions applied.

The failure to comply with debt covenants would, except as otherwise provided, constitute an event of default with respect to the debt to which such provisions applied. If an event of default were to occur, the principal and accrued interest on the debt to which such event of default applied and, in the case of the Con Edison of New York notes, a make-whole premium might and, in the case of certain events of default would, become due and payable immediately.

The liquidity and credit facilities currently in effect for the tax-exempt financing include covenants that the ratio of debt to total capital of the obligated Company will not at any time exceed 0.65 to 1 and that, subject to certain exceptions, the Company will not mortgage, lien, pledge or otherwise encumber its assets. Certain of the facilities also include as events of default, defaults in payments of other debt obligations in excess of specified levels ($150 million or $100 million for Con Edison of New York, depending on the facility).

Note D – Short-Term Borrowing

In October 2011 the Company entered into a Credit Agreement (Credit Agreement), under which banks are committed to provide loans and letters of credit on a revolving credit basis. Under the Credit Agreement, which expires in October 2016, there is a maximum of $2.25 billion of credit available, with the full amount available to Con Edison of New York. The Credit Agreement supports the Company's commercial paper programs. The Company has not borrowed under the Credit Agreement. At December 31, 2012, Con Edison of New York had $421 million of commercial paper outstanding. The weighted average interest rate was 0.3 percent. At December 31, 2011 Con Edison of New York had no commercial paper outstanding.

The banks' commitments under the Credit Agreement are subject to certain conditions, including that there be no event of default. The commitments are not subject to maintenance of credit rating levels or the absence of a material adverse change. Upon a change of control of, or upon an event of default by the Company, the banks may terminate their commitments with respect to the company, declare any amounts owed by the company under the Credit Agreement immediately due and payable and require the company to provide cash collateral relating to the letters of credit issued for it under the Credit Agreement. Events of default include the exceeding at any time of a ratio of consolidated debt to consolidated total capital of 0.65 to 1 (at December 31, 2012 this ratio was 0.49 to 1 for Con Edison of New York); having liens on its assets in an aggregate amount exceeding 5 percent of its consolidated total capital, subject to certain exceptions; and the failure, following any applicable notice period, to meet certain other customary covenants. Interest and fees charged for the revolving credit facilities and any loans made or letters of credit issued under the Credit Agreement reflect the Company's respective credit ratings.

At December 31, 2012 and 2011, $121 million and $150 million of letters of credit were outstanding under the Credit Agreement.

See Note R for information about short-term borrowing between related parties.

Note E – Pension Benefits

Con Edison of New York maintains a tax-qualified, non-contributory pension plan that covers substantially all employees of Con Edison of New York. The plan is designed to comply with the Internal Revenue Code and the Employee Retirement Income Security Act of 1974. In addition, Con Edison of New York maintains additional non-qualified supplemental pension plans.

Net Periodic Benefit Cost

The components of the Company' net periodic benefit costs for 2012, 2011, and 2010 were as follows:

	Con Edison of New York		
(Millions of Dollars)	2012	2011	2010
Service cost – including administrative expenses	$220	$177	$157
Interest cost on projected benefit obligation	513	524	521
Expected return on plan assets	(670)	(698)	(670)
Recognition of net actuarial loss	670	501	401
Recognition of prior service costs	6	6	6
NET PERIODIC BENEFIT COST	$739	$510	$415
Amortization of regulatory asset*	2	2	2
TOTAL PERIODIC BENEFIT COST	$741	$512	$417
Cost capitalized	(260)	(172)	(146)
Reconciliation to rate level	(12)	(68)	(113)
Cost charged to operating expenses	$469	$272	$158

* Relates to an increase in Con Edison of New York's pension obligation of $45 million from a 1999 special retirement program.

Funded Status

The funded status at December 31, 2012, 2011, and 2010 was as follows:

	Con Edison of New York		
(Millions of Dollars)	2012	2011	2010
CHANGE IN PROJECTED BENEFIT OBLIGATION			
Projected benefit obligation at beginning of year	$11,072	$9,653	$8,803
Service cost – excluding administrative expenses	209	174	149
Interest cost on projected benefit obligation	513	524	521
Plan amendments	-	-	-
Net actuarial loss	1,255	1,166	607
Benefits paid	(477)	(445)	(427)
PROJECTED BENEFIT OBLIGATION AT END OF YEAR	$12,572	$11,072	$9,653
CHANGE IN PLAN ASSETS			
Fair value of plan assets at beginning of year	$7,406	$7,340	$6,544
Actual return on plan assets	1,040	33	846
Employer contributions	729	498	404
Benefits paid	(477)	(445)	(427)
Administrative expenses	(30)	(20)	(27)
FAIR VALUE OF PLAN ASSETS AT END OF YEAR	$8,668	$7,406	$7,340
FUNDED STATUS	$(3,904)	$(3,666)	$(2,313)
Unrecognized net loss	$5,297	$5,063	$3,716
Unrecognized prior service costs	10	16	22
Accumulated benefit obligation	11,116	9,876	8,694

The increase in the pension plan's projected benefit obligation was a primary driver in the increased pension liability at Con Edison of New York of $238 million compared with December 31, 2011.

For Con Edison of New York, the increase in pension liability resulted in an increase to regulatory assets of $225 million for unrecognized net losses and unrecognized prior service costs consistent with the accounting rules for regulated operations and a debit to OCI of $1 million (net of taxes) for unrecognized net losses and unrecognized prior service costs associated with the competitive energy businesses.

A portion of the unrecognized net loss and prior service cost for the pension plan, equal to $792 million and $4 million, respectively, will be recognized from accumulated OCI and the regulatory asset into net periodic benefit cost over the next year for Con Edison of New York.

At December 31, 2012 and 2011, Con Edison of New York's investments include $148 million and $120 million, respectively, held in external trust accounts for benefit payments pursuant to the supplemental retirement plans. See Note O. The accumulated benefit obligations for the supplemental retirement plans for Con Edison of New York were $193 million as of December 31, 2012 and $171 million as of December 31, 2011.

Assumptions

The actuarial assumptions were as follows:

	2012	2011	2010
Weighted-average assumptions used to determine benefit obligations at December 31:			
Discount rate	4.10%	4.70%	5.60%
Rate of compensation increase			
– Con Edison of New York	4.35%	4.35%	4.35%
Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31:			
Discount rate	4.70%	5.60%	6.05%
Expected return on plan assets	8.00%	8.50%	8.50%
Rate of compensation increase			
– Con Edison of New York	4.35%	4.35%	4.00%

The expected return assumption reflects anticipated returns on the plan's current and future assets. The Company' expected return was based on an evaluation of the current environment, market and economic outlook, relationships between the economy and asset class performance patterns, and recent and long-term trends in asset class performance. The projections were based on the plan's target asset allocation.

Discount Rate Assumption

To determine the assumed discount rate, the Company use a model that produces a yield curve based on yields on selected highly rated (Aa or higher by either Moody's Investors Service (Moody's) or Standard & Poor's) corporate bonds. Bonds with insufficient liquidity, bonds with questionable pricing information and bonds that are not representative of the overall market are excluded from consideration. For example, the bonds used in the model cannot be callable, they must have a price between 50 and 200, the yield must lie between 1 percent and 20 percent, and the amount of the bond issue outstanding must be in excess of $50 million. The spot rates defined by the yield curve and the plan's projected benefit payments are used to develop a weighted average discount rate.

Expected Benefit Payments

Based on current assumptions, the Company expects to make the following benefit payments over the next ten years:

(Millions of Dollars)	2013	2014	2015	2016	2017	2018-2022
Con Edison of New York	517	542	567	591	614	3,394

Expected Contributions

Based on estimates as of December 31, 2012, the Company expects to make contributions to the pension plan during 2013 of $834 million. The Company's policy is to fund its accounting cost to the extent tax deductible.

Plan Assets

The asset allocations for the pension plan at the end of 2012, 2011, and 2010, and the target allocation for 2013 are as follows:

	Target Allocation Range	Plan Assets at December 31		
Asset Category	2013	2012	2011	2010
Equity Securities	55% - 65%	60%	61%	67%
Debt Securities	27% - 33%	31%	32%	28%
Real Estate	8% - 12%	9%	7%	5%
Total	100%	100%	100%	100%

Con Edison of New York has established a pension trust for the investment of assets to be used for the exclusive purpose of providing retirement benefits to participants and beneficiaries and payment of plan expenses.

Pursuant to resolutions adopted by Con Edison's Board of Directors, the Management Development and Compensation Committee of the Board of Directors (the Committee) has general oversight responsibility for Con Edison's pension and other employee benefit plans. The pension plan's named fiduciaries have been granted the authority to control and manage the operation and administration of the plans, including overall responsibility for the investment of assets in the trust and the power to appoint and terminate investment managers.

The investment objectives of the Con Edison of New York pension plan are to maintain a level and form of assets adequate to meet benefit obligations to participants, to achieve the expected long-term total return on the trust assets within a prudent level of risk and maintain a level of volatility that is not expected to have a material impact on the Company's expected contribution and expense or the Company's ability to meet plan obligations. The assets of the plan have no significant concentration of risk in one country (other than the United States), industry or entity.

The strategic asset allocation is intended to meet the objectives of the pension plan by diversifying its funds across asset classes, investment styles and fund managers. An asset/liability study typically is conducted every few years to determine whether the current strategic asset allocation continues to represent the appropriate balance of expected risk and reward for the plan to meet expected liabilities. Each study considers the investment risk of the asset allocation and determines the optimal asset allocation for the plan. The target asset allocation for 2013 reflects the results of such a study conducted in 2011.

Individual fund managers operate under written guidelines provided by Con Edison, which cover such areas as investment objectives, performance measurement, permissible investments, investment restrictions, trading and execution, and communication and reporting requirements. Con Edison of New York management regularly monitors, and the named fiduciaries review and report to the Committee regarding, asset class performance, total fund performance, and compliance with asset allocation guidelines. Management changes fund managers and rebalances the portfolio as appropriate. At the direction of the named fiduciaries, such changes are reported to the Committee.

The pension plan is one tax-qualified plan for Con Edison and its subsidiaries. Con Edison of New York employee benefits are paid out of the assets detailed below which represent the assets of the entire plan.

Assets measured at fair value on a recurring basis are summarized below under a three-level hierarchy established by the accounting rules which define the levels within the hierarchy as follows:

- Level 1 – Consists of fair value measurements whose value is based on quoted prices in active markets for identical assets or liabilities.
- Level 2 – Consists of fair value measurements whose value is based on significant other observable inputs.
- Level 3 – Consists of fair value measurements whose value is based on significant unobservable inputs.

The fair values of the pension plan assets at December 31, 2012 by asset category are as follows:

(Millions of Dollars)	Level 1	Level 2	Level 3	Total
U.S. Equity (a)	$2,637	$ -	$ -	$2,637
International Equity (b)	2,242	753	-	2,995
Private Equity (c)	-	-	20	20

U.S. Government Issues (d)	-	1,626	-	1,626
Corporate Bonds (e)	-	993	-	993
Structured Assets (f)	-	30	-	30
Other Fixed Income (g)	-	123	-	123
Real Estate (h)	-	-	833	833
Cash and Cash Equivalents (i)	83	328	-	411
Futures (j)	210	-	-	210
Total investments	$5,172	$3,853	$853	$9,878
Funds for retiree health benefits (k)	(185)	(137)	(31)	(353)
Investments (excluding funds for retiree health benefits)	$4,987	$3,716	$822	$9,525
Pending activities (l)				(390)
Total fair value of plan net assets				$9,135

(a) U.S. Equity includes both actively- and passively-managed assets with investments in domestic equity index funds and actively-managed small-capitalization equities.
(b) International Equity includes international equity index funds and actively-managed international equities.
(c) Private Equity consists of global equity funds that are not exchange-traded.
(d) U.S. Government Issues include agency and treasury securities.
(e) Corporate Bonds consist of debt issued by various corporations.
(f) Structured Assets include commercial-mortgage-backed securities and collateralized mortgage obligations.
(g) Other Fixed Income includes municipal bonds, sovereign debt and regional governments.
(h) Real Estate investments include real estate funds based on appraised values that are broadly diversified by geography and property type.
(i) Cash and Cash Equivalents include short term investments, money markets, foreign currency and cash collateral.
(j) Futures consist of exchange-traded financial contracts encompassing U.S. Equity, International Equity and U.S. Government indices.
(k) The Company sets aside funds for retiree health benefits through a separate account within the pension trust, as permitted under Section 401(h) of the Internal Revenue Code of 1986, as amended. In accordance with the Code, the plan's investments in the 401(h) account may not be used for, or diverted to, any purpose other than providing health benefits for retirees. The net assets held in the 401(h) account are calculated based on a pro-rata percentage allocation of the net assets in the pension plan. The related obligations for health benefits are not included in the pension plan's obligations and are included in the Company' other postretirement benefit obligation. See Note F.
(l) Pending activities include security purchases and sales that have not settled, interest and dividends that have not been received and reflects adjustments for available estimates at year end.

The table below provides a reconciliation of the beginning and ending net balances for assets at December 31, 2012 classified as Level 3 in the fair value hierarchy.

(Millions of Dollars)	Beginning Balance as of January 1, 2012	Assets Still Held at Reporting Date – Unrealized Gains /(Losses)	Assets Sold During the Period – Realized Gains	Purchases Sales and Settlements	Transfer in/(out) of Level 3	Ending Balance as of December 31, 2012
Real Estate	$572	$48	$1	$212	$ -	$833
Private Equity	-	1	-	19	-	20
Corporate Bonds	94	-	-	(33)	(61)	-
Structured Assets	13	-	(6)	-	(7)	-
Other Fixed Income	29	-	-	(6)	(23)	-
Total investments	$708	$49	$(5)	$192	$(91)	$853
Funds for retiree health benefits	(28)	(2)	-	(4)	3	(31)
Investments (excluding funds for retiree health benefits)	$680	$47	$(5)	$188	$(88)	$822

The fair values of the pension plan assets at December 31, 2011 by asset category are as follows:

(Millions of Dollars)	Level 1	Level 2	Level 3	Total
U.S. Equity (a)	$2,467	$ -	$ -	$2,467
International Equity (b)	1,850	637	-	2,487
U.S. Government Issues (c)	-	1,570	-	1,570
Corporate Bonds (d)	-	668	94	762
Structured Assets (e)	-	-	13	13
Other Fixed Income (f)	-	67	29	96
Real Estate (g)	-	-	572	572
Cash and Cash Equivalents (h)	13	395	-	408
Futures (i)	93	48	-	141
Total investments	$4,423	$3,385	$708	$8,516

Funds for retiree health benefits (j)	(174)	(134)	(28)	(336)
Investments (excluding funds for retiree health benefits)	$4,249	$3,251	$680	$8,180
Pending activities (k)				(380)
Total fair value of plan net assets				$7,800

(a) U.S. Equity includes both actively- and passively-managed assets with investments in domestic equity index funds and actively-managed small-capitalization equities.
(b) International Equity includes international equity index funds and actively-managed international equities.
(c) U.S. Government Issues include agency and treasury securities.
(d) Corporate Bonds classified as Level 3 include 144A illiquid securities.
(e) Structured Assets include commercial-mortgage-backed securities and collateralized mortgage obligations.
(f) Other Fixed Income includes municipal bonds, sovereign debt and regional governments.
(g) Real Estate investments include real estate funds based on appraised values that are broadly diversified by geography and property type.
(h) Cash and Cash Equivalents include short term investments, money markets, foreign currency and cash collateral.
(i) Futures consist of exchange-traded financial contracts encompassing U.S. Equity, International Equity and U.S. Government indices.
(j) The Company set aside funds for retiree health benefits through a separate account within the pension trust, as permitted under Section 401(h) of the Internal Revenue Code of 1986, as amended. In accordance with the Code, the plan's investments in the 401(h) account may not be used for, or diverted to, any purpose other than providing health benefits for retirees. The net assets held in the 401(h) account are calculated based on a pro-rata percentage allocation of the net assets in the pension plan. The related obligations for health benefits are not included in the pension plan's obligations and are included in the Company' other postretirement benefit obligation. See Note F.
(k) Pending activities include security purchases and sales that have not settled, interest and dividends that have not been received and reflects adjustments for available estimates at year end.

The table below provides a reconciliation of the beginning and ending net balances for assets at December 31, 2011 classified as Level 3 in the fair value hierarchy.

(Millions of Dollars)	Beginning Balance as of January 1, 2011	Assets Still Held at Reporting Date – Unrealized Gains /(Losses)	Assets Sold During the Period – Realized Gains	Purchases Sales and Settlements	Ending Balance as of December 31, 2011
Real Estate	$398	$65	$ -	$109	$572
Corporate Bonds	129	(9)	11	(37)	94
Other Fixed Income	66	(1)	3	(39)	29
Structured Assets	87	(1)	2	(75)	13
Total investments	$680	$54	$16	$(42)	$708
Funds for retiree health benefits	(30)	3	1	(2)	(28)
Investments (excluding funds for retiree health benefits)	$650	$57	$17	$(44)	$680

The Company also offers a defined contribution savings plan that covers substantially all employees and made contributions to the plan as follows:

	For the Years Ended December 31		
(Millions of Dollars)	2012	2011	2010
Con Edison of New York	21	21	17

Note F – Other Postretirement Benefits

The Company currently has 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.

Certain employees of Con Edison's competitive energy businesses are eligible to receive benefits under these programs.

Net Periodic Benefit Cost

The components of the Company' net periodic postretirement benefit costs for 2012, 2011, and 2010 were as follows:

	Con Edison of New York		
(Millions of Dollars)	2012	2011	2010
Service cost	$21	$20	$19
Interest cost on accumulated other postretirement benefit obligation	63	72	80
Expected return on plan assets	(75)	(78)	(78)
Recognition of net actuarial loss	87	80	85
Recognition of prior service cost	(18)	(11)	(14)
Recognition of transition obligation	2	4	3
NET PERIODIC POSTRETIREMENT BENEFIT COST	$80	$87	$95
Cost capitalized	(28)	(29)	(33)
Reconciliation to rate level	16	13	1
Cost charged to operating expenses	$68	$71	$63

Funded Status

The funded status of the programs at December 31, 2012, 2011, and 2010 were as follows:

	Con Edison of New York		
(Millions of Dollars)	2012	2011	2010
CHANGE IN BENEFIT OBLIGATION			
Benefit obligation at beginning of year	$1,511	$1,426	$1,495
Service cost	21	20	19
Interest cost on accumulated postretirement benefit obligation	63	72	80
Amendments	(89)	-	-
Net actuarial loss/(gain)	(178)	86	(77)
Benefits paid and administrative expenses	(134)	(132)	(126)
Participant contributions	36	32	28
Medicare prescription subsidy	8	7	7
BENEFIT OBLIGATION AT END OF YEAR	$1,238	$1,511	$1,426
CHANGE IN PLAN ASSETS			
Fair value of plan assets at beginning of year	$840	$839	$777
Actual return on plan assets	109	19	78
Employer contributions	71	74	85
Participant contributions	36	32	28
Benefits paid	(134)	(124)	(129)
FAIR VALUE OF PLAN ASSETS AT END OF YEAR	$922	$840	$839
FUNDED STATUS	$(316)	$(671)	$(587)
Unrecognized net loss	$197	$496	$440
Unrecognized prior service costs	(84)	(15)	(26)
Unrecognized net transition liability at January 1, 1993	-	4	7

During the first quarter of 2012, the Company amended its postretirement life and health benefit plans for management employees, resulting in a reduction to the obligation of $102 million. During the fourth quarter of 2012, the Company amended the retiree contributions for supplemental postretirement life insurance for CECONY management and weekly retirees, resulting in a reduction to the obligation of $25 million. Also in 2012, the Company elected to change the method of receiving the subsidy under Medicare Part D for retiree prescription drug coverage from the Retiree Drug Subsidy to the Employer Group Waiver Plan (EGWP) beginning in January 2013. Participation in the EGWP will allow the Company offer substantially the same postretirement benefits to eligible participants while increasing subsidy reimbursements received by the plans from the Federal Government. This change is effective January 2013 and, as a result, the Company recognized a decrease in its postretirement health benefit obligations of $306 million as of December 31, 2012, which was recorded as an actuarial gain.

The decrease in the value of the other postretirement benefit plan obligation was a primary driver in the decreased liability for other postretirement benefits at Con Edison of New York of $355 million, compared with December 31, 2011.

For Con Edison of New York, the decrease in liability resulted in a decrease to regulatory assets of $372 million for unrecognized net losses and unrecognized prior service costs associated with the company consistent with the accounting rules for regulated operations and an immaterial change to OCI for unrecognized net losses and unrecognized prior service costs associated with the competitive energy businesses.

A portion of the unrecognized net losses and prior service costs for the other postretirement benefits, equal to $54 million and $(23) million, respectively, will be recognized from accumulated OCI and the regulatory asset into net periodic benefit cost over the next year for Con Edison of New York.

Assumptions

The actuarial assumptions were as follows:

	2012	2011	2010
Weighted-average assumptions used to determine benefit obligations at December 31:			
Discount Rate			
Con Edison of New York	3.75%	4.55%	5.40%
Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31:			
Discount Rate	4.55%	5.40%	5.95%
Expected Return on Plan Assets	8.50%	8.50%	8.50%

Refer to Note E for descriptions of the basis for determining the expected return on assets, investment policies and strategies, and the assumed discount rate.

The health care cost trend rate used to determine net periodic benefit cost for the year ended December 31, 2012 was 6.0 percent, which is assumed to decrease gradually to 4.50 percent by 2018 and remain at that level thereafter. The health care cost trend rate used to determine benefit obligations as of December 31, 2012 was 5.75 percent, which is assumed to decrease gradually to 4.50 percent by 2018 and remain at that level thereafter.

A one-percentage point change in the assumed health care cost trend rate would have the following effects at December 31, 2013:

1-Percentage-Point

	Con Edison of New York	
(Millions of Dollars)	Increase	Decrease
Effect on accumulated other postretirement benefit obligation	$(31)	$27
Effect on service cost and interest cost components for 2012	(2)	1

Expected Benefit Payments

Based on current assumptions, the Company expects to make the following benefit payments over the next ten years, net of receipt of governmental subsidies:

(Millions of Dollars)	2013	2014	2015	2016	2017	2018-2022
BENEFIT PAYMENTS						
Con Edison of New York	91	90	89	87	86	389

Expected Contributions

Based on estimates as of December 31, 2012, Con Edison of New York expects to make a contribution of $8 million, to the other postretirement benefit plans in 2013.

Plan Assets

The asset allocations for Con Edison of New York's other postretirement benefit plans at the end of 2012, 2011, and 2010, and the target allocation for 2013 are as follows:

	Target Allocation Range	Plan Assets at December 31		
Asset Category	2013	2012	2011	2010
Equity Securities	57% - 73%	62%	62%	67%
Debt Securities	26% - 44%	38%	38%	33%
Total	100%	100%	100%	100%

Con Edison of New York has established postretirement health and life insurance benefit plan trusts for the investment of assets to be used for the exclusive purpose of providing other postretirement benefits to participants and beneficiaries.

Refer to Note E for a discussion of Con Edison of New York's investment policy for its benefit plans.

The fair values of the plan assets at December 31, 2012 by asset category (see description of levels in Note E) are as follows:

(Millions of Dollars)	Level 1	Level 2	Level 3	Total

U.S. Equity (a)	$127	$184	$ -	$311
International Equity (b)	-	124	-	124
Other Fixed Income (c)	-	229	-	229
Cash and Cash Equivalents (d)	-	23	-	23
Total investments	$127	$560	$ -	$687
Funds for retiree health benefits (e)	185	137	31	353
Investments (including funds for retiree health benefits)	$312	$697	$31	$1,040
Pending activities (f)				7
Total fair value of plan net assets				$1,047

(a) U.S. Equity includes both actively- and passively-managed assets with investments in domestic equity index funds and commingled funds.
(b) International Equity includes commingled international equity funds.
(c) Other Fixed Income includes commingled funds, which are valued at Net Asset Value.
(d) Cash and Cash Equivalents include short term investments and money markets.
(e) The Company sets aside funds for retiree health benefits through a separate account within the pension trust, as permitted under Section 401(h) of the Internal Revenue Code of 1986, as amended. In accordance with the Code, the plan's investments in the 401(h) account may not be used for, or diverted to, any purpose other than providing health benefits for retirees. The net assets held in the 401(h) account are calculated based on a pro-rata percentage allocation of the net assets in the pension plan. The related obligations for health benefits are not included in the pension plan's obligations and are included in the Company' other postretirement benefit obligation. See Note E.
(f) Pending activities include security purchases and sales that have not settled, interest and dividends that have not been received, and reflects adjustments for available estimates at year end.

The table below provides a reconciliation of the beginning and ending net balances for assets at December 31, 2012 classified as Level 3 in the fair value hierarchy.

(Millions of Dollars)	Beginning Balance as of January 1, 2012	Assets Still Held at Reporting Date – Unrealized Gains/ (Losses)	Assets Sold During the Period – Realized(Losses)	Purchases Sales and Settlements	Transfers Out of Level 3	Ending Balance as of December 31, 2012
Other Fixed Income	$ -	$ -	$-	$ -	$ -	$ -
Insurance Contracts	-	-	-	-	-	-
Total investments	$ -	$ -	$-	$ -	$ -	$ -
Funds for retiree health benefits	28	2	-	4	(3)	31
Investments (including funds for retiree health benefits)	$28	$2	$-	$4	$(3)	$31

The fair values of the plan assets at December 31, 2011 by asset category (see description of levels in Note E) are as follows:

(Millions of Dollars)	Level 1	Level 2	Level 3	Total
U.S. Equity (a)	$115	$162	$ -	$277
International Equity (b)	-	104	-	104
Other Fixed Income (c)	-	207	-	207
Cash and Cash Equivalents (d)	-	18	-	18
Total investments	$115	$491	$ -	$606
Funds for retiree health benefits (e)	174	134	28	336
Investments (including funds for retiree health benefits)	$289	$625	$28	$942
Pending activities (f)				5
Total fair value of plan net assets				$947

(a) U.S. Equity includes both actively- and passively-managed assets with investments in domestic equity index funds and commingled funds.
(b) International Equity includes commingled international equity funds.
(c) Other Fixed Income includes commingled funds, which are valued at Net Asset Value.
(d) Cash and Cash Equivalents include short term investments and money markets.
(e) The Company set aside funds for retiree health benefits through a separate account within the pension trust, as permitted under Section 401(h) of the Internal Revenue Code of 1986, as amended. In accordance with the Code, the plan's investments in the 401(h) account may not be used for, or diverted to, any purpose other than providing health benefits for retirees. The net assets held in the 401(h) account are calculated based on a pro-rata

percentage allocation of the net assets in the pension plan. The related obligations for health benefits are not included in the pension plan's obligations and are included in the Company' other postretirement benefit obligation. See Note E.

(f) Pending activities include security purchases and sales that have not settled, interest and dividends that have not been received, and reflects adjustments for available estimates at year end.

The table below provides a reconciliation of the beginning and ending net balances for assets at December 31, 2011 classified as Level 3 in the fair value hierarchy.

(Millions of Dollars)	Beginning Balance as of January 1, 2011	Assets Still Held at Reporting Date – Unrealized Gains/ (Losses)	Assets Sold During the Period– Realized(Losses)	Purchases Sales and Settlements	Transfers Out of Level 3	Ending Balance as of December 31, 2011
Other Fixed Income	$189	$ -	$ -	$ -	$(189)	$ -
Insurance Contracts	-	-	-	-	-	-
Total investments	$189	$ -	$ -	$ -	$(189)	$ -
Funds for retiree health benefits	30	(3)	(1)	2	-	28
Investments (including funds for retiree health benefits)	$219	$(3)	$(1)	$2	$(189)	$28

Note G – Environmental Matters

Superfund Sites

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

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

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

The accrued liabilities and regulatory assets related to Superfund Sites at December 31, 2012 and 2011 were as follows:

	Con Edison of New York	
(Millions of Dollars)	2012	2011
Accrued Liabilities:		
Manufactured gas plant sites	$351	$307
Other Superfund Sites	82	66
Total	$433	$373
Regulatory assets	$615	$564

Most of the accrued Superfund Site liability relates to sites that have been investigated, in whole or in part. However, for some of the sites, the extent and associated cost of the required remediation has not yet been determined. As investigations progress and information pertaining to the required remediation becomes available, the Company expects that additional liability may be accrued, the amount of which is not presently determinable but may be material. Under its current rate agreements, the Company is permitted to recover or defer as regulatory assets (for subsequent recovery through rates) certain site investigation and remediation costs.

Environmental remediation costs incurred and insurance recoveries received related to Superfund Sites at December 31, 2012 and 2011 were as follows:

(Millions of Dollars)	2012	2011
Remediation costs incurred	$26	$35
Insurance recoveries received*	4	-

* Reduced amount deferred for recovery from customers

In 2010, Con Edison of New York estimated that for its manufactured gas plant sites, its aggregate undiscounted potential liability for the investigation and remediation of coal tar and/or other manufactured gas plant-related environmental contaminants could range up to $1.9 billion. These estimates were based on the assumption that there is contamination at all sites, including those that have not yet been fully investigated and additional assumptions about the extent of the contamination and the type and extent of the remediation that may be required. Actual experience may be materially different.

Asbestos Proceedings

Suits have been brought in New York State and federal courts against the Company 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 Company. The suits that have been resolved, which are many, have been resolved without any payment by the Company, or for amounts that were not, in the aggregate, material to them. The amounts specified in all the remaining thousands of suits total billions of dollars; however, the Company believes that these amounts are greatly exaggerated, based on the disposition of previous claims. In 2010, Con Edison of New York estimated that its aggregate undiscounted potential liability for these suits and additional suits that may be brought over the next 15 years is $10 million. The estimate was based upon a combination of modeling, historical data analysis and risk factor assessment. Actual experience may be materially different. In addition, certain current and former employees have claimed or are claiming workers' compensation benefits based on alleged disability from exposure to asbestos. Under its current rate agreements, Con Edison of New York is permitted to defer as regulatory assets (for subsequent recovery through rates) costs incurred for its asbestos lawsuits and workers' compensation claims. The accrued liability for asbestos suits and workers' compensation proceedings (including those related to asbestos exposure) and the amounts deferred as regulatory assets for the Company at December 31, 2012 and 2011 were as follows:

	Con Edison of New York	
(Millions of Dollars)	2012	2011
Accrued liability – asbestos suits	$10	$10
Regulatory assets – asbestos suits	$10	$10
Accrued liability – workers' compensation	$89	$93
Regulatory assets – workers' compensation	$19	$23

Note H – Other Material Contingencies

Manhattan Steam Main Rupture

In July 2007, a Con Edison of New York steam main located in midtown Manhattan ruptured. It has been reported that one person died and others were injured as a result of the incident. Several buildings in the area were damaged. Debris from the incident included dirt and mud containing asbestos. The response to the incident required the closing of several buildings and streets for various periods. Approximately 93 suits are pending against the company seeking generally unspecified compensatory and, in some cases, punitive damages, for personal injury, property damage and business interruption. The company has not accrued a liability for the suits. The company has notified its insurers of the incident and believes that the policies in force at the time of the incident will cover most of the company's costs, which the company is unable to estimate, but which could be substantial, to satisfy its liability to others in connection with the incident.

Other Contingencies

See "Other Regulatory Matters" in Note B and "Lease In/Lease Out Transactions" in Note J.

Note I – Electricity Purchase Agreements

Con Edison of New York has long-term electricity purchase agreements with non-Company generators and others for generating capacity. The company recovers its purchased power costs in accordance with provisions approved by the NYSPSC. See "Recoverable Energy Costs" in Note A.

At December 31, 2012, the significant terms of the electricity purchase agreements were as follows:

Facility	Equity Owner	Plant Output (MW)	Contracted Output (MW)	Contract Start Date	Contract Term (Years)
Indian Point	Entergy Nuclear Power Marketing, LLC	1,299	350*	August 2001	16
Independence	Sithe/Independence Power Partners, LP	1,254	697	November 1994	20
Linden Cogeneration	Cogen Technologies Linden Venture, LP	1,035	628	May 1992	25
Astoria Energy	Astoria Energy, LLC	640	500	May 2006	10
Selkirk	Selkirk Cogen Partners, LP	446	265	September 1994	20
Brooklyn Navy Yard	Brooklyn Navy Yard Cogeneration Partners, LP	322	263	November 1996	40
Indeck Corinth	Indeck Energy Services of Corinth, Inc.	147	132	July 1995	20

*Contracted output will increase to 500 MW in 2013.

Assuming performance by the parties to the electricity purchase agreements, Con Edison of New York is obligated over the terms of the agreements to make capacity and other fixed payments.

The future capacity and other fixed payments under the contracts are estimated to be as follows:

(Millions of Dollars)	2013	2014	2015	2016	2017	All Years Thereafter
Con Edison of New York	$507	$446	$229	$165	$110	$933

For energy delivered under most of the electricity purchase agreements, Con Edison of New York is obligated to pay variable prices. The company's payments under the agreements for capacity, energy and other fixed payments in 2012, 2011, and 2010 were as follows:

	For the Years Ended December 31,		
(Millions of Dollars)	2012	2011	2010
Linden	$297	$379	$414
Indian Point	204	238	524
Selkirk	196	209	185
Astoria	181	225	223
Independence	127	121	119
Brooklyn Navy Yard	93	123	123
Indeck Corinth	66	77	68
Total	$1,164	$1,372	$1,656

Note J – Leases

Con Edison of New York leases electric generating and gas distribution facilities, other electric transmission and distribution facilities. In accordance with the accounting rules for leases, these leases are classified as either capital leases, operating leases or leveraged 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 the accounting rules for regulated operations, the amortization of the leased asset is based on the rental payments recovered from customers. The following assets under capital leases are included in the Company' consolidated balance sheets at December 31, 2012 and 2011:

	Con Edison of New York	
(Millions of Dollars)	2012	2011
COMPANY PLANT		
Common	$2	$6
Transmission	-	1
TOTAL	$2	$7

The accumulated amortization of the capital leases for Con Edison of New York was $0.4 million at December 31, 2012, and $65 million at December 31, 2011.

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

(Millions of Dollars)	Con Edison of New York
2013	$ -
2014	1
2015	1
2016	-
2017	-
All years thereafter	1
Total	3
Less: amount representing interest	1
Present value of net minimum lease payment	$2

Operating leases: The future minimum lease commitments under the Company' non-cancelable operating lease agreements are as follows:

(Millions of Dollars)	Con Edison of New York
2013	$ 49
2014	43
2015	12
2016	11
2017	11
All years thereafter	71
Total	$197

Note K – Income Tax

The components of income tax are as follows:

	Con Edison of New York		
(Millions of Dollars)	2012	2011	2010
State			
Current	$53	$53	$13
Deferred	53	55	100

Federal			
Current	110	43	(139)
Deferred	318	413	527
Amortization of investment tax credits	(5)	(6)	(6)
Total charge to income tax expense	$529	$558	$495

The tax effects of temporary differences, which gave rise to deferred tax assets and liabilities, are as follows:

	Con Edison of New York	
(Millions of Dollars)	2012	2011
Deferred tax liabilities:		
Depreciation	$3,909	$3,464
Regulatory asset – future income tax	1,962	1,891
Unrecognized pension and other postretirement costs	2,202	2,255
State income tax	897	811
Capitalized overheads	496	470
Pension	730	709
Investment tax credits	47	52
Other	528	467
Total deferred tax liabilities	10,771	10,119
Deferred tax assets:		
Unrecognized pension and other postretirement costs	2,202	2,255
State income tax	357	309
Regulatory liability – future income tax	117	167
Other	836	624
Total deferred tax assets	3,512	3,355
Net deferred tax liabilities and investment tax credits	$7,259	$6,764
Deferred income taxes and investment tax credits – Noncurrent	$7,452	$6,921
Deferred tax assets – Current	(193)	(157)
Net deferred tax liabilities and investment tax credits	$7,259	$6,764

Reconciliation of the difference between income tax expense and the amount computed by applying the prevailing statutory income tax rate to income before income taxes is as follows:

	Con Edison of New York		
(% of Pre-tax income)	2012	2011	2010
STATUTORY TAX RATE			
Federal	35%	35%	35%
Changes in computed taxes resulting from:			
State income tax	4	5	5
Cost of removal	(4)	(4)	(4)
Other	(1)	-	(1)
Effective Tax Rate	34%	36%	35%

For federal income tax purposes, Con Edison, parent of Con Edison of New York, has a net operating loss carryforward available of $11 million and $632 million from 2012 and 2011, respectively, primarily as a result of accelerated depreciation and storm related deductions, which if unused will expire in 2032 and 2031. Con Edison has recorded a deferred tax asset for its loss carryforward, and no valuation allowance has been provided, as it is more likely than not that the deferred tax asset will be realized.

For New York State income tax purposes, Con Edison, parent of Con Edison of New York, has a net operating loss carryforward available from 2009 of $284 million, primarily as a result of repair allowance deductions discussed below. A deferred tax asset has been recognized for this New York State net operating loss that will not expire until 2029. A valuation allowance has not been provided; as it is more likely than not that the deferred tax asset will be realized.

Uncertain Tax Positions

Under the accounting rules for income taxes, an enterprise shall not recognize the tax benefit attributable to a tax position unless such position is more likely than not to be sustained upon examination by taxing authorities, including resolution of any related appeals and litigation processes, based solely on the technical merits of the position.

The IRS has essentially completed its field audits of the Con Edison's federal income tax returns through 2011. Con Edison's federal income tax returns for 1998 through 2011 reflect certain tax positions with which the IRS does not or may not agree. Any adjustments to federal income tax returns would result in changes to Con Edison's state income tax returns. In addition, Con Edison's New York state income tax returns for years beginning with 2006 remain open for examination.

The Company's 2011 and 2010 federal income tax returns reflect, among other things, an incremental current deduction for the costs of certain repairs to Company plant (the "repair allowance deductions"). Prior to 2009, Con Edison of New York capitalized such costs and included these costs in depreciation expense in its federal income tax returns. At December 31, 2012, with respect to the repair allowance deductions, Con Edison of New York recorded a liability for uncertain tax positions of $66 million.

In August 2011, the IRS issued guidance regarding the use and evaluation of statistical samples and sampling estimates. This guidance provides a safe harbor method of determining whether certain expenditures for electric transmission and distribution property can be currently deducted for federal income tax purposes. No guidance was issued related to generation, gas, or steam property.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits for Con Edison of New York follows:

	Con Edison of New York		
(Millions of Dollars)	2012	2011	2010
Balance at January 1	$114	$79	$92
Additions based on tax positions related to the current year	11	74	4
Additions based on tax positions of prior years	-	3	49
Reductions for tax positions of prior years	(52)	(42)	(4)
Settlements	1	-	(62)
Balance at December 31	$74	$114	$79

At December 31, 2012, the Company's estimated liabilities for uncertain tax positions of $74 million were classified on the consolidated balance sheets either as current liabilities of $36 million or as a reduction to current deferred tax asset of $38 million. The Company reasonably expects to resolve these uncertain tax positions with the IRS in the next 12 months.

The Company recognizes interest accrued related to the liability for uncertain tax positions in interest expense and would recognize penalties, if any, in operating expenses in the Company's consolidated income statements. In 2012, 2011 and 2010, the Company recognized an immaterial amount of interest and no penalties for uncertain tax positions in their consolidated income statements. At December 31, 2012 and 2011, the Company recognized an immaterial amount of interest and no penalties in their consolidated balance sheets.

At December 31, 2012, the total amount of unrecognized tax benefits that, if recognized, would affect the Company' effective tax rate is $1 million.

Note L – Stock-Based Compensation

The Company may compensate employees and directors with, among other things, stock options, restricted stock units and contributions to a discount stock purchase plan. The Stock Option Plan provided for awards of stock options to officers and employees for up to 10 million shares of Con Edison of New York common stock. The Long Term Incentive Plan (LTIP), among other things, provides for awards of restricted stock units, stock options and, to Con Edison's non-officer directors, deferred stock units for up to 10 million shares of common stock (of which not more than four million shares may be restricted stock or stock units).

Shares of Con Edison of New York common stock used to satisfy the Company' obligations with respect to stock-based compensation may be new (authorized, but unissued) shares, treasury shares or shares purchased in the open market. The Company intends to use treasury shares to fulfill their stock-based compensation obligations for 2013.

Under the accounting rules for stock compensation, the Company has recognized the cost of stock-based compensation as an expense using a fair value measurement method. The following table summarizes stock-based compensation expense recognized by the Company in the period ended December 31, 2012, 2011, and 2010:

	Con Edison of New York		
(Millions of Dollars)	2012	2011	2010
Performance-based restricted stock	$13	$44	$25
Restricted stock units	1	3	1

Non-officer director deferred stock compensation	1	1	1
Total	$15	$48	$27
Income Tax Benefit	$6	$20	$11

Stock Options

The Company last issued stock options in 2006. The stock options generally vested over a three-year period and have a term of ten years. Options were granted at an exercise price equal to the fair market value of a common share when the option was granted. The Company generally recognized compensation expense (based on the fair value of stock option awards) over the continuous service period in which the options vested. Awards to employees eligible for retirement were expensed in the month awarded.

The outstanding options are "equity awards" because shares of Con Edison of New York common stock are delivered upon exercise of the options. As equity awards, the fair value of the options is measured at the grant date. There were no options granted in 2012 and 2011.

A summary of changes in the status of stock options awarded as of December 31, 2012 is as follows

	Con Edison of New York	
	Shares	Weighted Average Exercise Price
Outstanding at 12/31/11	740,875	$43.066
Exercised	(258,700)	43.238
Forfeited	(1,000)	43.005
Outstanding at 12/31/12	481,175	$42.973

The changes in the fair value of all outstanding options from their grant dates to December 31, 2012 and 2011 (aggregate intrinsic value) for Con Edison of New York were $6 million and $14 million, respectively. The weighted average remaining contractual life of options outstanding is two years as of December 31, 2012. The aggregate intrinsic value of options exercised in 2012 and 2011 were $4 million and $18 million, respectively, and the cash received by the Company for payment of the exercise price was $11 million and $73 million, respectively. The weighted average remaining contractual life of options outstanding is two years as of December 31, 2012.

The following table summarizes stock options outstanding at December 31, 2012 for each plan year for the Company:

	Con Edison of New York	
Plan Year	Options Outstanding/ Exercisable	Weighted Average Exercise Price

2006	188,150	$43.841
2005	139,025	42.258
2004	112,400	44.072
2003	41,600	38.470
Total	481,175	$42.973

The income tax benefit Con Edison, the parent company of Con Edison of New York, realized from stock options exercised in the period ended December 31, 2012 was immaterial. The income tax benefit Con Edison, the parent company of Con Edison of New York, realized from stock options exercised in the periods ended December 31, 2011 and 2010 were $2 million and $6 million, respectively.

Restricted Stock Units

Restricted stock unit awards under the LTIP have been made as follows: (i) to officers and certain employees, including awards that provide for adjustment of the number of units (performance-restricted stock units or Performance RSUs); and (ii) in connection with the directors' deferred compensation plan. Each restricted stock unit awarded represents the right to receive, upon vesting, one share of Con Edison of New York common stock, or, except for units awarded under the directors' plan, the cash value of a share or a combination there of.

In accordance with the accounting rules for stock compensation, for outstanding restricted stock awards other than Performance RSUs or awards under the directors' deferred compensation plan, the Company has accrued a liability based on the market value of a common share on the grant date and are recognizing compensation expense over the vesting period. The vesting period for awards is three years and is based on the employee's continuous service to the Company. Prior to vesting, the awards are subject to forfeiture in whole or in part under certain circumstances. The awards are "liability awards" because each restricted stock unit represents the right to receive, upon vesting, one share of Con Edison of New York common stock, the cash value of a share or a combination thereof. As such, prior to vesting, changes in the fair value of the units are reflected in net income. A summary of changes in the status of restricted stock (other than Performance RSUs or awards under the directors' deferred compensation plan) during the period ended December 31, 2012 is as follows:

	Con Edison of New York	
	Units	Weighted Average Grant Date Fair Value
Non-vested at 12/31/11	61,920	$45.049
Granted	21,660	58.420
Vested	(19,980)	39.610
Forfeited	(1,910)	50.600
Non-vested at 12/31/12	61,690	$51.334

The total expense to be recognized by the Company in future periods for unvested awards outstanding as of December 31, 2012 for Con Edison of New York was $1 million, and is expected to be recognized over a weighted average period of one year.

For the TSR portion of Performance RSU, the Company uses a Monte Carlo simulation model to estimate the fair value of the awards. The fair value is recomputed each reporting period as of the earlier of the reporting date and the vesting date. For the EIP portion of Performance RSU, the fair value of the awards is determined using the market price as of the earlier of the reporting date or the vesting date multiplied by the average EIP determination over the vesting period. Performance RSU awards are “liability awards” because each Performance RSU represents the right to receive, upon vesting, one share of Con Edison of New York common stock, the cash value of a share or a combination thereof. As such, changes in the fair value of the Performance RSUs are reflected in net income. The following table illustrates the assumptions used to calculate the fair value of the awards:

	2012
Risk-free interest rate	0.15% - 3.69%
Expected term	3 years
Expected volatility	15.27%

The risk-free rate is based on the U.S. Treasury zero-coupon yield curve on the date of grant. The expected term of the Performance RSUs is three years, which equals the vesting period. The Company does not expect significant forfeitures to occur. The expected volatility is calculated using daily closing stock prices over a period of three years, which approximates the expected term of the awards.

A summary of changes in the status of the Performance RSUs TSR portion during the period ended December 31, 2012 is as follows:

	Con Edison of New York	
	Units	Weighted Average Grant Date Fair Value*
Non-vested at 12/31/11	387,379	$42.542
Granted	157,348	49.416
Vested	(33,653)	41.869
Forfeited	(8,373)	46.023
Non-vested at 12/31/12	502,701	$44.681

* Fair value is determined using the Monte Carlo simulation described above. Weighted average grant date fair value does not reflect any accrual or payment of dividends prior to vesting.

A summary of changes in the status of the Performance RSUs’ EIP portion during the period ended December 31, 2012 is as follows:

	Con Edison of New York	
	Units	Weighted Average Grant Date Fair Value*
Non-vested at 12/31/11	387,379	$46.599
Granted	157,348	58.838
Vested	(33,653)	39.666

Forfeited	(8,373)	53.183
Non-vested at 12/31/12	502,701	$50.783

* Fair value is determined using the market price of one share of Con Edison of New York common stock on the grant date. The market price has not been discounted to reflect that dividends do not accrue and are not payable on Performance RSUs until vesting.

The total expense to be recognized by Con Edison of New York in future periods for unvested Performance RSUs outstanding as of December 31, 2012 is $19 million, and is expected to be recognized over a weighted average period of one year.

Note M – Financial Information by Business Segment

The business segments, which are its operating segments, were determined based on management's reporting and decision-making requirements in accordance with the accounting rules for segment reporting.

Con Edison of New York's principal business segments are its regulated electric, gas and steam utility activities.

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 the business segments are as follows:

As of and for the Year Ended December 31, 2012 (Millions of Dollars)	Operating revenues	Inter-segment revenues	Depreciation and amortization	Operating income	Interest charges	Income tax expense	Total assets*	Construction expenditures
Con Edison of New York								
Electric	$ 8,176	$ 15	$710	$1,693	$423	$393	$28,339	$1,375
Gas	1,415	5	120	346	82	99	5,925	426
Steam	596	77	64	54	40	22	2,621	108
Consolidation adjustments	-	(97)	-	-	-	-	-	-
Total Con Edison of New York	$10,187	$ -	$894	$2,093	$545	$514	$36,885	$1,909

As of and for the Year Ended December 31, 2011 (Millions of Dollars)	Operating revenues	Inter-segment revenues	Depreciation and amortization	Operating income	Interest charges	Income tax expense	Total assets*	Construction expenditures
Con Edison of New York								
Electric	$8,228	$12	$656	$1,695	$414	$481	$27,123	$1,354
Gas	1,521	5	110	295	78	43	5,518	335
Steam	683	79	63	93	42	43	2,577	89
Consolidation adjustments	-	(96)	-	-	-	-	-	-
Total Con Edison of New York	$10,432	$-	$829	$2,083	$534	$567	$35,218	$1,778

As of and for the Year Ended December 31, 2010 (Millions of Dollars)	Operating revenues	Inter-segment revenues	Depreciation and amortization	Operating income	Interest charges	Income tax expense	Total assets*	Construction expenditures
Con Edison of New York								
Electric	$8,376	$12	$623	$1,549	$424	$371	$25,045	$1,421
Gas	1,541	5	102	310	82	91	5,095	334
Steam	656	74	62	63	43	29	2,465	111
Consolidation adjustments	-	(91)	-	-	-	-	-	-
Total Con Edison of New York	$10,573	$-	$787	$1,922	$549	$491	$32,605	$1,866

Note N – Derivative Instruments and Hedging Activities

Under the accounting rules for derivatives and hedging, derivatives are recognized on the balance sheet at fair value, unless an exception is available under the accounting rules. Certain qualifying derivative contracts have been designated as normal purchases or normal sales contracts. These contracts are not reported at fair value under the accounting rules.

Energy Price Hedging

Con Edison of New York hedge market price fluctuations associated with physical purchases and sales of electricity, natural gas, and steam by using derivative instruments including futures, forwards, basis swaps, options, transmission congestion contracts and financial transmission rights contracts. The fair values of these hedges at December 31, 2012 and 2011 were as follows:

	Con Edison of New York	
(Millions of Dollars)	2012	2011
Fair value of net derivative assets/(liabilities) - gross	$(56)	$(144)
Impact of netting of cash collateral	47	46
Fair value of net derivative assets/(liabilities) - net	$ (9)	$ (98)

Credit Exposure

The Company is exposed to credit risk related to transactions entered into primarily for the various energy supply and hedging activities by the Company and the competitive energy businesses. The Company uses credit policies to manage this risk, including an established credit approval process, monitoring of counterparty limits, netting provisions within agreements, collateral or prepayment arrangements, credit insurance and credit default swaps.

At December 31, 2012, Con Edison of New York had $19 million of credit exposure in connection with energy supply and hedging activities, net of collateral, respectively. Con Edison of New York's net credit exposure consisted of $1 million with investment-grade counterparties and $18 million with commodity exchange brokers.

Economic Hedges

The Company enters into certain derivative instruments that do not qualify or are not designated as hedges under the accounting rules for derivatives and hedging. However, management believes these instruments represent economic hedges that mitigate exposure to fluctuations in commodity prices.

The fair values of the Company' commodity derivatives at December 31, 2012 were:

	Fair Value of Commodity Derivatives[a]	
(Millions of Dollars)	Balance Sheet Location	Con Edison of New York
	Derivatives Asset	
Current	Other current assets	$18
Long term	Other deferred charges and non-current assets	9
Total derivatives asset		$27

Impact of netting		3
Net derivatives asset		$30
	Derivatives Liability	
Current	Fair value of derivative liabilities	$58
Long term	Fair value of derivative liabilities	25
Total derivatives liability		$83
Impact of netting		(44)
Net derivatives liability		$39

(a) Qualifying derivative contracts, which have been designated as normal purchases or normal sales contracts, are not reported at fair value under the accounting rules for derivatives and hedging and, therefore, are excluded from the table.

The fair values of the Company' commodity derivatives at December 31, 2011 were:

Fair Value of Commodity Derivatives[(a)]

(Millions of Dollars)	Balance Sheet Location	Con Edison of New York
	Derivatives Asset	
Current	Other current assets	$16
Long term	Other deferred charges and non-current assets	14
Total derivatives asset		$30
Impact of netting		(6)
Net derivatives asset		$24
	Derivative Liabilities	
Current	Fair value of derivative liabilities	$127
Long term	Fair value of derivative liabilities	48
Total derivatives liability		$175
Impact of netting		(53)
Net derivatives liability		$122

(a) Qualifying derivative contracts, which have been designated as normal purchases or normal sales contracts, are not reported at fair value under the accounting rules for derivatives and hedging and, therefore, are excluded from the table.

The Company generally recovers all of its prudently incurred fuel, purchased power and gas cost, including hedging gains and losses, in accordance with rate provisions approved by the applicable state Company commissions. See "Recoverable Energy Costs" in Note A. In accordance with the accounting rules for regulated operations, the Company records a regulatory asset or liability to defer recognition of unrealized gains and losses on its electric and gas derivatives. As gains and losses are realized in future periods, they will be recognized as purchased power, gas and fuel costs in the Company' consolidated income statements. Con Edison's competitive energy businesses record realized and unrealized gains and losses on their derivative contracts in earnings in the reporting period in which they occur.

The following table presents the changes in the fair values of commodity derivatives that have been deferred or recognized in earnings for the year ended December 31, 2012:

Realized and Unrealized Gains/(Losses) on Commodity Derivatives[(a)]
Deferred or Recognized in Income for the Year Ended December 31, 2010

(Millions of Dollars)	Balance Sheet Location	Con Edison of New York
Pre-tax gains/(losses) deferred in accordance with accounting rules for regulated operations:		
Current	Deferred derivative gains	$(1)
Long-term	Regulatory liabilities	
Total deferred gains		$(1)
Current	Deferred derivative losses	$80
Current	Recoverable energy costs	(192)

Long term	Regulatory assets	24
Total deferred losses		$(88)
Net deferred losses		$(89)
	Income Statement Location	
Pre-tax gain/(loss) recognized in income		
	Purchased power expense	$-
	Gas purchased for resale	-
	Non-utility revenue	-
Total pre-tax gain/(loss) recognized in income		$-

(a) Qualifying derivative contracts, which have been designated as normal purchases or normal sales contracts, are not reported at fair value under the accounting rules for derivatives and hedging and, therefore, are excluded from the table.

The following table presents the changes in the fair values of commodity derivatives that have been deferred or recognized in earnings for the year ended December 31, 2011:

Realized and Unrealized Gains/(Losses) on Commodity Derivatives[(a)]
Deferred or Recognized in Income for the Year Ended December 31, 2010

(Millions of Dollars)	Balance Sheet Location	Con Edison of New York
Pre-tax gains/(losses) deferred in accordance with accounting rules for regulated operations:		
Current	Deferred derivative gains	$(2)
Long-term	Regulatory liabilities	(1)
Total deferred gains		$(3)
Current	Deferred derivative losses	$11
Current	Recoverable energy costs	(185)
Long term	Regulatory assets	4
Total deferred losses		$(170)
Net deferred losses		$(173)
	Income Statement Location	
Pre-tax gain/(loss) recognized in income		
	Purchased power expense	$-
	Gas purchased for resale	-
	Non-utility revenue	-
Total pre-tax gain/(loss) recognized in income		$-

(a) Qualifying derivative contracts, which have been designated as normal purchases or normal sale contracts, are not reported at fair value under the accounting rules for derivatives and hedging and, therefore, are excluded from the table.

(b) For the year ended December 31, 2011, Con Edison of New York recorded in non-Company operating revenues and purchased power expense an unrealized pre-tax gain/(loss) of $(34) million and $11 million, respectively.

As of December 31, 2012, Con Edison of New York had 581 contracts, which were considered to be derivatives under the accounting rules for derivatives and hedging (excluding qualifying derivative contracts, which have been designated as normal purchases or normal sales contracts). The following table presents the number of contracts by commodity type:

	Electric Derivatives				Gas Derivatives		
	Number of Energy Contracts[(a)]	**MWHs[(b)]**	**Number of Capacity Contracts[(a)]**	**MWs[(b)]**	**Number of Contracts[(a)]**	**Dths[(b)]**	**Total Number Of Contracts[(a)]**
Con Edison of New York	97	3,565,325	-	-	484	79,460,000	581

(a) Qualifying derivative contracts, which have been designated as normal purchases or normal sales contracts, are not reported at fair value under the accounting rules for derivatives and hedging and, therefore, are excluded from the table.

(b) Volumes are reported net of long and short positions.

The Company also enters into electric congestion and gas basis swap contracts to hedge the congestion and transportation charges which are associated with electric and gas contracts and hedged volumes.

The collateral requirements associated with, and settlement of, derivative transactions are included in net cash flows from operating activities in the Company' consolidated statement of cash flows. Most derivative instrument contracts contain provisions that may require the Company to provide collateral on derivative instruments in net liability positions. The amount of collateral to be provided will depend on the fair value of the derivative instruments and the Company' credit ratings.

The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a net liability position and collateral posted at December 31, 2012, and the additional collateral that would have been required to be posted had the lowest applicable credit rating been reduced one level and to below investment grade were:

(Millions of Dollars)	**Con Edison of New York[(a)]**
Aggregate fair value – net liabilities	$39
Collateral posted	$ -
Additional collateral[(b)] (downgrade one level from current ratings)	$4
Additional collateral[(b)] (downgrade to below investment grade from current ratings)	$43[(c)]

(a) Non-derivative transactions for the purchase and sale of electricity and gas and qualifying derivative instruments, which have been designated as normal purchases or normal sales, are excluded from the table. These transactions primarily include purchases of electricity from independent system operators. For certain non-derivative transactions, the Company could be required to post collateral under certain circumstances, including in the event counterparties had reasonable grounds for insecurity.

(b) The Company measures the collateral requirements by taking into consideration the fair value amounts of derivative instruments that contain credit-risk-related contingent features that are in a net liabilities position plus amounts owed to counterparties for settled transactions and amounts required by counterparties for minimum financial security. The fair value amounts represent unrealized losses, net of any unrealized gains where the Company have a legally enforceable right of setoff.

(c) Derivative instruments that are net assets have been excluded from the table.

Note O – Fair Value Measurements

The accounting rules for fair value measurements and disclosures define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in a principal or most advantageous market. Fair value is a market-based measurement that is determined based on inputs, which refer broadly to assumptions that market participants use in pricing assets or liabilities. These inputs can be readily observable, market corroborated, or generally unobservable firm inputs. The Company often makes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, and the risks inherent in the inputs to valuation techniques. The Company use valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

The accounting rules for fair value measurements and disclosures established a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value in three broad levels. The rules require that assets and liabilities be classified in their entirety based on the level of input that is significant to the fair value measurement. Assessing the significance of a particular input may require judgment considering factors specific to the asset or liability, and may affect the valuation of the asset or liability and their placement within the fair value hierarchy. The Company classifies fair value balances based on the fair value hierarchy defined by the accounting rules for fair value measurements and disclosures as follows:

- Level 1 – Consists of assets or liabilities whose value is based on unadjusted quoted prices in active markets at the measurement date. An active market is one in which transactions for assets or liabilities occur with sufficient frequency and volume to provide pricing information on an ongoing basis. This category includes contracts traded on active exchange markets valued using unadjusted prices quoted directly from the exchange.
- Level 2 – Consists of assets or liabilities valued using industry standard models and based on prices, other than quoted prices within Level 1, that are either directly or indirectly observable as of the measurement date. The industry standard models consider observable assumptions including time value, volatility factors, and current market and contractual prices for the underlying commodities, in addition to other economic measures. This category includes contracts traded on active exchanges or in over-the-counter markets priced with industry standard models.
- Level 3 – Consists of assets or liabilities whose fair value is estimated based on internally developed models or methodologies using inputs that are generally less readily observable and supported by little, if any, market activity at the measurement date. Unobservable inputs are developed based on the best available information and subject to cost benefit constraints. This category includes contracts priced using models that are internally developed and contracts placed in illiquid markets. It also includes contracts that expire after the period of time for which quoted prices are available and internal models are used to determine a significant portion of the value.

Effective January 1, 2012, the Company adopted Accounting Standards Update (ASU) No. 2011-04, “Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.” The amendments expand existing disclosure requirements for fair value measurements and make other amendments. For fair value measurements in Level 3, this update requires the Company to provide a description of the valuation process in place, a quantitative disclosure of unobservable inputs and assumptions used in the measurement as well as a narrative description of the sensitivity of the fair value to changes in unobservable inputs and interrelationships between those inputs. The update also requires the Company to disclose any transfers between Levels 1 and 2 of fair value hierarchy measurements and the reasons for the transfers.

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2012 are summarized below.

(Millions of Dollars)	Level 1	Level 2	Level 3	Netting Adjustments (4)	Total
Derivative assets:					
Commodity	$-	$8	$10	$12	$30
Transfer in (5) (6)	-	-	-	-	-
Transfer out (5) (6)	-	-	-	-	-
Commodity Total(1)	$-	$8	$10	$12	$30
Other assets:	$99	$3	$95	$-	$197
Transfer in (5) (6)	-	95	-	-	95
Transfer out (5) (6)	-	-	(95)	-	(95)
Other assets	$-	$98	$ -	$-	$197
Total	$99	$106	$10	$12	$227
Derivative liabilities:					
Commodity	$3	$62	$9	$(35)	$39
Transfer in (5) (6)	9	9	-	-	18
Transfer out (5) (6)	-	(9)	(9)	-	(18)
Commodity Total(1)	$12	$62	$-	$(35)	$39
Interest rate contract:	$-	$-	$-	$-	$-
Transfer in (5) (6)	-	-	-	-	-
Transfer out (5) (6)	-	-	-	-	-
Other assets	$-	$-	$-	$-	$-
Total	$12	$62	$-	$(35)	$39

(1) A portion of the commodity derivatives categorized in Level 3 is valued using an internally developed model with observable inputs. The models also include some less readily observable inputs resulting in the classification of the entire contract as Level 3. See Note N.
(2) See Note N.
(3) Other assets are comprised of assets such as life insurance contracts within the deferred compensation plan and non-qualified retirement plans.
(4) Amounts represent the impact of legally-enforceable master netting agreements that allow the Company to net gain and loss positions and cash collateral held or placed with the same counterparties.
(5) The Company' policy is to recognize transfers into and transfers out of the levels at the end of the reporting period.
(6) Transferred between Level 3 and Levels 1 and 2 because of reassessment of the levels in the fair value hierarchy within which certain inputs fall. Other assets and interest rate contract were transferred as of March 31, 2012.

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2011 are summarized below.

(Millions of Dollars)	Level 1	Level 2	Level 3	Netting Adjustments (4)	Total
Derivative assets:					
Commodity (1)	$-	$8	$11	$5	$24
Other assets (3)	76	-	90	-	166
Total	$76	$8	$101	$5	$190
Derivative liabilities:					
Commodity	$4	$122	$37	$(41)	$122
Transfer in (5) (6) (7)	-	25	6	-	31
Transfer out (5) (6) (7)	-	(6)	(25)	-	(31)
Commodity (1)	$4	$141	$18	$(41)	$122
Interest rate contract (2)	-	-	-	-	-
Total	$4	$141	$18	$(41)	$122

(1) The models also include some less readily observable inputs resulting in the classification of the entire contract as Level 3. See Note N.
(2) See Note N.
(3) Other assets are comprised of assets such as life insurance contracts within the Deferred Income Plan and Supplemental Retirement Income Plans, held in rabbi trusts.
(4) Amounts represent the impact of legally-enforceable master netting agreements that allow the Company to net gain and loss positions and cash collateral held or placed with the same counterparties.
(5) The Company' policy is to recognize transfers into and transfers out of the levels at the end of the reporting period.
(6) Transferred from Level 2 to Level 3 because of reassessment of the levels in the fair value hierarchy within which certain inputs fall.
(7) Transferred from Level 3 to Level 2 because of availability of observable market data due to decrease in the terms of certain contracts from beyond one year as of December 31, 2010 to less than one year as of December 31, 2011.

Under the Company' policies and procedures, multiple independent sources of information are obtained for forward price curves used to value commodity derivatives. Fair value and changes in fair value of commodity derivatives are reported on a monthly basis to the Company' risk committees, comprised of officers and employees of the Company that oversee energy hedging at the Company and the competitive energy businesses. The managers of the risk management groups report to the Company' Vice President and Treasurer.

	Fair Value of Level 3 at December 31, 2012 (Millions of Dollars)	**Valuation Techniques**	**Unobservable Inputs**	**Range**
Con Edison of New York - Commodity				
Transmission Congestion Contracts	$10	Discounted Cash Flow	Discount to adjust auction prices for inter-zonal forward price curves (2)	17.5%-38%
			Discount to adjust auction prices for historical monthly realized settlements (2)	8.5% - 31%

The table listed below provides a reconciliation of the beginning and ending net balances for assets and liabilities measured at fair value for the years ended December 31, 2012 and 2011 and classified as Level 3 in the fair value hierarchy:

	For the Year Ended December 31, 2012								
		Total Gains/(Losses) – Realized and Unrealized							
(Millions of Dollars)	Beginning Balance as of January 1, 2012	Included in Earnings	Included in Regulatory Assets and Liabilities	Purchases	Issuances	Sales	Settlements	Transfer In/Out of Level 3	Ending Balance as of December 31, 2012
Con Edison of New York									
Derivatives:									
Commodity	$ (7)	$(32)	$8	$18	$-	$-	$14	$9	$10
Other assets(1)	90	3	2	-	-	-	-	(95) (2)	-
Total	$83	$(29)	$10	$18	$-	$-	$14	$(86)	$10

(1) Amounts included in earnings are reported in investment and other income on the consolidated income statement.

(2) Other assets and interest rate contract were transferred as of March 31, 2012.

	For the Year Ended December 31, 2011								
		Total Gains/(Losses) – Realized and Unrealized							
(Millions of Dollars)	Beginning Balance as of January 1, 2011	Included in Earnings	Included in Regulatory Assets and Liabilities	Purchases	Issuances	Sales	Settlements	Transfer In/Out of Level 3	Ending Balance as of December 31, 2011
Con Edison of New York									
Derivatives:									
Commodity	$(26)	$(21)	$-	$19	$-	$-	$2	$19	$(7)
Other assets [(1)]	92	-	(2)	-	-	-	-	-	90
Total	$66	$(21)	$(2)	$19	$-	$-	$2	$19	$83

(1) Amounts included in earnings are reported in investment and other income on the consolidated income statement.

For the Company, realized gains and losses on Level 3 commodity derivative assets and liabilities are reported as part of purchased power, gas and fuel costs. The Company generally recovers these costs in accordance with rate provisions approved by the applicable state public Company commissions. See Note A. Unrealized gains and losses for commodity derivatives are generally deferred on the consolidated balance sheet in accordance with the accounting rules for regulated operations.

The accounting rules for fair value measurements and disclosures require consideration of the impact of nonperformance risk (including credit risk) from a market participant perspective in the measurement of the fair value of assets and liabilities. At December 31, 2012, the Company determined that nonperformance risk would have no material impact on their financial position or results of operations. To assess nonperformance risk, the Company considered information such as collateral requirements, master netting arrangements, letters of credit and parent company guarantees, and applied a market-based method by using the counterparty (for an asset) or the Company's (for a liability) credit default swaps rates.

Note P – Variable Interest Entities

The Company has not identified any interests it has in any variable interest entity (VIE) that would require the Company to include the financial position and results of operations of the VIE in the Company' consolidated financial statements.

The accounting rules for consolidation address the consolidation of a VIE by a business enterprise that is the primary beneficiary. A VIE is an entity that does not have a sufficient equity investment at risk to permit it to finance its activities without additional subordinated financial support, or whose equity investors lack the characteristics of a controlling financial interest. The primary beneficiary is the business enterprise that has the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and either absorbs a significant amount of the VIE's losses or has the right to receive benefits that could be significant to the VIE.

Con Edison of New York has a variable interest in a non-consolidated VIE, Astoria Energy, LLC (Astoria Energy), with which Con Edison of New York has entered into a long-term electricity purchase agreement. Con Edison of New York is not the primary beneficiary of this VIE since Con Edison of New York does not have the power to direct the activities that Con Edison of New York believes most significantly impact the economic performance of Astoria Energy. In particular, Con Edison of New York has not invested in, or guaranteed the indebtedness of, Astoria Energy and Con Edison of New York does not operate or maintain Astoria Energy's generating facilities. Con Edison of New York also has long-term electricity purchase agreements with the following five potential VIEs: Sithe/Independence Power Partners, LP, Cogen Technologies Linden Venture, LP, Selkirk Cogen Partners, LP, Brooklyn Navy Yard Cogeneration Partners, LP, and Indeck Energy Services of Corinth, Inc. In 2012, requests were made of these five counterparties for information necessary to determine whether the entity was a VIE and whether Con Edison of New York is the primary beneficiary; however, the information was not made available. See Note I for information on these electricity purchase agreements, the payments pursuant to which constitute Con Edison of New York's maximum exposure to loss with respect to Astoria Energy and the five potential VIEs.

Note Q – Asset Retirement Obligations

Con Edison of New York accounts for retirement obligations on their assets in accordance with the accounting rules for asset retirement obligations. This accounting standard requires recognition of a liability for legal obligations associated with the retirement of long-lived assets. When the liability is initially recorded, asset retirement costs are capitalized by increasing the carrying amount of the related asset. The liability is accreted to its present value each period and the capitalized cost is depreciated over the useful life of the related asset. Such accretion and depreciation expense, pursuant to accounting rules for regulated operations is applied against the Company's regulatory liabilities.

The Company includes in depreciation expense the estimated removal costs, less salvage, for Company plant assets. In accordance with the accounting rules for asset retirement obligations, future removal costs that do not represent legal asset retirement obligations are recorded as regulatory liabilities pursuant to the accounting rules for regulated operations. The related regulatory liabilities recorded for Con Edison of New York were $420 million at December 31, 2012 and $372 million at December 31, 2011, respectively.

The Company identified future asset retirement obligations associated with the removal of asbestos and asbestos-containing material in their buildings and equipment within the generating stations and substations, and within the steam and gas distribution systems. The Company also identified asset retirement obligations relating to gas pipelines abandoned in place. The estimates of future liabilities were developed using historical information, and where available, quoted prices from outside contractors. The obligation for the cost of asbestos removal from the Company's generating stations and substation structures were not accrued since the retirement dates cannot be reasonably estimated.

At December 31, 2012, the liabilities of CECONY for the fair value of their legal asset retirement obligations were $158 million, as compared with $145 million at December 31, 2011. The increase in liabilities at December 31, 2012 was due to changes in estimated cash flows ($24 million) and accretion expense ($6 million), offset in part by liabilities settled ($17 million). CECONY also recorded a reduction of $13 million and $7 million at December 31, 2012 and 2011, respectively, to the regulatory liability associated with cost of removal to reflect depreciation and interest expense.

Note R – Related Party Transactions

The Company and Con Edison's competitive businesses provide administrative and other services to each other pursuant to cost allocation procedures approved by the NYSPSC. The costs of administrative and other services provided by Con Edison of New York to, and received by it from, Con Edison of New York and its other subsidiaries for the years ended December 31, 2012, 2011, and 2010 were as follows:

	Con Edison of New York		
(Millions of Dollars)	2012	2011	2010
Cost of services provided	$83	$79	$74
Cost of services received	$49	$48	$45

In addition, Con Edison of New York and O&R have joint gas supply arrangements, in connection with which Con Edison of New York sold to O&R $54 million, $81 million and $99 million of natural gas for the years ended December 31, 2012, 2011, and 2010, respectively. These amounts are net of the effect of related hedging transactions.

FERC has authorized Con Edison of New York through 2013 to lend funds to O&R from time to time, for periods of not more than 12 months, in amounts not to exceed $250 million outstanding at any time, at prevailing market rates. There were no outstanding loans to O&R at December 31, 2012 and 2011.

Note S - Subsequent Events (Unaudited)

In February 2013, the Company issued $700 million of 3.95 percent 30-year debentures ("Debentures"). The net proceeds received from the sale of the Debentures will be used for general corporate purposes, including repayment of short-term debt bearing interest at variable rates.