LAUREATE EDUCATION, INC.
Form 10-Q
August 06, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

ý **Quarterly Report pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934**
for the quarter ended June 30, 2004 or

o **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
for the transition period from to .

Commission File Number 0-22844

LAUREATE EDUCATION, INC.

(Exact name of registrant as specified in its charter)

Maryland	**52-1492296**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1001 Fleet Street, Baltimore, Maryland	**21202**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: **(410) 843-6100**

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ý No o.

The registrant had 45,667,125 shares of Common Stock outstanding as of August 2, 2004.

LAUREATE EDUCATION, INC.

INDEX

LAUREATE EDUCATION, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(Dollar and share amounts in thousands, except per share data)

	June 30, 2004 (Unaudited)	December 31, 2003
Assets		
Current assets:		
Cash and cash equivalents	$ 124,274	$ 92,145
Available-for-sale securities	37,370	16,765
Receivables:		
Accounts receivable	67,398	90,636
Notes receivable	55,518	44,240
Other receivables	20,061	7,366
	142,977	142,242
Allowance for doubtful accounts	(16,327)	(15,550)
	126,650	126,692
Inventory	3,888	3,375
Deferred income taxes	890	
Income tax receivable	16,542	16,542
Prepaid expenses and other current assets	16,556	14,338
Total current assets	326,170	269,857
Notes receivable from related party, net of discount of $867 and $14,024 at June 30, 2004 and December 31, 2003, respectively	1,796	43,155
Property and equipment:		
Land	63,726	68,441
Buildings	186,462	179,911
Construction in-progress	34,302	30,578
Furniture, computer equipment and software	123,001	110,852
Leasehold improvements	43,992	39,824
	451,483	429,606
Accumulated depreciation and amortization	(75,910)	(63,756)
	375,573	365,850
Intangible assets:		
Goodwill	244,678	233,561
Other intangible assets, net of accumulated amortization of $6,076 and $4,519 at June 30, 2004 and December 31, 2003, respectively	90,152	88,634
	334,830	322,195
Deferred income taxes	21,792	29,760
Deferred costs, net of accumulated amortization of $8,009 and $6,663 at June 30, 2004 and December 31, 2003, respectively	12,943	11,901
Other assets	33,932	35,282
Assets of discontinued operations	72,565	71,914
Total assets	$ 1,179,601	$ 1,149,914

See accompanying notes to financial statements.

	June 30, 2004 (Unaudited)	December 31, 2003
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 31,657	$ 33,992
Accrued expenses	86,893	76,080
Income tax payable	11,930	20,346
Current portion of long-term debt	20,199	21,654
Due to shareholders of acquired companies	8,906	4,747
Deferred revenue	161,484	152,922
Deferred income tax		204
Other current liabilities	838	3,022
Total current liabilities	321,907	312,967
Long-term debt, less current portion	69,993	75,100
Due to shareholders of acquired companies, less current portion	23,607	29,941
Other long-term liabilities	16,285	16,765
Total liabilities	431,792	434,773
Commitments and contingent liabilities		
Minority interest	54,771	45,991
Stockholders equity:		
Preferred stock, par value $.01 per share authorized 10,000 shares, no shares issued and outstanding as of June 30, 2004 and December 31, 2003		
Common stock, par value $.01 per share authorized 90,000 shares, issued and outstanding shares of 45,793 and 44,984 as of June 30, 2004 and December 31, 2003, respectively	458	450
Additional paid-in capital	371,061	353,522
Retained earnings	313,405	292,978
Accumulated other comprehensive income	8,114	22,200
Total stockholders equity	693,038	669,150
Total liabilities and stockholders equity	$ 1,179,601	$ 1,149,914

See accompanying notes to financial statements.

LAUREATE EDUCATION, INC. AND SUBSIDIARIES

Consolidated Statements of Income

(Dollar and share amounts in thousands, except per share data)

	Three months ended June 30, 2004	2003
	(Unaudited)	(as restated - Note 3)
Revenues		
Core operating segments	$ 158,251	$ 115,774
Ventures		468
Total revenues	158,251	116,242
Costs and expenses		
Direct costs:		
Core operating segments	128,376	97,647
Ventures		654
General and administrative expenses:		
Core operating segments	5,431	5,900
Ventures		780
Non-cash stock compensation expense	2,283	22,158
Total costs and expenses	136,090	127,139
Operating income (loss)	22,161	(10,897)
Other income (expense)		
Investment and other income	16,043	207
Interest expense	(1,595)	(3,158)
Foreign currency exchange gain (loss)	(297)	305
	14,151	(2,646)
Income (loss) from continuing operations before income taxes, minority interest, and equity in net income of affiliates	36,312	(13,543)
Income tax benefit (expense)	(6,409)	2,456
Minority interest in income of consolidated subsidiaries, net of tax:		
Ventures		
Other	(6,066)	(2,507)
	(6,066)	(2,507)
Equity in net income of affiliates, net of tax:		
Ventures		510
Other		71
		581
Income (loss) from continuing operations	23,837	(13,013)
Loss from discontinued operations, net of income tax expense of $633 in 2004 and $3,446 in 2003	(3,027)	(776)
Gain on disposal of discontinued operations, net of income tax expense of $40,295 in 2003		44,640
Net income	$ 20,810	$ 30,851
Earnings (loss) per common share, basic:		
Income (loss) from continuing operations	$ 0.53	$ (0.32)
Net income	$ 0.46	$ 0.75

Earnings (loss) per common share, diluted:				
Income (loss) from continuing operations	$	0.50	$	(0.32)
Net income	$	0.43	$	0.75

See accompanying notes to financial statements.

LAUREATE EDUCATION, INC. AND SUBSIDIARIES

Consolidated Statements of Income

(Dollar and share amounts in thousands, except per share data)

	Six months ended June 30, 2004	Six months ended June 30, 2003
	(Unaudited)	(Unaudited) (as restated - Note 3)
Revenues		
Core operating segments	$ 290,407	$ 210,663
Ventures		903
Total revenues	290,407	211,566
Costs and expenses		
Direct costs:		
Core operating segments	250,939	186,247
Ventures		2,122
General and administrative expenses:		
Core operating segments	10,720	11,694
Ventures		1,756
Non-cash stock compensation expense	2,995	22,333
Total costs and expenses	264,654	224,152
Operating income (loss)	25,753	(12,586)
Other income (expense)		
Investment and other income	19,345	591
Interest expense	(3,153)	(5,536)
Ventures investment loss		(8,394)
Foreign currency exchange gain	63	236
	16,255	(13,103)
Income (loss) from continuing operations before income taxes, minority interest, and equity in net income (loss) of affiliates	42,008	(25,689)
Income tax benefit (expense)	(7,116)	7,494
Minority interest in (income) loss of consolidated subsidiaries, net of tax:		
Ventures		487
Other	(8,540)	(4,256)
	(8,540)	(3,769)
Equity in net income (loss) of affiliates, net of tax:		
Ventures		(3,991)
Other	(8)	111
	(8)	(3,880)
Income (loss) from continuing operations	26,344	(25,844)
Income (loss) from discontinued operations, net of income tax expense of $819 in 2004 and $5,100 in 2003	(5,918)	1,306
Gain on disposal of discontinued operations, net of income tax expense of $32,871 in 2003		39,423
Net income	$ 20,426	$ 14,885
Earnings (loss) per common share, basic:		
Income (loss) from continuing operations	$ 0.58	$ (0.63)
Net income	$ 0.45	$ 0.36

Earnings (loss) per common share, diluted:				
Income (loss) from continuing operations	$	0.55	$	(0.63)
Net income	$	0.43	$	0.36

See accompanying notes to financial statements.

LAUREATE EDUCATION, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Dollar amounts in thousands)

	Six months ended June 30, 2004	2003
	(Unaudited)	
Operating activities		
Net income	$ 20,426	$ 14,885
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of fixed assets	14,378	14,142
Amortization	3,190	2,352
Gain on disposal of discontinued operations		(39,423)
Non-cash stock compensation expense - continuing operations	2,995	22,333
Non-cash stock compensation expense - discontinued operations	1,436	4,599
Gain on investments	(504)	
Acceleration of original issue discount on note receivable repayment	(12,722)	
Impairment of assets held for sale		8,394
Minority interest in consolidated subsidiaries	8,540	3,769
Equity in net loss of affiliates	8	7,621
Deferred income taxes	8,103	(5,729)
Other non-cash items	(840)	1,661
Changes in operating assets and liabilities:		
Receivables	3,847	(4,782)
Inventory, prepaid expenses and other current assets	(2,874)	968
Accounts payable and accrued expenses	(2,634)	14,457
Income taxes payable	(4,540)	(549)
Deferred revenue and other current liabilities	9,435	(4,294)
Net cash provided by operating activities	48,244	40,404
Investing activities		
Purchase of available-for-sale securities	(37,267)	(17,618)
Proceeds from sale or maturity of available-for-sale securities	16,465	34,709
Change in investment in and advances to affiliates and other investments	2,148	(444)
Purchase of property and equipment, net	(48,089)	(27,484)
Proceeds from repayment of notes receivable	55,000	
Proceeds from sale of principal K-12 disposal group		95,121
Cash paid for acquisitions, net of cash acquired	(8,301)	(36,139)
Payment of contingent consideration for prior period acquisitions	(1,349)	(2,894)
Expenditures for deferred contract costs	(3,167)	(2,331)
Decrease (increase) in other assets	742	(2,301)
Net cash provided by (used in) investing activities	(23,818)	40,619
Financing activities		
Proceeds from exercise of options	9,023	1,485
Proceeds from issuance of common stock	151	
Proceeds from issuance of long-term debt	27,403	2,976
Payments on long-term debt	(31,080)	(7,210)
Cash received from minority interest members	1,595	2,262
Change in long-term liabilities	1,909	(505)
Net cash provided by (used in) financing activities	9,001	(992)
Effects of exchange rate changes on cash	185	233

Net change in cash and cash equivalents	33,612	80,264
Cash and cash equivalents at beginning of period	98,388	104,685
Cash and cash equivalents at end of period	$ 132,000	$ 184,949
Cash and cash equivalents classified as:		
Continuing operations	$ 124,274	$ 171,301
Discontinued operations	7,726	13,648
Cash and cash equivalents at end of period	$ 132,000	$ 184,949

See accompanying notes to financial statements.

Laureate Education, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

(Dollar and share amounts in thousands, except per share amounts)

June 30, 2004

Note 1 - Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three- and six-month periods ended June 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. The traditional semester programs in the education industry, with a summer break, result in large seasonality in the operating results of Laureate Education, Inc. (the Company). The consolidated balance sheet at December 31, 2003 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

The Company is focused exclusively on providing a superior higher education experience to over 131,000 students through the leading global network of accredited campus-based and online higher education institutions (higher education institutions).

The Company s educational offerings are offered through two separate business segments: a campus-based university segment (Campus Based) and an online segment (Online Higher Education). The Campus Based segment owns or maintains controlling interests in nine separately accredited higher education institutions with locations in Mexico, Chile, Spain, Switzerland, France, Ecuador, Panama and Costa Rica. The Online Higher Education segment provides career-oriented degree programs to working adult students through Canter and Associates (Canter), Walden E-Learning, Inc. (Walden), National Technological University (NTU), and KIT eLearning BV (KIT).

The Ventures business was disbanded in 2003.

Certain amounts previously reported for 2003 have been reclassified to conform to 2004 presentation.

On May 17, 2004, the Company changed its name from Sylvan Learning Systems, Inc. to Laureate Education, Inc. The Company began trading under a new NASDAQ ticker symbol, LAUR, on May 18, 2004.

Note 2 Accounting Policies

Stock Options Granted to Employees and Non-Employees

The Company records compensation expense for all employee and director stock-based compensation plans using the intrinsic value method and provides pro forma disclosures of net income (loss) and net earnings (loss) per common share as if the fair value method had been applied in measuring stock compensation expense. Under the intrinsic value method, stock compensation expense is defined as the difference between the amount payable upon exercise and the quoted market value of the underlying common stock on the date of grant or measurement date. Any resulting compensation expense is recognized ratably over the vesting period.

The Company records compensation expense for all stock options granted to non-employees who are not directors in an amount equal to their estimated fair value at the earlier of the performance commitment date or the date at which performance is complete, determined using the Black-Scholes option pricing model. The compensation expense is recognized ratably over the vesting period.

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company s stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management s opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options vesting periods. The Company s pro forma information is as follows for the three months ended:

	June 30,			
		2004		2003
Net income, as reported	$	20,810	$	30,851
Stock-based employee compensation expense included in net income as reported, net of tax		2,232		16,055
Stock-based employee compensation expense as if the fair value method had been applied, net of tax		(1,377)		(8,332)
Pro forma net income	$	21,665	$	38,574
Earnings per share, basic:				
As reported	$	0.46	$	0.75
Pro forma	$	0.48	$	0.94
Earnings per share, diluted:				
As reported	$	0.43	$	0.75
Pro forma	$	0.45	$	0.94

The Company s pro forma information is as follows for the six months ended:

	June 30,			
		2004		2003
Net income, as reported	$	20,426	$	14,885
Stock-based employee compensation expense included in net income as reported, net of tax		2,660		16,160
Stock-based employee compensation expense as if the fair value method had been applied, net of tax		(2,476)		(8,434)
Pro forma net income	$	20,610	$	22,611
Earnings per share, basic:				
As reported	$	0.45	$	0.36
Pro forma	$	0.46	$	0.55
Earnings per share, diluted:				
As reported	$	0.43	$	0.36
Pro forma	$	0.43	$	0.55

Note 3 Discontinued Operations and Assets Held for Sale

Discontinued Operations

During 2003, the Company sold or abandoned its K-12 educational services businesses (K-12) and committed to a plan to sell its Wall Street Institute (WSI) business. During 2004, the Company terminated its program in India. WSI is expected to be sold by the end of 2004. Because the operations and cash flows of the business components comprising K-12, WSI, and India were or will be eliminated from ongoing operations as a result of the sale, abandonment or pending sale, and because the Company will not have any significant continuing involvement in the operations after the disposal transactions, these operations are classified as discontinued operations for all periods.

K-12

On June 30, 2003, the Company and Educate, Inc. (Educate), a company newly-formed by Apollo Management, L.P., (Apollo) completed the sale to Educate of substantially all of the Company s K-12 segment, including eSylvan Inc. and Connections Academy, Inc., which were investments previously held by Ventures (Principal K-12 Disposal Group). As a result, the Company recorded a gain of $71,452, net of tax expense of $38,994, for the six months ended June 30, 2003.

WSI Business

During the second quarter of 2003, management committed to a plan to dispose of its WSI business. The WSI business owns and operates English-language learning centers in four countries and is a master franchisor of English language learning centers in 21 countries. The Company expects to sell WSI in 2004. The Company recorded a loss of $23,756, net of tax benefit of $1,698, for the six months ended June 30, 2003 to reflect the assets of the business at the net realizable value.

Other

During the six months ended June 30, 2003, the Company recorded a loss on disposal of discontinued operations of $8,273, net of income tax benefit of $4,425, related to the write-off of the net assets of the Sylvan Learning Center operations in the United Kingdom and France. During the fourth quarter of 2003, the Company made the decision to shut down Sylvan Learning Center operations in the United Kingdom. By December 31, 2003 all operations were terminated, the property leases were cancelled and the Company was in the process of dissolving the corporation. In the first quarter of 2004, the Company completed the sale of the Sylvan Learning Center operations in France for solely contingent consideration.

In the first quarter of 2004, due to the unfavorable regulatory climate for private educational enterprises in India, the Company decided to terminate its current programs there, including the cessation of the educational activities of South Asia International Institute. In conjunction with this decision, the Company has also reduced the carrying value of its assets in India to expected realizable value upon final disposition.

Summarized operating results from the discontinued operations included in the Company s statement of operations were as follows for the three months ended June 30:

	K-12		**WSI**		**Other**	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**
Revenues	$	$ 68,182	$ 16,883	$ 13,456	$	$ 277
Pretax income (loss) from discontinued operations	$ (1,750)	$ 9,200	$ (399)	$ (5,615)	$ (245)	$ (915)

Summarized operating results from the discontinued operations included in the Company s statement of operations were as follows for the six months ended June 30:

	K-12		**WSI**		**Other**	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**
Revenues	$	129,032	$ 34,445	$ 27,176	$	$ 481
Pretax income (loss) from discontinued operations	$ (1,750)	14,221	$ (828)	$ (5,932)	$ (2,521)	(1,883)

The accompanying balance sheets at June 30, 2004 and December 31, 2003 classify the assets and liabilities of the asset disposal groups based on the probable timing of sales proceeds.

Assets of WSI were as follows:

	WSI	
	June 30, 2004	**December 31, 2003**
Current assets	$ 37,791	$ 37,348
Property and equipment, net	9,512	8,577
Goodwill	13,814	14,276
Other long-term assets	11,448	11,713
Assets of discontinued operations	$ 72,565	$ 71,914

The liabilities of WSI are not included in the WSI disposal group above because it is not certain that the future buyer of WSI will assume those liabilities.

Note 4 Notes Receivable from Related Party

On April 27, 2004, the Company received payment in full on one of its notes receivable from Educate in the amount of $55,000 plus accrued interest of $5,461. The note receivable was originally issued on June 30, 2003 in partial consideration for the sale of the Company s K-12 segment to Educate. The subordinated note was originally recorded net of a $13,448 discount (Educate note). The early retirement of the Educate note results in an accelerated recognition of the remaining unamortized original issue discount in the amount of $12,722, which has been included in investment and other income in the consolidated statements of income.

Note 5 - Other Intangible Assets

The following table summarizes the costs basis of other intangible assets as of June 30, 2004:

		Other Intangible Assets
Subject to amortization:		
Student roster	$	13,133
Non-compete agreements		1,251
Other		623
Not subject to amortization:		
Accreditation/tradename		81,221
Total	$	96,228

Amortization expense for intangible assets was $1,101 and $1,919 for the three and six months ended June 30, 2004, respectively, and $370 and $896 for the three and six months ended June 30, 2003, respectively. The estimated amortization expense for intangible assets for the remaining six-month period of 2004 is $2,308. The estimated amortization expense for intangible assets for each of the five years subsequent to December 31, 2004 is as follows: 2005 - $3,208; 2006 - $2,540; 2007 - $866; 2008 - $9; and 2009 and beyond - $0.

Note 6 Long Term Debt

Long-term debt consists of the following:

	June 30, 2004	December 31, 2003
Mortgage notes payable bearing interest at variable rates ranging from 2.95% to 8.5%	$ 41,011	$ 46,731
Notes payable secured by fixed assets, bearing interest at rates ranging from 2.95% to 3.65%	12,675	12,160
Long-term credit lines bearing interest at rates ranging from 4.75% to 14.40%	90	169
Capital lease agreements bearing interest rates ranging from 6.50% to 11.31%	3,171	3,525
Government loans bearing interest rates ranging from 3.00% to 4.69%	463	3,901
Various notes payable bearing interest at fixed rates ranging from 4.88% to 8.64%	27,720	29,436
Various notes payable bearing interest at variable rates ranging from 6.60% to 6.72%	5,062	832
	90,192	96,754
Less: current portion of long-term debt	20,199	21,654
	$ 69,993	$ 75,100

Note 7 Income Taxes

The Company s income tax provisions for all periods consist of federal, state, and foreign income taxes. The tax provisions for the three- and six-month periods ended June 30, 2004 and 2003 were based on the estimated effective tax rates applicable for the 2004 and 2003 full years, after giving effect to significant items related specifically to the interim periods including the mix of income for the period between higher and lower taxed jurisdictions. Currently, on a full year basis, the effective tax rate for the Company for the year ending December 31, 2004 is expected to be 17%. This forecasted rate has changed from the 18% rate estimated at the first quarter due to changes in the mix of earnings between higher and lower taxed jurisdictions, the impact of the early repayment of the Educate note on pretax earnings and foreign restructuring which allowed the Company to reduce foreign tax inefficiencies. However, due to ongoing changes in the mix of earnings between higher and lower taxed jurisdictions, the Company s consolidated effective tax rate may fluctuate in the remainder of 2004. The Company s effective tax rate from continuing operations was 17.6% and 17.0% for the three and six months ended June 30, 2004, respectively and 18.1% and 29.2% for the three and six months ended June 30, 2003, respectively.

At June 30, 2004, undistributed earnings from continuing operations of non-U.S. subsidiaries totaled approximately $208,900. Deferred tax liabilities have not been recognized for these undistributed earnings because it is management s intention to permanently reinvest such undistributed earnings outside of the United States. If all undistributed earnings were remitted to the United States, the amount of incremental U.S. federal income taxes, net of foreign tax credits, would be approximately $39,200.

At June 30, 2004, undistributed gains on the sale of non-U.S. discontinued operations totaled approximately $213,900. Deferred tax liabilities have not been recognized for these undistributed gains because it is management s intention to permanently reinvest such undistributed gains outside of the U.S. If all undistributed gains were remitted to the U.S., the amount of incremental U.S. federal income taxes, net of foreign tax credits, would be approximately $82,200.

Note 8 Stockholders Equity

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders Equity
Balance at December 31, 2003	$ 450	$ 353,522	$ 292,978	$ 22,200	$ 669,150
Options exercised for purchase of 777 shares of common stock, including income tax benefit of $4,435	8	13,450			13,458
Issuance of 14 shares of common stock in connection with the Employee Stock Purchase Plan		151			151
Non-cash stock compensation		3,938			3,938
Comprehensive income:					
Net income for the six months ended June 30, 2004			20,426		20,426
Foreign currency translation adjustment				(13,879)	(13,879)
Unrealized loss on available-for-sale securities				(207)	(207)
Total comprehensive income					6,340
Balance at June 30, 2004	$ 458	$ 371,061	$ 313,404	$ 8,114	$ 693,037

The components of stockholders equity are as follows:

During the quarter ended June 30, 2004, certain current and former employees were inadvertently permitted to exercise 203 stock options on a net share basis, whereby shares equal in value to the option strike price and the employee s minimum tax withholding obligation were withheld by the Company (also known as a cashless exercise). Under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees,* the use of in the money options to cover the strike price resulted in a new measurement date and, as a result, the Company recognized $1,049 of additional compensation expense in continuing operations and $1,436 of additional compensation in discontinued operations for the difference between the exercise price and the market value of the shares on date of exercise. When the situation was discovered by management in May 2004, the Company discontinued the use this practice and, therefore, expects no further compensation charges from the exercise of employee stock options.

Note 9 Comprehensive Income

The components of comprehensive income, net of related income taxes, are as follows:

	Three months ended June 30, 2004	Three months ended June 30, 2003 (Restated, Note 3)	Six months ended June 30, 2004	Six months ended June 30, 2003 (Restated, Note 3)
Net income	$ 20,810	$ 30,851	$ 20,426	$ 14,885
Foreign currency translation adjustment	(8,005)	10,310	(13,879)	11,300
Reclassification adjustment for foreign currency translation adjustments realized in net income		10,316		10,316
Unrealized (loss) gain on available-for-sale securities	(213)	48	(207)	65
Comprehensive income	$ 12,592	$ 51,525	$ 6,340	$ 36,566

Note 10 Earnings (Loss) Per Share

The following table summarizes the computations of basic and diluted loss per common share:

	Three months ended June 30, 2004	Three months ended June 30, 2003 (as restated Note 3)	Six months ended June 30, 2004	Six months ended June 30, 2003 (as restated Note 3)
Numerator used in basic and diluted loss per common share:				
Income (loss) from continuing operations	$ 23,837	$ (13,013)	$ 26,344	$ (25,844)
Income (loss) from discontinued operations, net of tax	(3,027)	(776)	(5,918)	1,306
Gain on disposal of discontinued operations, net of tax		44,640		39,423
Net income available to common stockholders plus assumed conversions	$ 20,810	$ 30,851	$ 20,426	$ 14,885
Denominator:				
Denominator for basic earnings per common share weighted average shares outstanding	45,344	41,164	45,134	40,825
Effect of dilutive securities:				
Stock options	2,787	Most earnings above an annual earnings threshold of 9.6 percent are to be applied to reduce regulatory assets.		

Cost of long-term debt
Yr. 1 - 5.42 percent
Yr. 2 - 5.35 percent
Common equity ratio
48 percent

(a) The Joint Proposal provides that the company should be allowed to recover from customers $59.3 million of its regulatory asset for deferred storm costs over a five-year period, including $11.85 million in each of years 1 and 2, $1 million of the regulatory asset for such costs will not be recovered from customers, and all outstanding issues related to Superstorm Sandy and other past major storms prior to November 2014 are resolved. The Joint Proposal also provides that a total of approximately $4 million of regulatory assets for property tax and interest rate reconciliations will not be recovered from customers. Amounts that will not be recovered from customers were charged-off in June 2015.

(b) Excludes electric advanced metering infrastructure as to which the company will be required to defer as a regulatory liability the revenue requirement impact of the amount, if any, by which actual average net utility plant balances are less than amounts reflected in rates: $1 million in year 1 and $9 million in year 2.

Table of Contents

O&R New York - Gas	
Effective period	November 2015 - October 2018
Base rate changes (a)	Yr. 1 - $27.5 million Yr. 2 - $4.4 million Yr. 3 - $6.7 million
Amortizations to income of net regulatory (assets) and liabilities (b)	Yr. 1 - $(1.7) million Yr. 2 - $(2.1) million Yr. 3 - $(2.5) million
Revenue decoupling mechanism	Continued reconciliation of actual gas delivery revenues to those authorized in the rate plan, including through weather normalization clause.
Recoverable energy costs	Continued current rate recovery of purchased gas costs.
Negative revenue adjustments	Potential penalties (up to $3.7 million in Yr. 1, $4.7 million in Yr. 2 and $5.8 million in Yr. 3) if certain performance targets are not met.
Cost reconciliations	Continued reconciliation of expenses for pension and other postretirement benefits, property taxes, the impact of new laws and environmental remediation to amounts reflected in rates.
Net utility plant reconciliations (c)	Target levels reflected in rates are: Yr. 1 - $492 million Yr. 2 - $518 million Yr. 3 - $546 million
Average rate base	Yr. 1 - $366 million Yr. 2 - $391 million Yr. 3 - $417 million
Weighted average cost of capital (after-tax)	Yr. 1 - 7.10 percent Yr. 2 - 7.06 percent Yr. 3 - 7.06 percent
Authorized return on common equity	9.0 percent
Earnings sharing	Most earnings above an annual earnings threshold of 9.6 percent are to be applied to reduce regulatory assets.
Cost of long-term debt	Yr. 1 - 5.42 percent Yr. 2 - 5.35 percent Yr. 3 - 5.35 percent
Common equity ratio	48 percent

(a) The base rate changes may be implemented, at the NYSPSC's option, with increases of $16.4 million in each of years 1 and 2 and an increase of $5.8 million, together with a surcharge of $10.6 million, in year 3.

(b) Reflects that the company will not recover from customers a total of approximately $14 million of regulatory assets for property tax and interest rate reconciliations. Amounts that will not be recovered from customers were charged-off in June 2015.

(c) Excludes gas advanced metering infrastructure as to which the company will be required to defer as a regulatory liability the revenue requirement impact of the amount, if any, by which actual average net utility plant balances are less than amounts reflected in rates: $0.5 million in year 1, $4.2 million in year 2 and $7.2 million in year 3.

Other Regulatory Matters

In February 2009, the NYSPSC commenced a proceeding to examine the prudence of certain CECONY 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, 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 June 30, 2015, the company had collected an estimated $1,818 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 are exploring a settlement in this proceeding. In May 2014, the NYSPSC’s Chief Administrative Law Judge appointed a settlement judge to assist the parties. There is no assurance that there will be a settlement, and any settlement would be subject to NYSPSC approval. At June 30, 2015, the company had a $103 million regulatory liability relating to this matter. The company currently estimates that any additional amount the NYSPSC requires the company to refund to customers in excess of the regulatory liability accrued could range up to an amount based on the NYSPSC consultant’s $208 million estimate of overcharges.

Table of Contents

In late October 2012, Superstorm Sandy caused extensive damage to the Utilities' electric distribution system and interrupted service to approximately 1.4 million customers. Superstorm Sandy also damaged CECONY's steam system and interrupted service to many of its steam customers. As of June 30, 2015, CECONY and O&R incurred response and restoration costs for Superstorm Sandy of $507 million and $91 million, respectively (including capital expenditures of $147 million and $15 million, respectively). Most of the costs that were not capitalized were deferred for recovery as a regulatory asset under the Utilities' electric rate plans. Collection from customers of these costs is provided for under CECONY's current electric rate plan, the June 2015 Joint Proposal with respect to O&R's electric rates (which is subject to NYSPSC approval) and RECO's current electric rate plan. See "Rate Plans," above.

In June 2014, the NYSPSC initiated a proceeding to investigate the practices of qualifying persons to perform plastic fusions on gas facilities. New York State regulations require gas utilities to qualify and, except in certain circumstances, annually requalify workers that perform fusion to join plastic pipe. The NYSPSC directed the New York gas utilities to provide information in this proceeding about their compliance with the qualification and requalification requirements and related matters; their procedures for compliance with all gas safety regulations; and their annual chief executive officer certifications regarding these and other procedures. CECONY's qualification and requalification procedures had not included certain required testing to evaluate specimen fuses. In addition, CECONY and O&R had not timely requalified certain workers that had been qualified under their respective procedures to perform fusion to join plastic pipe. CECONY and O&R have requalified their workers who perform plastic pipe fusions. In May 2015, the NYSPSC, which indicated that it would address enforcement at a later date, ordered CECONY, O&R and other gas utilities to perform risk assessment and remediation plans, additional leakage surveying and reporting; CECONY to hire an independent statistician to develop a risk assessment and remediation plan; and the gas utilities to implement certain new plastic fusion requirements.

Table of Contents

Regulatory Assets and Liabilities

Regulatory assets and liabilities at June 30, 2015 and December 31, 2014 were comprised of the following items:

	Con Edison		CECONY	
(Millions of Dollars)	2015	2014	2015	2014
Regulatory assets				
Unrecognized pension and other postretirement costs	$4,400	$4,846	$4,191	$4,609
Future income tax	2,326	2,273	2,216	2,166
Environmental remediation costs	897	925	796	820
Deferred storm costs	254	319	167	224
Revenue taxes	227	219	215	208
Pension and other postretirement benefits deferrals	54	66	27	42
Net electric deferrals	54	63	53	63
Unamortized loss on reacquired debt	54	57	51	55
Deferred derivative losses	46	25	41	23
Surcharge for New York State assessment	40	99	38	92
O&R property tax reconciliation	40	36	—	—
Preferred stock redemption	27	27	27	27
O&R transition bond charges	24	27	—	—
Workers' compensation	10	8	10	8
Recoverable energy costs	—	19	—	17
Other	193	147	179	127
Regulatory assets – noncurrent	8,646	9,156	8,011	8,481
Deferred derivative losses	65	97	60	92
Future income tax	8	10	—	—
Recoverable energy costs	2	41	—	40
Regulatory assets – current	75	148	60	132
Total Regulatory Assets	$8,721	$9,304	$8,071	$8,613
Regulatory liabilities				
Allowance for cost of removal less salvage	$620	$598	$518	$499
Property tax reconciliation	300	295	300	295
Base rate change deferrals	146	155	146	155
Net unbilled revenue deferrals	116	138	116	138
Prudence proceeding	103	105	103	105
Pension and other postretirement benefit deferrals	83	46	59	37
Variable-rate tax-exempt debt – cost rate reconciliation	80	78	69	78
Property tax refunds	65	87	65	87
New York State income tax rate change	64	62	61	59
Carrying charges on repair allowance and bonus depreciation	52	58	50	57
World Trade Center settlement proceeds	31	41	31	41
Net utility plant reconciliations	22	21	23	20
Earnings sharing – electric	21	19	21	18
Unrecognized other postretirement costs	17	—	17	—
Other	227	290	193	248
Regulatory liabilities – noncurrent	1,947	1,993	1,772	1,837
Refundable energy costs	72	128	39	84
Revenue decoupling mechanism	42	30	41	30
Future income tax	22	24	21	24
Deferred derivative gains	6	5	6	4

Regulatory liabilities – current	142	187	107	142
Total Regulatory Liabilities	$2,089	$2,180	$1,879	$1,979

Table of Contents

Note C — Capitalization

In June 2015, O&R issued $120 million aggregate principal amount of 4.95 percent debentures, due 2045. Also in June 2015, a Con Edison Development subsidiary issued $118 million aggregate principal amount of 3.94 percent Senior Notes, due 2036. The Notes are secured by four of the company's solar projects.

The carrying amounts and fair values of long-term debt at June 30, 2015 and December 31, 2014 are:

(Millions of Dollars)	2015		2014	
Long-Term Debt (including current portion)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Con Edison	$12,385	$13,498	$12,191	$13,998
CECONY	$11,215	$12,206	$11,214	$12,846

Fair values of long-term debt have been estimated primarily using available market information. For Con Edison, $12,862 million and $636 million of the fair value of long-term debt at June 30, 2015 are classified as Level 2 and Level 3, respectively. For CECONY, $11,570 million and $636 million of the fair value of long-term debt at June 30, 2015 are classified as Level 2 and Level 3, respectively (see Note L). The $636 million of long-term debt classified as Level 3 is CECONY's tax-exempt, auction-rate securities for which the market is highly illiquid and there is a lack of observable inputs.

Note D — Short-Term Borrowing

At June 30, 2015, Con Edison had $1,245 million of commercial paper outstanding of which $995 million was outstanding under CECONY's program. The weighted average interest rate at June 30, 2015 was 0.4 percent for both Con Edison and CECONY. At December 31, 2014, Con Edison had $800 million of commercial paper outstanding of which $450 million was outstanding under CECONY's program. The weighted average interest rate at December 31, 2014 was 0.4 percent for both Con Edison and CECONY.

At June 30, 2015 and December 31, 2014, no loans were outstanding under the credit agreement (Credit Agreement) and $56 million (including $11 million for CECONY) and $11 million (including $11 million for CECONY), respectively, of letters of credit were outstanding under the Credit Agreement.

Note E — Pension Benefits

Total Periodic Benefit Cost

The components of the Companies' total periodic benefit costs for the three and six months ended June 30, 2015 and 2014 were as follows:

	For the Three Months Ended June 30,			
	Con Edison		CECONY	
(Millions of Dollars)	2015	2014	2015	2014
Service cost – including administrative expenses	$74	$57	$70	$53
Interest cost on projected benefit obligation	144	143	135	134
Expected return on plan assets	(222)	(208)	(210)	(198)
Recognition of net actuarial loss	194	154	183	146
Recognition of prior service costs	1	1	—	1
NET PERIODIC BENEFIT COST	$191	$147	$178	$136
Amortization of regulatory asset	1	1	1	1
TOTAL PERIODIC BENEFIT COST	$192	$148	$179	$137
Cost capitalized	(76)	(57)	(72)	(54)
Reconciliation to rate level	(17)	30	(18)	28
Cost charged to operating expenses	$99	$121	$89	$111

25

Table of Contents

	For the Six Months Ended June 30,			
	Con Edison		CECONY	
(Millions of Dollars)	2015	2014	2015	2014
Service cost – including administrative expenses	$149	$113	$139	$106
Interest cost on projected benefit obligation	287	286	269	268
Expected return on plan assets	(443)	(416)	(420)	(395)
Recognition of net actuarial loss	388	309	367	293
Recognition of prior service costs	2	2	1	1
NET PERIODIC BENEFIT COST	$383	$294	$356	$273
Amortization of regulatory asset	1	1	1	1
TOTAL PERIODIC BENEFIT COST	$384	$295	$357	$274
Cost capitalized	(144)	(109)	(137)	(103)
Reconciliation to rate level	(42)	57	(42)	51
Cost charged to operating expenses	$198	$243	$178	$222

Expected Contributions

Based on estimates as of June 30, 2015, the Companies expect to make contributions to the pension plans during 2015 of $750 million (of which $697 million is to be contributed by CECONY). The Companies' policy is to fund the total periodic benefit cost of the qualified plan to the extent tax deductible and to also contribute to the non-qualified supplemental plans. During the first six months of 2015, the Companies contributed $407 million to the pension plans, nearly all of which was contributed by CECONY. CECONY also contributed $16 million to its external trust for supplemental plans.

Note F — Other Postretirement Benefits

Total Periodic Benefit Cost

The components of the Companies' total periodic other postretirement benefit costs for the three and six months ended June 30, 2015 and 2014 were as follows:

	For the Three Months Ended June 30,			
	Con Edison		CECONY	
(Millions of Dollars)	2015	2014	2015	2014
Service cost	$5	$5	$4	$4
Interest cost on accumulated other postretirement benefit obligation	13	15	11	13
Expected return on plan assets	(20)	(19)	(17)	(17)
Recognition of net actuarial loss	8	14	7	13
Recognition of prior service cost	(5)	(5)	(4)	(4)
TOTAL PERIODIC OTHER POSTRETIREMENT BENEFIT COST	$1	$10	$1	$9
Cost capitalized	(1)	(4)	(1)	(4)
Reconciliation to rate level	4	3	2	1
Cost charged to operating expenses	$4	$9	$2	$6

	For the Six Months Ended June 30,			
	Con Edison		CECONY	
(Millions of Dollars)	2015	2014	2015	2014
Service cost	$10	$10	$7	$7
	25	30	22	26

Interest cost on accumulated other postretirement benefit obligation				
Expected return on plan assets	(39)	(38)	(34)	(34)
Recognition of net actuarial loss	16	28	14	26
Recognition of prior service cost	(10)	(10)	(7)	(7)
TOTAL PERIODIC OTHER POSTRETIREMENT BENEFIT COST	$2	$20	$2	$18
Cost capitalized	(1)	(8)	(1)	(7)
Reconciliation to rate level	8	6	3	1
Cost charged to operating expenses	$9	$18	$4	$12

Table of Contents

Expected Contributions

Based on estimates as of June 30, 2015, the Companies expect to make a contribution of $6 million, nearly all of which is for CECONY, to the other postretirement benefit plans in 2015. The Companies' policy is to fund the total periodic benefit cost of the plans to the extent tax deductible.

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 Utilities 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 liability, 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 Utilities 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 Utilities are not managing the site investigation and remediation, the accrued liability represents an estimate of the amount the Utilities 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 Utilities is managing the investigation and remediation, the accrued liability represents an estimate of the company's share of the 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 June 30, 2015 and December 31, 2014 were as follows:

	Con Edison		CECONY	
(Millions of Dollars)	2015	2014	2015	2014
Accrued Liabilities:				
Manufactured gas plant sites	$671	$684	$576	$587
Other Superfund Sites	80	80	80	79
Total	$751	$764	$656	$666
Regulatory assets	$897	$925	$796	$820

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 Utilities expect that additional liability may be accrued, the amount of which is not presently determinable but may be material. The Companies are unable to estimate the time period over which the remaining accrued liability will be incurred because, among other things, the required remediation has not been determined for some of the sites. Under their current rate plans, the Utilities are 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 for the three and six months ended June 30, 2015 and 2014 were as follows:

	For the Three Months Ended June 30,	
	Con Edison	CECONY

(Millions of Dollars)	2015	2014	2015	2014
Remediation costs incurred	$8	$5	$7	$2
Insurance recoveries received	—	—	—	—

Table of Contents

	For the Six Months Ended June 30,			
	Con Edison		CECONY	
(Millions of Dollars)	2015	2014	2015	2014
Remediation costs incurred	$15	$14	$12	$10
Insurance recoveries received (a)	—	5	—	5

(a) Reduced amount deferred for recovery from customers

In 2014, Con Edison and CECONY estimated that for their manufactured gas plant sites (including CECONY's Astoria site), the aggregate undiscounted potential liability for the investigation and remediation of coal tar and/or other environmental contaminants could range up to $2.7 billion and $2.5 billion, respectively. 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 Utilities 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 Utilities. The suits that have been resolved, which are many, have been resolved without any payment by the Utilities, 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 Utilities believe that these amounts are greatly exaggerated, based on the disposition of previous claims. At June 30, 2015 and December 31, 2014, Con Edison and CECONY had accrued their estimated aggregate undiscounted potential liabilities for these suits and additional suits that may be brought over the next 15 years of $8 million and $7 million, respectively. The estimates were based upon a combination of modeling, historical data analysis and risk factor assessment. Trial courts have begun, and unless otherwise determined by an appellate court may continue, to apply a different standard for determining liability in asbestos suits than the standard that applied historically. As a result, the Companies currently believe that there is a reasonable possibility of an exposure to loss in excess of the liability accrued for the suits. The Companies are unable to estimate the amount or range of such loss. 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 plans, CECONY 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 Companies at June 30, 2015 and December 31, 2014 were as follows:

	Con Edison		CECONY	
(Millions of Dollars)	2015	2014	2015	2014
Accrued liability – asbestos suits	$8	$8	$7	$7
Regulatory assets – asbestos suits	$8	$8	$7	$7
Accrued liability – workers' compensation	$86	$83	$81	$78
Regulatory assets – workers' compensation	$10	$8	$10	$8

Note H — Other Material Contingencies

Manhattan Steam Main Rupture

In July 2007, a CECONY 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 90 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 notified its insurers of the incident and believes that the policies in force at the time of the incident will cover the company’s costs to satisfy its liability to others in connection with the suits. In the company’s estimation, there is not a reasonable possibility that an exposure to loss exists for the suits that is materially in excess of the estimated liability accrued. At June 30, 2015, the company has accrued its estimated liability for the suits of $50 million and an insurance receivable in the same amount.

Table of Contents

Manhattan Explosion and Fire

On March 12, 2014, two multi-use five-story tall buildings located on Park Avenue between 116th and 117th Street in Manhattan were destroyed by an explosion and fire. CECONY had delivered gas to the buildings through service lines from a distribution main located below ground on Park Avenue. Eight people died and more than 50 people were injured. Additional buildings were also damaged. The National Transportation Safety Board (NTSB) investigated. The parties to the investigation included the company, the City of New York, the Pipeline and Hazardous Materials Safety Administration and the NYSPSC (which is also conducting an investigation). In June 2015, the NTSB issued a final report concerning the incident, its probable cause and safety recommendations. The NTSB determined that the probable cause of the incident was (1) the failure of a defective fusion joint at a service tee (which joined a plastic service line to a distribution main) installed by the company that allowed gas to leak from the distribution main and migrate into a building where it ignited and (2) a breach in a City sewer line that allowed groundwater and soil to flow into the sewer, resulting in a loss of support for the distribution main, which caused it to sag and overstressed the defective fusion joint. The NTSB also made safety recommendations, including recommendations to the company that addressed its procedures for the preparation and examination of plastic fusions, training of its staff on conditions for notifications to the City's Fire Department and extension of its gas main isolation valve installation program. Approximately 70 suits are pending against the company seeking generally unspecified damages and, in one case, punitive damages, for personal injury, property damage and business interruption. The company has notified its insurers of the incident and believes that the policies in force at the time of the incident will cover the company's costs, in excess of a required retention (the amount of which is not material), to satisfy any liability it may have for damages in connection with the incident. The company is unable to estimate the amount or range of its possible loss related to the incident. At June 30, 2015, the company had not accrued a liability for the incident.

Other Contingencies

See "Other Regulatory Matters" in Note B and "Uncertain Tax Positions" in Note I.

Guarantees

Con Edison and its subsidiaries enter into various agreements providing financial or performance assurance primarily to third parties on behalf of their subsidiaries. Maximum amounts guaranteed by Con Edison totaled $2,529 million and $2,547 million at June 30, 2015 and December 31, 2014, respectively.

A summary, by type and term, of Con Edison's total guarantees at June 30, 2015 is as follows:

Guarantee Type	0 – 3 years	4 – 10 years	> 10 years	Total
	(Millions of Dollars)			
NY Transco	$1,359	$—	$—	$1,359
Energy transactions	739	42	90	871
Renewable electric production projects	165	50	54	269
Other	30	—	—	30
Total	$2,293	$92	$144	$2,529

NY Transco — Con Edison has guaranteed payment by its subsidiary, Con Edison Transmission, of the contributions it agreed to make to New York Transco LLC (NY Transco). Con Edison Transmission acquired a 46 percent interest in NY Transco when it was formed in 2014. NY Transco's transmission projects are expected to be developed initially by CECONY and other New York transmission owners and then sold to NY Transco. The development of the projects would be subject to authorizations from the NYSPSC, the FERC and other federal, state and local agencies. Guarantee amount shown is for the maximum possible required amount of Con Edison Transmission's contributions, which assumes that all the NY Transco projects proposed when NY Transco was formed receive all required regulatory approvals and are completed at 175 percent of their estimated costs and that NY Transco does not use any debt financing for the projects. Guarantee term shown is assumed as the timing of the contributions is not known.

Energy Transactions — Con Edison guarantees payments on behalf of its competitive energy businesses in order to facilitate physical and financial transactions in gas, pipeline capacity, transportation, oil, electricity, renewable energy credits and energy services. To the extent that liabilities exist under the contracts subject to these guarantees, such liabilities are included in Con Edison's consolidated balance sheet.

Renewable Electric Production Projects — Con Edison and Con Edison Development guarantee payments associated with the investment in solar and wind energy facilities on behalf of their wholly-owned subsidiaries. In addition, Con Edison Development also provided $3 million in guarantees to Travelers Insurance Company for

29

Table of Contents

indemnity agreements for surety bonds in connection with the construction and operation of solar energy facilities performed by its subsidiaries.
Other — Other guarantees primarily relate to guarantees provided by Con Edison to Travelers Insurance Company for indemnity agreements for surety bonds in connection with energy service projects performed by Con Edison Solutions ($25 million). In addition, Con Edison issued a guarantee to the Public Utility Commission of Texas covering obligations of Con Edison Solutions as a retail electric provider. Con Edison’s estimate of the maximum potential obligation for this guarantee is $5 million as of June 30, 2015.

Note I — Income Tax

Con Edison’s income tax expense decreased to $101 million for the three months ended June 30, 2015 from $102 million for the three months ended June 30, 2014. Con Edison's effective tax rate for the three months ended June 30, 2015 and 2014 was 32 percent. CECONY’s income tax expense increased to $101 million for the three months ended June 30, 2015 from $78 million for the three months ended June 30, 2014. CECONY's effective tax rate for the three months ended June 30, 2015 and 2014 was 32 percent and 31 percent, respectively. The increase in CECONY’s effective tax rate is due primarily to plant-related flow through items and lower injuries and damages claims in 2015, partially offset by lower amortization of New York State’s Metropolitan Transportation Authority business tax.
Con Edison’s income tax expense was $300 million for the six months ended June 30, 2015 and 2014. Con Edison's effective tax rate for the six months ended June 30, 2015 and 2014 was 34 percent. CECONY’s income tax expense increased to $293 million for the six months ended June 30, 2015 from $262 million for the six months ended June 30, 2014. CECONY's effective tax rate for the six months ended June 30, 2015 and 2014 was 34 percent.

Uncertain Tax Positions

At June 30, 2015 the estimated liability for uncertain tax positions for Con Edison was $34 million ($2 million for CECONY). Con Edison reasonably expects to resolve approximately $25 million ($16 million, net of federal taxes) of its uncertain tax positions within the next twelve months, of which the entire amount, if recognized, would reduce Con Edison’s effective tax rate. The amount related to CECONY is approximately $2 million ($1 million, net of federal taxes), of which the entire amount, if recognized, would reduce CECONY’s effective tax rate. The total amount of unrecognized tax benefits, if recognized, that would reduce Con Edison’s effective tax rate is $34 million ($22 million, net of federal taxes).
The Companies recognize interest on liabilities for uncertain tax positions in interest expense and would recognize penalties, if any, in operating expenses in the Companies’ consolidated income statements. In the three and six months ended June 30, 2015, Con Edison recognized an immaterial amount of interest expense and no penalties for uncertain tax positions in its consolidated income statements. At June 30, 2015 and December 31, 2014, Con Edison recognized an immaterial amount of accrued interest on its consolidated balance sheets.

Table of Contents

Note J — Financial Information by Business Segment
The financial data for the business segments are as follows:

	For the Three Months Ended June 30,							
	Operating revenues		Inter-segment revenues		Depreciation and amortization		Operating income	
(Millions of Dollars)	2015	2014	2015	2014	2015	2014	2015	2014
CECONY								
Electric	$1,879	$1,978	$5	$4	$201	$195	$422	$347
Gas	308	360	1	2	35	33	54	54
Steam	96	98	21	21	18	19	(16)	(15)
Consolidation adjustments	—	—	(27)	(27)	—	—	—	—
Total CECONY	$2,283	$2,436	$—	$—	$254	$247	$460	$386
O&R								
Electric	$162	$157	$—	$—	$13	$11	$16	$25
Gas	16	35	—	—	4	4	(18)	(5)
Total O&R	$178	$192	$—	$—	$17	$15	$(2)	$20
Competitive energy businesses	$328	$284	$(1)	$(1)	$6	$4	$13	$48
Other (a)	(1)	(1)	1	1	(1)	(1)	1	1
Total Con Edison	$2,788	$2,911	$—	$—	$276	$265	$472	$455

(a) Parent company and consolidation adjustments. Other does not represent a business segment.

	For the Six Months Ended June 30,							
	Operating revenues		Inter-segment revenues		Depreciation and amortization		Operating income	
(Millions of Dollars)	2015	2014	2015	2014	2015	2014	2015	2014
CECONY								
Electric	$3,858	$4,053	$9	$8	$403	$383	$700	$605
Gas	963	1,149	3	3	70	64	294	287
Steam	471	439	43	41	38	39	149	138
Consolidation adjustments	—	—	(55)	(52)	—	—	—	—
Total CECONY	$5,292	$5,641	$—	$—	$511	$486	$1,143	$1,030
O&R								
Electric	$318	$320	$—	$—	$25	$21	$34	$37
Gas	93	128	—	—	9	8	9	22
Total O&R	$411	$448	$—	$—	$34	$29	$43	$59
Competitive energy businesses	$702	$612	$(4)	$1	$11	$11	$10	$50
Other (a)	(1)	(1)	4	(1)	(1)	—	2	1
Total Con Edison	$6,404	$6,700	$—	$—	$555	$526	$1,198	$1,140

(a) Parent company and consolidation adjustments. Other does not represent a business segment.

Note K — Derivative Instruments and Hedging Activities
Con Edison’s subsidiaries hedge market price fluctuations associated with physical purchases and sales of electricity, natural gas, steam and, to a lesser extent, refined fuels by using derivative instruments including futures, forwards, basis swaps, options, transmission congestion contracts and financial transmission rights contracts. Derivatives are recognized on the balance sheet at fair value (see Note L), unless an exception is available under the accounting rules for derivatives and hedging. Qualifying derivative contracts that have been designated as normal purchases or normal sales contracts are not reported at fair value under the accounting rules.

31

Table of Contents

The fair values of the Companies' commodity derivatives including the offsetting of assets and liabilities on the consolidated balance sheet at June 30, 2015 and December 31, 2014 were:

(Millions of Dollars)	2015				2014			
Balance Sheet Location	Gross Amounts of Recognized Assets/(Liabilities)	Gross Amounts Offset	Net Amounts of Assets/ (Liabilities) (a)		Gross Amounts of Recognized Assets/(Liabilities)	Gross Amounts Offset	Net Amounts of Assets/ (Liabilities) (a)	
Con Edison								
Fair value of derivative assets								
Current	$70	$(50)	$20	(b)	$111	$(67)	$44	(b)
Current - assets held for sale (c)	55	(53)	2		—	—	—	
Noncurrent	24	(21)	3		34	(23)	11	
Total fair value of derivative assets	$149	$(124)	$25		$145	$(90)	$55	
Fair value of derivative liabilities								
Current	$(110)	$78	$(32)		$(242)	$139	$(103)	
Current - liabilities held for sale (c)	(100)	43	(57)		—	—	—	
Noncurrent	(66)	42	(24)		(66)	91	25	
Noncurrent - liabilities held for sale (c)	(35)	10	(25)		—	—	—	
Total fair value of derivative liabilities	$(311)	$173	$(138)		$(308)	$230	$(78)	
Net fair value derivative assets/(liabilities)	$(162)	$49	$(113)	(b)	$(163)	$140	$(23)	(b)
CECONY								
Fair value of derivative assets								
Current	$46	$(36)	$10	(b)	$26	$(15)	$11	(b)
Noncurrent	19	(17)	2		22	(20)	2	
Total fair value of derivative assets	$65	$(53)	$12		$48	$(35)	$13	
Fair value of derivative liabilities								
Current	$(86)	$63	$(23)		$(96)	$48	$(48)	
Noncurrent	(57)	38	(19)		(42)	32	(10)	
Total fair value of derivative liabilities	$(143)	$101	$(42)		$(138)	$80	$(58)	
Net fair value derivative assets/(liabilities)	$(78)	$48	$(30)	(b)	$(90)	$45	$(45)	(b)

(a) Derivative instruments and collateral were offset on the consolidated balance sheet as applicable under the accounting rules. The Companies enter into master agreements for their commodity derivatives. These agreements typically provide offset in the event of contract termination. In such case, generally the non-defaulting party's payable will be offset by the defaulting party's payable. The non-defaulting party will customarily notify the defaulting party within a specific time period and come to an agreement on the early termination amount.

(b) At June 30, 2015 and December 31, 2014, margin deposits for Con Edison ($22 million and $27 million, respectively) and CECONY ($21 million and $25 million, respectively) were classified as derivative assets on the consolidated balance sheet, but not included in the table. Margin is collateral, typically cash, that the holder of a derivative instrument is required to deposit in order to transact on an exchange and to cover its potential losses with its broker or the exchange.

(c) Amounts represent derivative assets and liabilities included in assets and liabilities held for sale on the consolidated balance sheet (see Note O).

The Utilities generally recover their prudently incurred fuel, purchased power and gas costs, including hedging gains and losses, in accordance with rate provisions approved by the applicable state utility regulators. In accordance with the accounting rules for regulated operations, the Utilities record a regulatory asset or liability to defer recognition of unrealized gains and losses on their 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 Companies' consolidated income statements. Con Edison's competitive energy businesses record realized and unrealized gains and losses on their derivative contracts in purchased power, gas purchased for resale and non-utility revenue in the reporting period in which they occur. Management believes that these derivative instruments represent economic hedges that mitigate exposure to fluctuations in commodity prices.

Table of Contents

The following table presents the realized and unrealized gains or losses on commodity derivatives that have been deferred or recognized in earnings for the three and six months ended June 30, 2015 and 2014:

		For the Three Months Ended June 30,			
		Con Edison		CECONY	
(Millions of Dollars)	Balance Sheet Location	2015	2014	2015	2014
Pre-tax gains/(losses) deferred in accordance with accounting rules for regulated operations:					
Current	Deferred derivative gains	$(2)	$1	$(1)	$1
Noncurrent	Deferred derivative gains	—	2	—	2
Total deferred gains/(losses)		$(2)	$3	$(1)	$3
Current	Deferred derivative losses	$(11)	$(2)	$(10)	$(2)
Current	Recoverable energy costs	(40)	(7)	(36)	(6)
Noncurrent	Deferred derivative losses	(2)	(3)	(1)	(3)
Total deferred gains/(losses)		$(53)	$(12)	$(47)	$(11)
Net deferred gains/(losses)		$(55)	$(9)	$(48)	$(8)
	Income Statement Location				
Pre-tax gain/(loss) recognized in income					
	Purchased power expense	$(50) (a)	$(13) (b)	$—	$—
	Gas purchased for resale	(26)	(32)	—	—
	Non-utility revenue	(27) (a)	14 (b)	—	—
Total pre-tax gain/(loss) recognized in income		$(103)	$(31)	$—	$—

(a) For the three months ended June 30, 2015, Con Edison recorded unrealized pre-tax gains and losses in non-utility operating revenue ($1 million gain) and purchased power expense ($17 million loss).

(b) For the three months ended June 30, 2014, Con Edison recorded in purchased power expense an unrealized pre-tax loss of $5 million.

		For the Six Months Ended June 30,			
		Con Edison		CECONY	
(Millions of Dollars)	Balance Sheet Location	2015	2014	2015	2014
Pre-tax gains/(losses) deferred in accordance with accounting rules for regulated operations:					
Current	Deferred derivative gains	$1	$31	$2	$25
Noncurrent	Deferred derivative gains	—	7	—	6
Total deferred gains/(losses)		$1	$38	$2	$31
Current	Deferred derivative losses	$32	$15	$32	$15
Current	Recoverable energy costs	(39)	87	(38)	70
Noncurrent	Deferred derivative losses	(21)	—	(18)	(1)
Total deferred gains/(losses)		$(28)	$102	$(24)	$84
Net deferred gains/(losses)		$(27)	$140	$(22)	$115
	Income Statement Location				
Pre-tax gain/(loss) recognized in income					
	Purchased power expense	$(28) (a)	$161 (b)	$—	$—
	Gas purchased for resale	(69)	(46)	—	—
	Non-utility revenue	15 (a)	(10) (b)	—	—
Total pre-tax gain/(loss) recognized in income		$(82)	$105	$—	$—

(a) For the six months ended June 30, 2015, Con Edison recorded unrealized pre-tax gains and losses in non-utility operating revenue ($3 million loss) and purchased power expense ($5 million loss).

(b)

For the six months ended June 30, 2014, Con Edison recorded in purchased power expense an unrealized pre-tax gain of $15 million.

Table of Contents

The following table presents the hedged volume of Con Edison's and CECONY's derivative transactions at June 30, 2015:

	Electric Energy (MWHs) (a)(b)	Capacity (MWs)(a)	Natural Gas (Dt) (a)(b)	Refined Fuels (gallons)
Con Edison (c)	20,982,862	7,324	61,343,892	5,502,000
CECONY	6,941,125	2,400	55,640,000	5,502,000

(a) Volumes are reported net of long and short positions, except natural gas collars where the volumes of long positions are reported.

(b) Excludes electric congestion and gas basis swap contracts which are associated with electric and gas contracts and hedged volumes.

(c) Includes 12,801,647 MWHs for electric energy, 6,635 MWs for capacity and 1,397,036 Dt for natural gas derivative transactions that are held for sale.

The Companies are exposed to credit risk related to transactions entered into primarily for the various energy supply and hedging activities by the Utilities and the competitive energy businesses. Credit risk relates to the loss that may result from a counterparty's nonperformance. The Companies use 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. The Companies measure credit risk exposure as the replacement cost for open energy commodity and derivative positions plus amounts owed from counterparties for settled transactions. The replacement cost of open positions represents unrealized gains, net of any unrealized losses where the Companies have a legally enforceable right to offset.

At June 30, 2015, Con Edison and CECONY had $166 million and $21 million of credit exposure in connection with energy supply and hedging activities, net of collateral, respectively. Con Edison's net credit exposure consisted of $77 million with commodity exchange brokers, $76 million with independent system operators, $8 million with investment-grade counterparties and $5 million with non-investment grade/non-rated counterparties. CECONY's net credit exposure was with commodity exchange brokers.

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

The following table presents the aggregate fair value of the Companies' derivative instruments with credit-risk-related contingent features that are in a net liability position, the collateral posted for such positions 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 at June 30, 2015:

(Millions of Dollars)	Con Edison (a)		CECONY (a)	
Aggregate fair value – net liabilities	$60		$41	
Collateral posted	5		—	
Additional collateral (b) (downgrade one level from current ratings)	5		—	
Additional collateral (b) (downgrade to below investment grade from current ratings)	85	(c)	56	(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. In the event the Utilities and the competitive energy businesses were no longer extended unsecured credit for such purchases, the Companies would be required to post additional collateral of $2 million at June 30, 2015. For certain other such non-derivative transactions, the Companies could be required to post collateral under certain circumstances, including in the event counterparties had reasonable grounds for insecurity.

(b) The Companies measure 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 Companies have a legally enforceable right to offset.

(c) Derivative instruments that are net assets have been excluded from the table. At June 30, 2015, if Con Edison had been downgraded to below investment grade, it would have been required to post additional collateral for such derivative instruments of $7 million.

Note L — 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

Table of Contents

liabilities. These inputs can be readily observable, market corroborated, or generally unobservable firm inputs. The Companies often make 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 Companies 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 Companies classify 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.

Assets and liabilities measured at fair value on a recurring basis as of June 30, 2015 and December 31, 2014 are summarized below.

	2015					2014				
(Millions of Dollars)	Level 1	Level 2	Level 3	Netting Adjustment (e)	Total	Level 1	Level 2	Level 3	Netting Adjustment (e)	Total
Con Edison										
Derivative assets:										
Commodity (a)(b)(c)	$1	$24	$15	$4	$44	$3	$78	$28	$(27)	$82
Commodity held for sale (f)	—	45	2	(45)	2	—	—	—	—	—
Other (a)(b)(d)	187	117	—	—	304	163	116	—	—	279
Total assets	$188	$186	$17	$(41)	$350	$166	$194	$28	$(27)	$361
Derivative liabilities:										
Commodity (a)(b)(c)	$11	$111	$—	$(67)	$55	$18	$246	$8	$(194)	$78
Commodity held for sale (f)	1	122	4	(45)	82	—	—	—	—	—
Total liabilities	$12	$233	$4	$(112)	$137	$18	$246	$8	$(194)	$78
CECONY										
Derivative assets:										
Commodity (a)(b)(c)	$1	$8	$11	$13	$33	$1	$3	$13	$21	$38
Other (a)(b)(d)	179	107	—	—	286	155	106	—	—	261

Total assets	$180	$115	$11	$13	$319	$156	$109	$13	$21	$299
Derivative liabilities:										
Commodity (a)(b)(c)	$10	$88	$—	$(56)	$42	$16	$91	$—	$(49)	$58

35

Table of Contents

(a) The Companies' policy is to review the fair value hierarchy and recognize transfers into and transfers out of the levels at the end of each reporting period. There were no transfers between levels 1, 2 and 3 for the six months ended June 30, 2015 and for the year ended December 31, 2014.

(b) Level 2 assets and liabilities include investments held in the deferred compensation plan and/or non-qualified retirement plans, exchange-traded contracts where there is insufficient market liquidity to warrant inclusion in Level 1, certain over-the-counter derivative instruments for electricity, refined products and natural gas. Derivative instruments classified as Level 2 are valued using industry standard models that incorporate corroborated observable inputs; such as pricing services or prices from similar instruments that trade in liquid markets, time value and volatility factors.

(c) 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 June 30, 2015 and December 31, 2014, the Companies determined that nonperformance risk would have no material impact on their financial position or results of operations.

(d) Other assets are comprised of assets such as life insurance contracts within the deferred compensation plan and non-qualified retirement plans.

(e) Amounts represent the impact of legally-enforceable master netting agreements that allow the Companies to net gain and loss positions and cash collateral held or placed with the same counterparties.

(f) Amounts represent derivative assets and liabilities included in Assets and Liabilities held for sale on the consolidated balance sheet (see Note O).

The employees in the Companies' risk management group develop and maintain the Companies' valuation policies and procedures for, and verify pricing and fair value valuation of, commodity derivatives. Under the Companies' 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 Companies' risk committees, comprised of officers and employees of the Companies that oversee energy hedging at the Utilities and the competitive energy businesses. The risk management group reports to the Companies' Vice President and Treasurer.

	Fair Value of Level 3 at June 30, 2015 (Millions of Dollars)	Valuation Techniques	Unobservable Inputs	Range
Con Edison – Commodity				
Electricity	$(2)	Discounted Cash Flow	Forward energy prices (a)	$18.25-$118.25 per MWH
		Discounted Cash Flow	Forward capacity prices (a)	$3.70-$15.26 per kW-month
Transmission Congestion Contracts/Financial Transmission Rights	14	Discounted Cash Flow	Discount to adjust auction prices for inter-zonal forward price curves (b)	40.8%-57.9%
			Discount to adjust auction prices for historical monthly realized settlements (b)	37.5%-60.8%
			Inter-zonal forward price curves adjusted for historical zonal losses (b)	$(2.57)-$6.62 per MWH
Natural gas	1		Forward gas prices (a)	$(1.56)-$10.00 per Dt

		Discounted Cash Flow		
Total Con Edison—Commodity	$13			
CECONY—Commodity				
Transmission Congestion Contracts	$11	Discounted Cash Flow	Discount to adjust auction prices for inter-zonal forward price curves (b)	40.8%-57.9%
			Discount to adjust auction prices for historical monthly realized settlements (b)	37.5%-60.8%

(a) Generally, increases/(decreases) in this input in isolation would result in a higher/(lower) fair value measurement.
(b) Generally, increases/(decreases) in this input in isolation would result in a lower/(higher) fair value measurement.

The table listed below provides a reconciliation of the beginning and ending net balances for assets and liabilities measured at fair value as of June 30, 2015 and 2014 and classified as Level 3 in the fair value hierarchy:

	For the Three Months Ended June 30,			
	Con Edison		CECONY	
(Millions of Dollars)	2015	2014	2015	2014
Beginning balance as of April 1,	$11	$24	$12	$13
Included in earnings	(3)	(2)	(2)	(2)
Included in regulatory assets and liabilities	—	3	—	3
Purchases	5	3	2	2
Settlements	—	(1)	(1)	(2)
Ending balance as of June 30,	$13	$27	$11	$14

Table of Contents

	For the Six Months Ended June 30,			
	Con Edison		CECONY	
(Millions of Dollars)	2015	2014	2015	2014
Beginning balance as of January 1,	$20	$9	$13	$6
Included in earnings	(15)	49	(5)	9
Included in regulatory assets and liabilities	1	7	1	7
Purchases	8	11	4	9
Settlements	(1)	(49)	(2)	(17)
Ending balance as of June 30,	$13	$27	$11	$14

For the Utilities, realized gains and losses on Level 3 commodity derivative assets and liabilities are reported as part of purchased power, gas and fuel costs. The Utilities generally recover these costs in accordance with rate provisions approved by the applicable state public utilities regulators. Unrealized gains and losses for commodity derivatives are generally deferred on the consolidated balance sheet in accordance with the accounting rules for regulated operations. For the competitive energy businesses, realized and unrealized gains and losses on Level 3 commodity derivative assets and liabilities are reported in non-utility revenues (immaterial for both periods) and purchased power costs ($1 million loss and immaterial) on the consolidated income statement for the three months ended June 30, 2015 and 2014, respectively. Realized and unrealized gains and losses on Level 3 commodity derivative assets and liabilities are reported in non-utility revenues (immaterial for both periods) and purchased power costs ($10 million loss and $40 million gain) on the consolidated income statement for the six months ended June 30, 2015 and 2014, respectively. The change in fair value relating to Level 3 commodity derivative assets and liabilities held at June 30, 2015 and 2014 is included in non-utility revenues (immaterial for both periods) and purchased power costs ($1 million gain and $2 million gain) on the consolidated income statement for the three months ended June 30, 2015 and 2014, respectively. For the six months ended June 30, 2015 and 2014, the change in fair value relating to Level 3 commodity derivative assets and liabilities is included in non-utility revenues (immaterial for both periods) and purchased power costs ($4 million loss and $11 million gain) on the consolidated income statement, respectively.

Note M — Variable Interest Entities

Con Edison enters into arrangements including leases, partnerships and electricity purchase agreements, with various entities. As a result of these arrangements, Con Edison retains or may retain a variable interest in these entities. CECONY has a variable interest in a non-consolidated variable interest entity (VIE), Astoria Energy, LLC (Astoria Energy), with which CECONY has entered into a long-term electricity purchase agreement. CECONY is not the primary beneficiary of this VIE since CECONY does not have the power to direct activities that CECONY believes most significantly impact the economic performance of Astoria Energy. In particular, CECONY has not invested in, or guaranteed the indebtedness of, Astoria Energy and CECONY does not operate or maintain Astoria Energy’s generating facilities. CECONY also has long-term electricity purchase agreements with the following three potential VIEs: Cogen Technologies Linden Venture, LP, Brooklyn Navy Yard Cogeneration Partners, LP and Indeck Energy Services of Corinth, Inc. In 2014, requests were made of these three counterparties for information necessary to determine whether the entity was a VIE and whether CECONY is the primary beneficiary; however, the information was not made available. The payments pursuant to these agreements, which constitute CECONY’s maximum exposure to loss with respect to the potential VIEs, for the three months ended June 30, 2015 were $177 million for Cogen Technologies Linden Venture, LP, $54 million for Brooklyn Navy Yard Cogeneration Partners, LP and $28 million for Indeck Energy Services of Corinth, Inc.

Table of Contents

The following table summarizes the VIEs in which Con Edison Development has entered into as of June 30, 2015:

Project Name (a)	Generating Capacity Owned (MWs AC)	Power Purchase Agreement Term in Years	Year of Initial Investment	Location	Maximum Exposure to Loss (Millions of Dollars) (c)
Copper Mountain Solar 3	128	20	2014	Nevada	$187
Mesquite Solar 1	83	20	2013	Arizona	105
Copper Mountain Solar 2	75	25	2013	Nevada	88
California Solar	55	25	2012	California	73
Broken Bow II	37	25	2014	Nebraska	56
Texas Solar 4	32	25	2014	Texas	49
Pilesgrove	9	n/a (b)	2010	New Jersey	26

(a) With the exception of Texas Solar 4, Con Edison's ownership interest is 50 percent and these projects are accounted for using the equity method of accounting. Con Edison is not the primary beneficiary since the power to direct the activities that most significantly impact the economics of the entities are shared equally between Con Edison Development and third parties. Con Edison's ownership interest in Texas Solar 4 is 80 percent and is consolidated in the financial statements. Con Edison is the primary beneficiary since the power to direct the activities that most significantly impact the economics of Texas Solar 4 is held by Con Edison Development. The maximum exposure for Texas Solar 4 is the net assets of the investment offset by a $9 million noncontrolling interest.

(b) Pilesgrove has 3-5 year Solar Renewable Energy Credit hedges in place.

(c) For investments accounted for under the equity method, maximum exposure is equal to the carrying value of the investment on the consolidated balance sheet. For consolidated investments, maximum exposure is equal to the net assets of the investment on the consolidated balance sheet less any applicable minority interest. Con Edison did not provide any financial or other support during the year that was not previously contractually required.

Note N — New Financial Accounting Standards

In January 2015, the Financial Accounting Standards Board (FASB) issued amendments on income statement guidance through Accounting Standards Update (ASU) No. 2015-01, "Income Statement—Extraordinary and Unusual Items (Subtopic 225-20)." The amendments eliminate the requirement to report extraordinary items separately on the income statement. The amendments are effective for reporting periods beginning on or after December 15, 2015. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The application of this guidance is not expected to have a material impact on the Companies' financial position, results of operations and liquidity.

In February 2015, the FASB issued amendments on consolidation guidance through ASU No. 2015-02, "Consolidation (Topic 810)." The amendments provide additional guidance for VIE accounting of limited partnerships and similar legal entities, fees paid to decision makers of a VIE, the effect of fee arrangements on primary beneficiary determination, and the effect of related parties on primary beneficiary determination. The amendments are effective prospectively for reporting periods beginning on or after December 15, 2015. Early adoption is permitted. The application of this guidance is not expected to have a material impact on the Companies' financial position, results of operations and liquidity.

In April 2015, the FASB issued amendments on debt issuance costs guidance through ASU No. 2015-03, "Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." The amendments provide additional guidance requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a reduction of that debt liability rather than as a deferred cost (i.e. an asset) as required by current guidance. For public entities, the amendments are effective for reporting periods beginning on or after December 15, 2015. Early adoption is permitted. The application of this guidance is not expected to have a material impact on the Companies' financial position, results of operations and liquidity.

In April 2015, the FASB issued amendments on internal-use software guidance through ASU No. 2015-05, “Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement.” The amendments provide guidance to customers about whether a cloud computing arrangement should be accounted for as a license of internal use software or as a service contract. For public entities, the amendments are effective for reporting periods beginning on or after December 15, 2015. Early adoption is permitted. The application of this guidance is not expected to have a material impact on the Companies’ financial position, results of operations and liquidity.

In May 2015, the FASB issued amendments on disclosure guidance for investments using Net Asset Value per Share through ASU No. 2015-07, “Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent).” The amendments remove the requirement to categorize investments in the fair value hierarchy if Net Asset Value per Share is used as a practical expedient to determine the fair value of the investment. For public entities, the amendments are effective for reporting periods

Table of Contents

beginning on or after December 15, 2015. Early adoption is permitted. The application of this guidance is not expected to have a material impact on the Companies' financial position, results of operations and liquidity.
In July 2015, the FASB issued amendments on the measurement of first-in, first-out and average cost inventory through ASU No.2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory." The amendments require that inventory within the scope of the guidance be measured at the lower of cost and net realizable value rather than cost and market value. For public entities, the amendments are effective for reporting periods beginning on or after December 15, 2016. Early adoption is permitted. The Companies are evaluating the application and impact of the new guidance on the Companies' financial position, results of operations and liquidity.

Note O — Assets Held For Sale

During the three months ended June 30, 2015, Con Edison initiated a plan to actively market and sell the retail electric supply business of its competitive energy businesses. The company expects the sale to close within the next twelve months.

At June 30, 2015, the company classified as held for sale the assets and liabilities of this retail electric supply business and ceased recording depreciation expense on these assets. There was no impairment of the assets held for sale, as the estimated fair value less costs to sell exceeded the carrying amount.

At June 30, 2015, the carrying amounts of the assets and liabilities designated as held for sale were as follows:

(Millions of Dollars)	2015
Accounts receivable	$82
Accrued unbilled revenue	76
Other current assets	3
Derivative assets	2
Total current assets	163
Non-utility property	4
TOTAL ASSETS HELD FOR SALE	$167
Derivative liabilities - current	$57
Accounts payable	9
Total current liabilities	66
Derivative liabilities - noncurrent	25
TOTAL LIABILITIES HELD FOR SALE	$91

Table of Contents

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

This combined management's discussion and analysis of financial condition and results of operations (MD&A) relates to the consolidated financial statements (the Second Quarter Financial Statements) included in this report of two separate registrants: Consolidated Edison, Inc. (Con Edison) and Consolidated Edison Company of New York, Inc. (CECONY) and should be read in conjunction with the financial statements and the notes thereto. As used in this report, the term the "Companies" refers to Con Edison and CECONY. CECONY is a subsidiary of Con Edison and, as such, information in this management's discussion and analysis about CECONY applies to Con Edison.

This MD&A should be read in conjunction with the Second Quarter Financial Statements and the notes thereto, the MD&A in Item 7 of the Companies' combined Annual Report on Form 10-K for the year ended December 31, 2014 (File Nos. 1-14514 and 1-1217, the Form 10-K) and the MD&A in Part 1, Item 2 of the Companies' combined Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2015 (File Nos. 1-14514 and 1-217).

Information in any item of this report referred to in this discussion and analysis is incorporated by reference herein. The use of terms such as "see" or "refer to" shall be deemed to incorporate by reference into this discussion and analysis the information to which reference is made.

Con Edison, incorporated in New York State in 1997, is a holding company that owns all of the outstanding common stock of CECONY, Orange and Rockland Utilities, Inc. (O&R) and the competitive energy businesses. In addition, in 2014 Con Edison formed Consolidated Edison Transmission, LLC (Con Edison Transmission) to invest in a transmission company. As used in this report, the term the "Utilities" refers to CECONY and O&R.

Con Edison's principal business operations are those of CECONY, O&R and the competitive energy businesses. CECONY's principal business operations are its regulated electric, gas and steam delivery businesses. O&R's principal business operations are its regulated electric and gas delivery businesses. The competitive energy businesses sell electricity to retail customers, provide energy-related products and services, and develop, own and operate renewable and energy infrastructure projects.

Con Edison seeks to provide shareholder value through continued dividend growth, supported by earnings growth in regulated utilities and contracted assets. The company invests to provide reliable, resilient, safe and clean energy critical for New York City's growing economy. The company is an industry leading owner and operator of contracted, large-scale solar generation in the United States. Con Edison is a responsible neighbor, helping the communities it serves become more sustainable.

CECONY

Electric

CECONY provides electric service to approximately 3.4 million customers in all of New York City (except a part of Queens) and most of Westchester County, an approximately 660 square mile service area with a population of more than nine million.

Gas

CECONY delivers gas to approximately 1.1 million customers in Manhattan, the Bronx, parts of Queens and most of Westchester County.

In May 2015, the company decreased its five-year forecast of average annual growth of the peak gas demand in its service area at design conditions from approximately 2.8 percent (for 2015 to 2019) to 2.3 percent (for 2016 to 2020). The decrease reflects, among other things, that the new five-year forecast no longer covers the 2014/2015 heating season, the fourth year in which there was a significant increase in oil-to-gas conversions following changes to New York City regulations that will phase out the use of certain types of heating oil.

Steam

CECONY operates the largest steam distribution system in the United States by producing and delivering approximately 23,000 MMlb of steam annually to approximately 1,700 customers in parts of Manhattan.

O&R

Electric

O&R and its utility subsidiaries, Rockland Electric Company (RECO) and Pike County Light & Power Company (Pike) (together referred to herein as O&R) provide electric service to approximately 0.3 million customers in southeastern New York and in adjacent areas of northern New Jersey and northeastern Pennsylvania, an approximately 1,350 square mile service area.

Gas

O&R delivers gas to over 0.1 million customers in southeastern New York and adjacent areas of northeastern Pennsylvania.

Competitive Energy Businesses

Con Edison pursues competitive energy opportunities through three wholly-owned subsidiaries: Con Edison Solutions, Con Edison Energy and Con Edison Development. These businesses sell to retail customers electricity purchased in wholesale markets and enter into related hedging transactions, provide energy-related products and services to wholesale and retail customers, and develop, own and operate renewable and energy infrastructure projects. During the three months ended June 30, 2015, Con Edison initiated a plan to actively market and sell the retail electric supply business of its competitive energy businesses (see Note O to the Second Quarter Financial Statements). At June 30, 2015, Con Edison's equity investment in its competitive energy businesses was $679 million and their assets were $1,549 million (including $167 million of assets classified as held for sale).

Certain financial data of Con Edison's businesses are presented below:

	Three Months Ended June 30, 2015						Six Months Ended June 30, 2015						At June 30, 2015		
(Millions of Dollars, except percentages)	Operating Revenues			Net Income for Common Stock			Operating Revenues			Net Income for Common Stock			Assets		
CECONY	$2,283	82	%	$211	96	%	$5,292	83	%	$559	95	%	$39,701	89	%
O&R	178	6	%	(7)	(3	)%	411	6	%	16	3	%	2,683	6	%
Total Utilities	2,461	88	%	204	93	%	5,703	89	%	575	98	%	42,384	95	%
Con Edison Solutions (a)(b)	290	10	%	6	3	%	620	10	%	—	—	%	353	1	%
Con Edison Energy (a)(b)	24	1	%	1	—	%	55	1	%	5	1	%	171	—	%

Con Edison Development	13	1%	10	5%	23	—%	14	2%	1,105	2%
Other (c)	—	—%	(2)	(1)%	3	—%	(5)	(1)%	738	2%
Total Con Edison	$2,788	100%	$219	100%	$6,404	100%	$589	100%	$44,751	100%

(a) Net income from the competitive energy businesses for the three and six months ended June 30, 2015 includes $(9) million and $(5) million, respectively, of net after-tax mark-to-market gains/(losses) (Con Edison Solutions, $(10) million and $(3) million and Con Edison Energy, $1 million and $(2) million).

(b) Operating revenues and net income from the competitive energy businesses for the three and six months ended June 30, 2015 includes $277 million and $594 million, and $8 million and $3 million, respectively, related to their retail electric supply business. Assets at June 30, 2015 include assets classified as held for sale of $167 million (see Note O to the Second Quarter Financial Statements).

(c) Other includes parent company and consolidation adjustments.

Table of Contents

Results of Operations

Net income for common stock and earnings per share for the three and six months ended June 30, 2015 and 2014 were as follows:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2015	2014	2015	2014	2015	2014	2015	2014
(Millions of Dollars, except per share amounts)	Net Income for Common Stock		Earnings per Share		Net Income for Common Stock		Earnings per Share	
CECONY	$211	$172	$0.72	$0.58	$559	$506	$1.91	$1.73
O&R	(7)	8	(0.02)	0.03	16	29	0.05	0.10
Competitive energy businesses (a)(b)	17	33	0.06	0.12	19	42	0.07	0.14
Other (c)	(2)	(1)	(0.01)	—	(5)	(3)	(0.02)	(0.01)
Con Edison (d)	$219	$212	$0.75	$0.73	$589	$574	$2.01	$1.96

(a) Includes $9 million or $0.03 a share and $3 million or $0.01 a share of net after-tax mark-to-market losses for the three months ended June 30, 2015 and 2014, respectively, and $(5) million or $(0.02) a share and $9 million or $0.03 a share of net after-tax mark-to-market gains/(losses) for the six months ended June 30, 2015 and 2014, respectively. Includes an after-tax gain on sale of solar electric production projects of $26 million or $0.09 a share for the three and six months ended June 30, 2014. Also includes an after-tax benefit of $7 million or $0.02 a share relating to the lease in/lease out (LILO) transactions terminated in 2013 for the six months ended June 30, 2014.

(b) Includes $8 million or $0.03 a share and $(2) million or $(0.01) a share of net income/(loss) for the three months ended June 30, 2015 and 2014, respectively, and $3 million or $0.01 a share and $(4) million or $(0.01) a share of net income/(loss) for the six months ended June 30, 2015 and 2014, respectively, related to the retail electric supply business. See Note O to the Second Quarter Financial Statements. These amounts reflect net after-tax mark-to-market gains/(losses) of $(10) million or $(0.03) a share and $(3) million or $(0.01) a share for the three months ended June 30, 2015 and 2014, respectively, and $(3) million or $(0.01) a share and $9 million or $0.03 a share for the six months ended June 30, 2015 and 2014, respectively.

(c) Other includes parent company and consolidation adjustments.

(d) Earnings per share on a diluted basis were $0.74 a share and $0.72 a share for the three months ended June 30, 2015 and 2014, respectively, and $2.01 a share and $1.95 a share for the six months ended June 30, 2015 and 2014, respectively.

The Companies' results of operations for the three and six months ended June 30, 2015, as compared with the 2014 periods, reflect primarily changes in the Utilities' rate plans, including growth in its gas delivery service related to oil-to-gas conversions, and lower other operations and maintenance expenses, offset in part by higher interest expense related to debt financing. The rate plans provide for revenues to cover expected increases in certain other operations and maintenance expenses and depreciation, reflecting primarily the impact of higher utility plant balances. The results of operations also include the net mark-to-market effects of the competitive energy businesses, the gain on sale of solar electric production projects and the impact of the LILO transactions in 2014.

Table of Contents

The following table presents the estimated effect on earnings per share and net income for common stock for the three and six months ended June 30, 2015 periods as compared with 2014 periods, resulting from these and other major factors:

(Millions of Dollars, except per share amounts)	Three Months Variation		Six Months Variation	
	Earnings per Share Variation	Net Income for Common Stock Variation	Earnings per Share Variation	Net Income for Common Stock Variation
CECONY (a)				
Rate plans, primarily to recover increases in certain costs	$0.14	$40	$0.19	$57
Other operations and maintenance expenses	0.02	7	0.07	20
Depreciation and amortization	(0.02)	(5)	(0.05)	(15)
Net interest expense	(0.02)	(8)	(0.05)	(16)
Other	0.02	5	0.02	7
Total CECONY	0.14	39	0.18	53
O&R (a)				
Rate plans (b)	(0.02)	(7)	(0.01)	(2)
Other operations and maintenance expenses	(0.02)	(5)	(0.03)	(7)
Other	(0.01)	(3)	(0.01)	(4)
Total O&R	(0.05)	(15)	(0.05)	(13)
Competitive energy businesses				
Operating revenues less energy costs	0.03	9	0.03	10
Gain on sale of solar electric production projects	(0.09)	(26)	(0.09)	(26)
Other operations and maintenance expenses	(0.01)	(2)	(0.02)	(7)
Net interest expense	—	1	(0.02)	(7)
Other	0.01	2	0.03	7
Total competitive energy businesses (c)	(0.06)	(16)	(0.07)	(23)
Other, including parent company expenses	(0.01)	(1)	(0.01)	(2)
Total variations	$0.02	$7	$0.05	$15

(a) Under the revenue decoupling mechanisms in the Utilities' New York electric and gas rate plans and the weather-normalization clause applicable to their gas businesses, revenues are generally not affected by changes in delivery volumes from levels assumed when rates were approved. Under the rate plans, pension and other postretirement costs and certain other costs are reconciled to amounts reflected in rates for such costs. In general, the Utilities recover on a current basis the fuel, gas purchased for resale and purchased power costs they incur in supplying energy to their full-service customers. Accordingly, such costs do not generally affect the Companies' results of operations.

(b) These variations primarily reflect the charge-off of certain regulatory assets for the three and six months ended June 30, 2015 ($11 million after-tax or $0.04 a share). See "Rate Plans - O&R New York - Electric and Gas" in Note B to the Second Quarter Financial Statements.

(c) These variations include the net mark-to-market effects and the impact of the LILO transactions shown in note (a) in the Results of Operations table above.

The Companies' other operations and maintenance expenses for the three and six months ended June 30, 2015 and 2014 were as follows:

	Three Months Ended June 30,	Six Months Ended June 30,

(Millions of Dollars)	2015	2014	2015	2014
CECONY				
Operations	$348	$342	$690	$710
Pensions and other postretirement benefits	91	117	182	234
Health care and other benefits	38	39	78	75
Regulatory fees and assessments (a)	126	114	280	238
Other	84	87	160	167
Total CECONY	687	699	1,390	1,424
O&R	85	76	167	154
Competitive energy businesses	31	27	61	50
Other (b)	(1)	(1)	(2)	(1)
Total other operations and maintenance expenses	$802	$801	$1,616	$1,627

(a) Includes Demand Side Management, System Benefit Charges and Public Service Law 18A assessments which are collected in revenues.

(b) Includes parent company and consolidation adjustments.

Table of Contents

Con Edison’s principal business segments are CECONY’s regulated utility activities, O&R’s regulated utility activities and Con Edison’s competitive energy businesses. CECONY’s principal business segments are its regulated electric, gas and steam utility activities. A discussion of the results of operations by principal business segment for the three and six months ended June 30, 2015 and 2014 follows. For additional business segment financial information, see Note J to the Second Quarter Financial Statements.

Three Months Ended June 30, 2015 Compared with Three Months Ended June 30, 2014
The Companies’ results of operations in 2015 compared with 2014 were:

	CECONY		O&R		Competitive Energy Businesses		Other (a)		Con Edison (b)	
(Millions of Dollars)	Increases (Decreases) Amount	Increases (Decreases) Percent	Increases (Decreases) Amount	Increases (Decreases) Percent	Increases (Decreases) Amount	Increases (Decreases) Percent	Increases (Decreases) Amount	Increases (Decreases) Percent	Increases (Decreases) Amount	Increases (Decreases) Percent
Operating revenues	$(153)	(6.3)%	$(14)	(7.3)%	$44	15.5%	$—	—	$(123)	(4.2)%
Purchased power	(159)	(30.8)	2	3.8	34	15.9	—	—	(123)	(15.7)
Fuel	(3)	(8.8)	—	—	—	—	—	—	(3)	(8.8)
Gas purchased for resale	(50)	(48.1)	(6)	(40.0)	(6)	(18.8)	—	—	(62)	(41.1)
Other operations and maintenance	(12)	(1.7)	9	11.8	4	14.8	—	—	1	0.1
Depreciation and amortization	7	2.8	2	13.3	2	50.0	—	—	11	4.2
Taxes, other than income taxes	(10)	(2.2)	1	7.1	—	—	—	—	(9)	(1.9)
Gain on sale of solar electric production projects	—	—	—	—	(45)	—	—	—	(45)	—
Operating income	74	19.2	(22)	Large	(35)	(72.9)	—	—	17	3.7
Other income less deductions	1	33.3	(2)	Large	1	9.1	1	Large	1	11.1
Net interest expense	13	9.8	1	12.5	(1)	(50.0)	(1)	(14.3)%	12	8.0
Income before income tax expense	62	24.8	(25)	Large	(33)	(57.9)	2	28.6	6	1.9

Income tax expense	23	29.5		(10)	Large	(17)	(70.8	)	3	50.0	(1)	(1.0	)
Net income for common stock	$39	22.7	%	$(15)	Large	$(16)	(48.5	)%	$(1)	Large	$7	3.3	%

(a) Includes parent company and consolidation adjustments.
(b) Represents the consolidated financial results of Con Edison and its businesses.

Table of Contents

CECONY

(Millions of Dollars)	Three Months Ended June 30, 2015 Electric	Gas	Steam	2015 Total	Three Months Ended June 30, 2014 Electric	Gas	Steam	2014 Total	2015-2014 Variation
Operating revenues	$1,879	$308	$96	$2,283	$1,978	$360	$98	$2,436	$(153)
Purchased power	350	—	8	358	505	—	12	517	(159)
Fuel	15	—	16	31	20	—	14	34	(3)
Gas purchased for resale	—	54	—	54	—	104	—	104	(50)
Other operations and maintenance	535	107	45	687	546	107	46	699	(12)
Depreciation and amortization	201	35	18	254	195	33	19	247	7
Taxes, other than income taxes	356	58	25	439	365	62	22	449	(10)
Operating income	$422	$54	$(16)	$460	$347	$54	$(15)	$386	$74

Electric
CECONY's results of electric operations for the three months ended June 30, 2015 compared with the 2014 period is as follows:

(Millions of Dollars)	Three Months Ended June 30, 2015	June 30, 2014	Variation
Operating revenues	$1,879	$1,978	$(99)
Purchased power	350	505	(155)
Fuel	15	20	(5)
Other operations and maintenance	535	546	(11)
Depreciation and amortization	201	195	6
Taxes, other than income taxes	356	365	(9)
Electric operating income	$422	$347	$75

CECONY's electric sales and deliveries for the three months ended June 30, 2015 compared with the 2014 period were:

Description	Millions of kWhs Delivered Three Months Ended June 30, 2015	June 30, 2014	Variation	Percent Variation	Revenues in Millions (a) Three Months Ended June 30, 2015	June 30, 2014	Variation	Percent Variation
Residential/Religious (b)	2,207	2,091	116	5.5 %	$578	$595	$(17)	(2.9)%
Commercial/Industrial	2,246	2,285	(39)	(1.7)	448	472	(24)	(5.1)
Energy choice customers	6,116	6,099	17	0.3	618	600	18	3.0
NYPA, Municipal Agency and other sales	2,374	2,453	(79)	(3.2)	141	154	(13)	(8.4)
Other operating revenues (c)	—	—	—	—	94	157	(63)	(40.1)
Total	12,943	12,928	15	0.1 %(d)	$1,879	$1,978	$(99)	(5.0)%

(a) Revenues from electric sales are subject to a revenue decoupling mechanism, as a result of which delivery revenues generally are not affected by changes in delivery volumes from levels assumed when rates were approved.

(b) "Residential/Religious" generally includes single-family dwellings, individual apartments in multi-family dwellings, religious organizations and certain other not-for-profit organizations.

(c) Other electric operating revenues generally reflect changes in regulatory assets and liabilities in accordance with the revenue decoupling mechanism and other provisions of the company's rate plans.

(d) After adjusting for variations, principally weather and billing days, electric delivery volumes in CECONY's service area decreased 1.2 percent in the three months ended June 30, 2015 compared with the 2014 period.

Table of Contents

Operating revenues decreased $99 million in the three months ended June 30, 2015 compared with the 2014 period due primarily to lower purchased power ($155 million) and fuel expenses ($5 million), offset in part by higher revenues from the electric rate plan ($65 million).

Purchased power expenses decreased $155 million in the three months ended June 30, 2015 compared with the 2014 period due to a decrease in unit costs ($167 million), offset by higher purchased volumes ($12 million).

Fuel expenses decreased $5 million in the three months ended June 30, 2015 compared with the 2014 period due to lower unit costs ($6 million), offset by higher sendout volumes from the company’s electric generating facilities ($1 million).

Other operations and maintenance expenses decreased $11 million in the three months ended June 30, 2015 compared with the 2014 period due primarily to lower pension costs ($21 million) and lower costs for the support and protection of company underground facilities to accommodate New York City municipal projects ($3 million), offset in part by an increase in the surcharges for assessments and fees that are collected in revenues from customers ($13 million).

Depreciation and amortization increased $6 million in the three months ended June 30, 2015 compared with the 2014 period due primarily to higher electric utility plant balances.

Taxes, other than income taxes decreased $9 million in the three months ended June 30, 2015 compared with the 2014 period principally due to the elimination of the New York City subsidiary capital tax ($3 million), lower payroll taxes ($2 million) and lower state and local revenue taxes ($2 million).

Gas

CECONY’s results of gas operations for the three months ended June 30, 2015 compared with the 2014 period is as follows:

	Three Months Ended		
(Millions of Dollars)	June 30, 2015	June 30, 2014	Variation
Operating revenues	$308	$360	$(52)
Gas purchased for resale	54	104	(50)
Other operations and maintenance	107	107	—
Depreciation and amortization	35	33	2
Taxes, other than income taxes	58	62	(4)
Gas operating income	$54	$54	$—

CECONY’s gas sales and deliveries, excluding off-system sales, for the three months ended June 30, 2015 compared with the 2014 period were:

	Thousands of Dt Delivered Three Months Ended				Revenues in Millions (a) Three Months Ended			
Description	June 30, 2015	June 30, 2014	Variation	Percent Variation	June 30, 2015	June 30, 2014	Variation	Percent Variation
Residential	9,048	8,779	269	3.1 %	$146	$165	$(19)	(11.5)%
General	6,125	5,936	189	3.2	57	75	(18)	(24.0)
Firm transportation	14,640	14,341	299	2.1	97	102	(5)	(4.9)
Total firm sales and transportation	29,813	29,056	757	2.6	(b) 300	342	(42)	(12.3)

Interruptible sales (c)	1,321	3,536	(2,215)	(62.6)	11	33	(22)	(66.7)
NYPA	10,035	13,402	(3,367)	(25.1)	1	1	—	—
Generation plants	19,217	18,575	642	3.5	7	7	—	—
Other	4,116	6,398	(2,282)	(35.7)	7	13	(6)	(46.2)
Other operating revenues (d)	—	—	—	—	(18)	(36)	18	50.0
Total	64,502	70,967	(6,465)	(9.1)%	$308	$360	$(52)	(14.4)%

46

Table of Contents

(a) Revenues from gas sales are subject to a weather normalization clause and a revenue decoupling mechanism as a result of which delivery revenues are generally not affected by changes in delivery volumes from levels assumed when rates were approved. Delivery revenues, however, are affected by changes in volumes attributable to changes in the average number of customers.

(b) After adjusting for variations, principally weather and billing days, firm gas sales and transportation volumes in the company's service area increased 5.2 percent in the three months ended June 30, 2015 compared with the 2014 period reflecting primarily increased volumes attributable to additional customers that have converted from oil-to-gas as heating fuel for their buildings.

(c) Includes 1,635 thousands of Dt for the 2014 period, which is also reflected in firm transportation and other.

(d) Other gas operating revenues generally reflect changes in regulatory assets and liabilities in accordance with the company's rate plans.

Operating revenues decreased $52 million in the three months ended June 30, 2015 compared with the 2014 period due primarily to a decrease in gas purchased for resale expense ($50 million).

Gas purchased for resale decreased $50 million in the three months ended June 30, 2015 compared with the 2014 period due to lower unit costs ($51 million), offset by higher sendout volumes ($1 million).

Depreciation and amortization increased $2 million in the three months ended June 30, 2015 compared with the 2014 period due primarily to higher gas utility plant balances.

Taxes, other than income taxes decreased $4 million in the three months ended June 30, 2015 compared with the 2014 period principally due to lower state and local revenue taxes ($3 million) and lower property taxes ($1 million).

Steam

CECONY's results of steam operations for the three months ended June 30, 2015 compared with the 2014 period is as follows:

	Three Months Ended		
(Millions of Dollars)	June 30, 2015	June 30, 2014	Variation
Operating revenues	$96	$98	$(2)
Purchased power	8	12	(4)
Fuel	16	14	2
Other operations and maintenance	45	46	(1)
Depreciation and amortization	18	19	(1)
Taxes, other than income taxes	25	22	3
Steam operating income	$(16)	$(15)	$(1)

CECONY's steam sales and deliveries for the three months ended June 30, 2015 compared with the 2014 period were:

	Millions of Pounds Delivered Three Months Ended				Revenues in Millions Three Months Ended			
Description	June 30, 2015	June 30, 2014	Variation	Percent Variation	June 30, 2015	June 30, 2014	Variation	Percent Variation
General	68	76	(8)	(10.5)%	$4	$4	$—	—
Apartment house	1,121	1,210	(89)	(7.4)	29	31	(2)	(6.5)%
Annual power	2,607	2,761	(154)	(5.6)	71	73	(2)	(2.7)
Other operating revenues (a)	—	—	—	—	(8)	(10)	2	20.0

Total	3,796	4,047	(251	)	(6.2	)% (b)	$96	$98	$(2)	(2.0	)%

(a) Other steam operating revenues generally reflect changes in regulatory assets and liabilities in accordance with the company's rate plans.

(b) After adjusting for variations, principally weather and billing days, steam sales and deliveries decreased 6.4 percent in three months ended June 30, 2015 compared with the 2014 period.

Operating revenues decreased $2 million in the three months ended June 30, 2015 compared with the 2014 period due primarily to lower purchased power costs ($4 million), offset in part by higher fuel expenses ($2 million).

Purchased power expenses decreased $4 million in the three months ended June 30, 2015 compared with the 2014 period due to a decrease in unit costs ($2 million) and lower purchased volumes ($2 million).

Table of Contents

Fuel expenses increased $2 million in the three months ended June 30, 2015 compared with the 2014 period due to higher unit costs ($2 million).

Other operations and maintenance expenses decreased $1 million in the three months ended June 30, 2015 compared with the 2014 period due primarily to lower costs for the support and protection of company underground facilities to accommodate New York City municipal projects.

Depreciation and amortization decreased $1 million in the three months ended June 30, 2015 compared with the 2014 period.

Taxes, other than income taxes increased $3 million in the three months ended June 30, 2015 compared with the 2014 period principally due to higher property taxes.

Net Interest Expense

Net interest expense increased $13 million in the three months ended June 30, 2015 compared with the 2014 period due primarily to new debt issuances in late 2014.

Income Tax Expense

Income taxes increased $23 million in the three months ended June 30, 2015 compared with the 2014 period due primarily to higher income before income tax expense.

O&R

	Three Months Ended June 30, 2015			Three Months Ended June 30, 2014			
(Millions of Dollars)	Electric	Gas	2015 Total	Electric	Gas	2014 Total	2015-2014 Variation
Operating revenues	$162	$16	$178	$157	$35	$192	$(14)
Purchased power	54	—	54	52	—	52	2
Gas purchased for resale	—	9	9	—	15	15	(6)
Other operations and maintenance	68	17	85	59	17	76	9
Depreciation and amortization	13	4	17	11	4	15	2
Taxes, other than income taxes	11	4	15	10	4	14	1
Operating income	$16	$(18)	$(2)	$25	$(5)	$20	$(22)

Electric

O&R's results of electric operations for the three months ended June 30, 2015 compared with the 2014 period is as follows:

	Three Months Ended		
(Millions of Dollars)	June 30, 2015	June 30, 2014	Variation
Operating revenues	$162	$157	$5
Purchased power	54	52	2
Other operations and maintenance	68	59	9
Depreciation and amortization	13	11	2
Taxes, other than income taxes	11	10	1
Electric operating income	$16	$25	$(9)

48

Table of Contents

O&R's electric sales and deliveries for the three months ended June 30, 2015 compared with the 2014 period were:

Description	Millions of kWhs Delivered Three Months Ended June 30, 2015	June 30, 2014	Variation	Percent Variation	Revenues in Millions (a) Three Months Ended June 30, 2015	June 30, 2014	Variation	Percent Variation
Residential/Religious (b)	364	328	36	11.0 %	$74	$65	$9	13.8 %
Commercial/Industrial	195	196	(1)	(0.5)	33	33	—	—
Energy choice customers	784	796	(12)	(1.5)	50	47	3	6.4
Public authorities	25	24	1	4.2	2	2	—	—
Other operating revenues (c)	—	—	—	—	3	10	(7)	(70.0)
Total	1,368	1,344	24	1.8 %(d)	$162	$157	$5	3.2 %

(a) O&R's New York electric delivery revenues are subject to a revenue decoupling mechanism, as a result of which delivery revenues are generally not affected by changes in delivery volumes from levels assumed when rates were approved. O&R's electric sales in New Jersey and Pennsylvania are not subject to a decoupling mechanism, and as a result, changes in such volumes do impact revenues.

(b) "Residential/Religious" generally includes single-family dwellings, individual apartments in multi-family dwellings, religious organizations and certain other not-for-profit organizations.

(c) Other electric operating revenues generally reflect changes in regulatory assets and liabilities in accordance with the company's electric rate plan.

(d) After adjusting for weather and other variations, electric delivery volumes in O&R's service area increased 0.4 percent in the three months ended June 30, 2015 compared with the 2014 period.

Operating revenues increased $5 million in the three months ended June 30, 2015 compared with the 2014 period due primarily to higher revenues from the New York electric rate plan ($8 million) and higher purchased power expenses ($2 million), offset in part by the charge-off of certain regulatory assets ($4 million). See "Rate Plans - O&R New York - Electric and Gas" in Note B to the Second Quarter Financial Statements.

Purchased power expenses increased $2 million in the three months ended June 30, 2015 compared with the 2014 period due to an increase in unit costs ($5 million), offset by a decrease in purchased volumes ($3 million).

Other operations and maintenance expenses increased $9 million in the three months ended June 30, 2015 compared with the 2014 period due primarily to higher tree trimming costs ($3 million), an increase in surcharges for assessments and fees that are collected in revenues from customers ($2 million) and increase in storm costs ($2 million).

Depreciation and amortization increased $2 million in the three months ended June 30, 2015 compared with the 2014 period due primarily to higher electric utility plant balances.

Taxes, other than income taxes increased $1 million in the three months ended June 30, 2015 compared with the 2014 period principally due to higher state and local revenue taxes.

Gas

O&R's results of gas operations for the three months ended June 30, 2015 compared with the 2014 period is as follows:

(Millions of Dollars)	Three Months Ended June 30, 2015	June 30, 2014	Variation

Operating revenues	$16	$35	$(19)
Gas purchased for resale	9	15	(6)
Other operations and maintenance	17	17	—
Depreciation and amortization	4	4	—
Taxes, other than income taxes	4	4	—
Gas operating income	$(18)	$(5)	$(13)

Table of Contents

O&R's gas sales and deliveries, excluding off-system sales, for the three months ended June 30, 2015 compared with the 2014 period were:

Description	Thousands of Dt Delivered Three Months Ended June 30, 2015	June 30, 2014	Variation	Percent Variation	Revenues in Millions (a) Three Months Ended June 30, 2015	June 30, 2014	Variation	Percent Variation
Residential	929	991	(62)	(6.3)%	$12	$16	$(4)	(25.0)%
General	207	205	2	1.0	2	3	(1)	(33.3)
Firm transportation	1,668	1,774	(106)	(6.0)	12	13	(1)	(7.7)
Total firm sales and transportation	2,804	2,970	(166)	(5.6) (b)	26	32	(6)	(18.8)
Interruptible sales	1,048	1,064	(16)	(1.5)	1	—	1	Large
Generation plants	1	22	(21)	(95.5)	—	—	—	—
Other	119	131	(12)	(9.2)	—	—	—	—
Other gas revenues	—	—	—	—	(11)	3	(14)	Large
Total	3,972	4,187	(215)	(5.1)%	$16	$35	$(19)	(54.3)%

(a) Revenues from New York gas sales are subject to a weather normalization clause and a revenue decoupling mechanism as a result of which delivery revenues are generally not affected by changes in delivery volumes from levels assumed when rates were approved. Delivery revenues, however, are affected by changes in volumes attributable to changes in the average number of customers.

(b) After adjusting for weather and other variations, total firm sales and transportation volumes increased 3.5 percent in three months ended June 30, 2015 compared with the 2014 period.

Operating revenues decreased $19 million in the three months ended June 30, 2015 compared with the 2014 period due primarily to the charge-off of certain regulatory assets ($14 million) and a decrease in gas purchased for resale ($6 million). See "Rate Plans - O&R New York - Electric and Gas" in Note B to the Second Quarter Financial Statements.

Gas purchased for resale decreased $6 million in the three months ended June 30, 2015 compared with the 2014 period due to a decrease in purchased volumes ($17 million), offset by an increase in unit costs ($11 million).

Income Tax Expense

Income taxes decreased $10 million in the three months ended June 30, 2015 compared with the 2014 period due primarily to lower income before income tax expense.

Competitive Energy Businesses

The competitive energy businesses' results of operations for the three months ended June 30, 2015 compared with the 2014 period is as follows:

(Millions of Dollars)	Three Months Ended June 30, 2015	June 30, 2014	Variation
Operating revenues	$328	$284	$44
Purchased power	248	214	34
Gas purchased for resale	26	32	(6)
Other operations and maintenance	31	27	4
Depreciation and amortization	6	4	2
Taxes, other than income taxes	4	4	—
(Gain) on sale of solar electric production projects	—	(45)	45

Operating income	$13	$48	$(35)

Operating revenues increased $44 million in the three months ended June 30, 2015 compared with the 2014 period, due primarily to higher electric retail revenues. Electric retail revenues increased $52 million due to higher sales volume ($45 million) and higher unit prices ($7 million). Wholesale revenues decreased $12 million due to lower sales volumes. Solar revenues decreased $1 million primarily due to Con Edison Development’s May 2014 sale of 50 percent of its membership interest in CED California Holdings Financing I, LLC (California Solar). Net mark-to-market values decreased $11 million, of which $12 million in losses are reflected in purchased power

Table of Contents

expenses and $1 million in gains are reflected in revenues. Other revenues increased $4 million due primarily to higher energy services revenues.

Purchased power expenses increased $34 million in the three months ended June 30, 2015 compared with the 2014 period due primarily to higher volumes ($35 million) and changes in mark-to-market losses ($12 million), offset by lower unit prices ($13 million).

Gas purchased for resale decreased $6 million in the three months ended June 30, 2015 compared with the 2014 period due primarily to lower volumes.

Other operations and maintenance expenses increased $4 million in the three months ended June 30, 2015 compared with the 2014 period due primarily to an increase in solar electric production projects in operation during 2015.

Depreciation and amortization increased $2 million in the three months ended June 30, 2015 compared with the 2014 period due an increase in solar electric production projects in operation during 2015.

Gain on sale of solar electric production projects decreased $45 million reflecting Con Edison Development's May 2014 sale of 50 percent of its membership interest in California Solar.

Income Tax Expense
Income taxes decreased $17 million in the three months ended June 30, 2015 compared with the 2014 period due primarily to lower income before income tax expense and higher production tax credits and amortization of investment tax credits ($3 million).

Other
For Con Edison, “Other” includes parent company and consolidation adjustments.

Table of Contents

Six Months Ended June 30, 2015 Compared with Six Months Ended June 30, 2014
The Companies' results of operations in 2015 compared with 2014 were:

(Millions of Dollars)	CECONY		O&R		Competitive Energy Businesses		Other (a)		Con Edison (b)	
	Increases (Decreases) Amount	Increases (Decreases) Percent	Increases (Decreases) Amount	Increases (Decreases) Percent	Increases (Decreases) Amount	Increases (Decreases) Percent	Increases (Decreases) Amount	Increases (Decreases) Percent	Increases (Decreases) Amount	Increases (Decreases) Percent
Operating revenues	$(349)	(6.2)%	$(37)	(8.3)%	$90	14.7%	$—	—	$(296)	(4.4)%
Purchased power	(238)	(21.0)	(15)	(12.5)	51	10.4	—	—	(202)	(11.6)
Fuel	(4)	(2.1)	—	—	—	—	—	—	(4)	(2.1)
Gas purchased for resale	(199)	(44.1)	(24)	(43.6)	22	47.8	1	Large	(200)	(36.3)
Other operations and maintenance	(34)	(2.4)	13	8.4	11	22.0	(1)	Large	(11)	(0.7)
Depreciation and amortization	25	5.1	5	17.2	—	—	(1)	—	29	5.5
Taxes, other than income taxes	(12)	(1.3)	—	—	1	11.1	—	—	(11)	(1.1)
Gain on sale of solar electric production projects	—	—	—	—	(45)	—	—	—	(45)	—
Operating income	113	11.0	(16)	(27.1)	(40)	(80.0)	1	Large	58	5.1
Other income less deductions	(3)	Large	(2)	(66.7)	2	15.4	(3)	Large	(6)	(30.0)
Net interest expense	26	9.8	1	5.9	12	Large	(2)	(14.3)%	37	12.9
Income before income tax expense	84	10.9	(19)	(42.2)	(50)	(69.4)	—	—	15	1.7
Income tax expense	31	11.8	(6)	(37.5)	(27)	(90.0)	2	25.0	—	—
Net income for common stock	$53	10.5%	$(13)	(44.8)%	$(23)	(54.8)%	$(2)	(66.7)%	$15	2.6%

(a) Includes parent company and consolidation adjustments.
(b) Represents the consolidated financial results of Con Edison and its businesses.

Table of Contents

CECONY

(Millions of Dollars)	Six Months Ended June 30, 2015 Electric	Gas	Steam	2015 Total	Six Months Ended June 30, 2014 Electric	Gas	Steam	2014 Total	2015-2014 Variation
Operating revenues	$3,858	$963	$471	$5,292	$4,053	$1,149	$439	$5,641	$(349)
Purchased power	876	—	21	897	1,103	—	32	1,135	(238)
Fuel	72	—	113	185	112	—	77	189	(4)
Gas purchased for resale	—	252	—	252	—	451	—	451	(199)
Other operations and maintenance	1,079	217	94	1,390	1,116	211	97	1,424	(34)
Depreciation and amortization	403	70	38	511	383	64	39	486	25
Taxes, other than income taxes	728	130	56	914	734	136	56	926	(12)
Operating income	$700	$294	$149	$1,143	$605	$287	$138	$1,030	$113

Electric

CECONY's results of electric operations for the six months ended June 30, 2015 compared with the 2014 period is as follows:

(Millions of Dollars)	Six Months Ended June 30, 2015	June 30, 2014	Variation
Operating revenues	$3,858	$4,053	$(195)
Purchased power	876	1,103	(227)
Fuel	72	112	(40)
Other operations and maintenance	1,079	1,116	(37)
Depreciation and amortization	403	383	20
Taxes, other than income taxes	728	734	(6)
Electric operating income	$700	$605	$95

CECONY's electric sales and deliveries for the six months ended June 30, 2015 compared with the 2014 period were:

Description	Millions of kWhs Delivered Six Months Ended June 30, 2015	June 30, 2014	Variation	Percent Variation	Revenues in Millions (a) Six Months Ended June 30, 2015	June 30, 2014	Variation	Percent Variation
Residential/Religious (b)	4,671	4,507	164	3.6 %	$1,295	$1,382	$(87)	(6.3)%
Commercial/Industrial	4,683	4,746	(63)	(1.3)	975	1,090	(115)	(10.6)
Energy choice customers	12,516	12,535	(19)	(0.2)	1,214	1,122	92	8.2
NYPA, Municipal Agency and other sales	4,957	5,036	(79)	(1.6)	269	287	(18)	(6.3)
Other operating revenues (c)	—	—	—	—	105	172	(67)	(39.0)
Total	26,827	26,824	3	— %(d)	$3,858	$4,053	$(195)	(4.8)%

(a) Revenues from electric sales are subject to a revenue decoupling mechanism, as a result of which delivery revenues generally are not affected by changes in delivery volumes from levels assumed when rates were approved.

(b) "Residential/Religious" generally includes single-family dwellings, individual apartments in multi-family dwellings, religious organizations and certain other not-for-profit organizations.

(c) Other electric operating revenues generally reflect changes in regulatory assets and liabilities in accordance with the revenue decoupling mechanism and other provisions of the company's rate plans.

(d) After adjusting for variations, principally weather and billing days, electric delivery volumes in CECONY's service area decreased 0.8 percent in six months ended June 30, 2015 compared with the 2014 period.

53

Table of Contents

Operating revenues decreased $195 million in the six months ended June 30, 2015 compared with the 2014 period due primarily to lower purchased power ($227 million) and fuel expenses ($40 million), offset in part by higher revenues from the electric rate plan ($77 million).

Purchased power expenses decreased $227 million in the six months ended June 30, 2015 compared with the 2014 period due to a decrease in unit costs ($230 million), offset by higher purchased volumes ($3 million).

Fuel expenses decreased $40 million in the six months ended June 30, 2015 compared with the 2014 period due to lower unit costs ($36 million) and lower sendout volumes from the company’s electric generating facilities ($4 million).

Other operations and maintenance expenses decreased $37 million in the six months ended June 30, 2015 compared with the 2014 period due primarily to lower pension costs ($43 million), lower electric operating costs ($39 million), offset in part by an increase in the surcharges for assessments and fees that are collected in revenues from customers ($43 million).

Depreciation and amortization increased $20 million in the six months ended June 30, 2015 compared with the 2014 period due primarily to higher electric utility plant balances.

Taxes, other than income taxes decreased $6 million in the six months ended June 30, 2015 compared with the 2014 period principally due to the elimination of the New York City subsidiary capital tax ($3 million) and lower property taxes ($3 million).

Gas

CECONY’s results of gas operations for the six months ended June 30, 2015 compared with the 2014 period is as follows:

	Six Months Ended		
(Millions of Dollars)	June 30, 2015	June 30, 2014	Variation
Operating revenues	$963	$1,149	$(186)
Gas purchased for resale	252	451	(199)
Other operations and maintenance	217	211	6
Depreciation and amortization	70	64	6
Taxes, other than income taxes	130	136	(6)
Gas operating income	$294	$287	$7

CECONY’s gas sales and deliveries, excluding off-system sales, for the six months ended June 30, 2015 compared with the 2014 period were:

	Thousands of Dt Delivered Six Months Ended					Revenues in Millions (a) Six Months Ended			
Description	June 30, 2015	June 30, 2014	Variation	Percent Variation		June 30, 2015	June 30, 2014	Variation	Percent Variation
Residential	34,762	31,805	2,957	9.3	%	$449	$528	$(79)	(15.0)%
General	19,545	18,624	921	4.9		181	241	(60)	(24.9)
Firm transportation	49,393	43,391	6,002	13.8		284	279	5	1.8
Total firm sales and transportation	103,700	93,820	9,880	10.5	(b)	914	1,048	(134)	(12.8)
Interruptible sales (c)	4,161	8,660	(4,499)	(52.0)		39	93	(54)	(58.1)

NYPA	19,802	24,869	(5,067)	(20.4)	1	1	—	—	
Generation plants	32,040	31,654	386	1.2	13	15	(2)	(13.3)	
Other	11,773	13,740	(1,967)	(14.3)	15	25	(10)	(40.0)	
Other operating revenues (d)	—	—	—	—	(19)	(33)	14	42.4	
Total	171,476	172,743	(1,267)	(0.7)%	$963	$1,149	$(186)	(16.2)%	

54

Table of Contents

(a) Revenues from gas sales are subject to a weather normalization clause and a revenue decoupling mechanism as a result of which delivery revenues are generally not affected by changes in delivery volumes from levels assumed when rates were approved. Delivery revenues, however, are affected by changes in volumes attributable to changes in the average number of customers.

(b) After adjusting for variations, principally weather and billing days, firm gas sales and transportation volumes in the company's service area increased 8.4 percent in the six months ended June 30, 2015 compared with the 2014 period reflecting primarily increased volumes attributable to additional customers that have converted from oil-to-gas as heating fuel for their buildings.

(c) Includes 1,043 and 5,668 thousands of Dt for 2015 and 2014 periods, respectively, which are also reflected in firm transportation and other.

(d) Other gas operating revenues generally reflect changes in regulatory assets and liabilities in accordance with the company's rate plans.

Operating revenues decreased $186 million in the six months ended June 30, 2015 compared with the 2014 period due primarily to a decrease in gas purchased for resale expenses ($199 million), offset in part by higher revenues from the gas rate plan ($20 million) reflecting primarily higher delivery volumes attributable to oil-to-gas conversions.

Gas purchased for resale decreased $199 million in the six months ended June 30, 2015 compared with the 2014 period due to lower unit costs ($218 million), offset by higher sendout volumes ($19 million).

Other operations and maintenance expenses increased $6 million due primarily to higher operating costs attributable to emergency response ($23 million), offset in part by lower pension costs ($6 million), lower costs for the support and protection of company underground facilities to accommodate New York City municipal projects ($5 million) and a decrease in surcharges for assessments and fees that are collected in revenues from customers ($1 million).

Depreciation and amortization increased $6 million in the six months ended June 30, 2015 compared with the 2014 period due primarily to higher gas utility plant balances.

Taxes, other than income taxes decreased $6 million in the six months ended June 30, 2015 compared with the 2014 period principally due to lower state and local revenue taxes ($5 million) and lower property taxes ($1 million).

Steam

CECONY's results of steam operations for the six months ended June 30, 2015 compared with the 2014 period is as follows:

	Six Months Ended		
(Millions of Dollars)	June 30, 2015	June 30, 2014	Variation
Operating revenues	$471	$439	$32
Purchased power	21	32	(11)
Fuel	113	77	36
Other operations and maintenance	94	97	(3)
Depreciation and amortization	38	39	(1)
Taxes, other than income taxes	56	56	—
Steam operating income	$149	$138	$11

CECONY's steam sales and deliveries for the six months ended June 30, 2015 compared with the 2014 period were:

Millions of Pounds Delivered	Revenues in Millions
Six Months Ended	Six Months Ended

Description	June 30, 2015	June 30, 2014	Variation	Percent Variation	June 30, 2015	June 30, 2014	Variation	Percent Variation
General	441	456	(15)	(3.3)%	$22	$22	$—	—
Apartment house	4,240	4,111	129	3.1	130	119	11	9.2%
Annual power	9,632	9,772	(140)	(1.4)	333	319	14	4.4
Other operating revenues (a)	—	—	—	—	(14)	(21)	7	33.3
Total	14,313	14,339	(26)	(0.2)%(b)	$471	$439	$32	7.3%

(a) Other steam operating revenues generally reflect changes in regulatory assets and liabilities in accordance with the company’s rate plans.

(b) After adjusting for variations, principally weather and billing days, steam sales and deliveries decreased 3.0 percent in six months ended June 30, 2015 compared with the 2014 period.

Table of Contents

Operating revenues increased $32 million in the six months ended June 30, 2015 compared with the 2014 period due primarily to higher fuel expenses ($36 million) and the weather impact on revenues ($7 million), offset in part by lower purchased power costs ($11 million).

Purchased power expenses decreased $11 million in the six months ended June 30, 2015 compared with the 2014 period due to a decrease in unit costs ($10 million) and lower purchased volumes ($1 million).

Fuel expenses increased $36 million in the six months ended June 30, 2015 compared with the 2014 period due to higher unit costs ($34 million) and higher sendout volumes ($2 million).

Other operations and maintenance expenses decreased $3 million in the six months ended June 30, 2015 compared with the 2014 period due primarily to lower costs for the support and protection of company underground facilities to accommodate New York City municipal projects.

Depreciation and amortization decreased $1 million in the six months ended June 30, 2015 compared with the 2014 period.

Other Income (Deductions)
Other income (deductions) decreased $3 million in the six months ended June 30, 2015 compared with the 2014 period due primarily to the gain on sale of certain non-utility property in 2014.

Net Interest Expense
Net interest expense increased $26 million in the six months ended June 30, 2015 compared with the 2014 period due primarily to new debt issuances in late 2014.

Income Tax Expense
Income taxes increased $31 million in the six months ended June 30, 2015 compared with the 2014 period due primarily to higher income before income tax expense.

O&R

	Six Months Ended June 30, 2015			Six Months Ended June 30, 2014			
(Millions of Dollars)	Electric	Gas	2015 Total	Electric	Gas	2014 Total	2015-2014 Variation
Operating revenues	$318	$93	$411	$320	$128	$448	$(37)
Purchased power	105	—	105	120	—	120	(15)
Gas purchased for resale	—	31	31	—	55	55	(24)
Other operations and maintenance	132	35	167	120	34	154	13
Depreciation and amortization	25	9	34	21	8	29	5
Taxes, other than income taxes	22	9	31	22	9	31	—
Operating income	$34	$9	$43	$37	$22	$59	$(16)

Electric
O&R's results of electric operations for the six months ended June 30, 2015 compared with the 2014 period is as follows:

Six Months Ended

(Millions of Dollars)	June 30, 2015	June 30, 2014	Variation
Operating revenues	$318	$320	$(2)
Purchased power	105	120	(15)
Other operations and maintenance	132	120	12
Depreciation and amortization	25	21	4
Taxes, other than income taxes	22	22	—
Electric operating income	$34	$37	$(3)

Table of Contents

O&R's electric sales and deliveries for the six months ended June 30, 2015 compared with the 2014 period were:

Description	Millions of kWhs Delivered Six Months Ended June 30, 2015	June 30, 2014	Variation	Percent Variation		Revenues in Millions (a) Six Months Ended June 30, 2015	June 30, 2014	Variation	Percent Variation	
Residential/Religious (b)	745	704	41	5.8	%	$147	$139	$8	5.8	%
Commercial/Industrial	391	409	(18	)(4.4	)	63	70	(7)	(10.0	)
Energy choice customers	1,578	1,579	(1	)(0.1	)	99	92	7	7.6	
Public authorities	50	49	1	2.0		5	7	(2)	(28.6	)
Other operating revenues (c)	—	—	—	—		4	12	(8)	(66.7	)
Total	2,764	2,741	23	0.8	%(d)	$318	$320	$(2)	(0.6	)%

(a) O&R's New York electric delivery revenues are subject to a revenue decoupling mechanism, as a result of which delivery revenues are generally not affected by changes in delivery volumes from levels assumed when rates were approved. O&R's electric sales in New Jersey and Pennsylvania are not subject to a decoupling mechanism, and as a result, changes in such volumes do impact revenues.

(b) "Residential/Religious" generally includes single-family dwellings, individual apartments in multi-family dwellings, religious organizations and certain other not-for-profit organizations.

(c) Other electric operating revenues generally reflect changes in regulatory assets and liabilities in accordance with the company's electric rate plan.

(d) After adjusting for weather and other variations, electric delivery volumes in O&R's service area decreased 0.7 percent in the six months ended June 30, 2015 compared with the 2014 period.

Operating revenues decreased $2 million in the six months ended June 30, 2015 compared with the 2014 period due primarily to lower purchased power expenses ($15 million) and the charge-off of certain regulatory assets ($4 million), offset in part by higher revenues from the New York electric rate plan ($15 million). See "Rate Plans - O&R New York - Electric and Gas" in Note B to the Second Quarter Financial Statements.

Purchased power expenses decreased $15 million in the six months ended June 30, 2015 compared with the 2014 period due to a decrease in unit costs ($14 million) and a decrease in purchased volumes ($1 million).

Other operations and maintenance expenses increased $12 million in the six months ended June 30, 2015 compared with the 2014 period due primarily to higher tree trimming costs ($4 million), an increase in surcharges for assessments and fees that are collected in revenues from customers ($3 million) and increase in storm costs ($2 million).

Depreciation and amortization increased $4 million in the six months ended June 30, 2015 compared with the 2014 period due primarily to higher electric utility plant balances.

Gas

O&R's results of gas operations for the six months ended June 30, 2015 compared with the 2014 period is as follows:

(Millions of Dollars)	Six Months Ended June 30, 2015	June 30, 2014	Variation
Operating revenues	$93	$128	$(35)
Gas purchased for resale	31	55	(24)
Other operations and maintenance	35	34	1
Depreciation and amortization	9	8	1

Taxes, other than income taxes	9	9	—
Gas operating income	$9	$22	$(13)

57

Table of Contents

O&R's gas sales and deliveries, excluding off-system sales, for the six months ended June 30, 2015 compared with the 2014 period were:

	Thousands of Dt Delivered				Revenues in Millions (a)			
	Six Months Ended				Six Months Ended			
Description	June 30, 2015	June 30, 2014	Variation	Percent Variation	June 30, 2015	June 30, 2014	Variation	Percent Variation
Residential	5,308	5,012	296	5.9 %	$48	$65	$(17)	(26.2)%
General	1,174	1,113	61	5.5	9	13	(4)	(30.8)
Firm transportation	8,032	7,938	94	1.2	43	46	(3)	(6.5)
Total firm sales and transportation	14,514	14,063	451	3.2 (b)	100	124	(24)	(19.4)
Interruptible sales	2,300	2,347	(47)	(2.0)	2	1	1	Large
Generation plants	15	37	(22)	(59.5)	—	—	—	—
Other	605	588	17	2.9	—	—	—	—
Other gas revenues	—	—	—	—	(9)	3	(12)	Large
Total	17,434	17,035	399	2.3 %	$93	$128	$(35)	(27.3)%

(a) Revenues from New York gas sales are subject to a weather normalization clause and a revenue decoupling mechanism as a result of which delivery revenues are generally not affected by changes in delivery volumes from levels assumed when rates were approved. Delivery revenues, however, are affected by changes in volumes attributable to changes in the average number of customers.

(b) After adjusting for weather and other variations, total firm sales and transportation volumes increased 0.3 percent in six months ended June 30, 2015 compared with the 2014 period.

Operating revenues decreased $35 million in the six months ended June 30, 2015 compared with the 2014 period due primarily to the decrease in gas purchased for resale expenses ($24 million) and the charge-off of certain regulatory assets ($14 million). See "Rate Plans - O&R New York - Electric and Gas" in Note B to the Second Quarter Financial Statements.

Gas purchased for resale decreased $24 million in the six months ended June 30, 2015 compared with the 2014 period due to a decrease in unit costs ($13 million) and a decrease in purchased volumes ($11 million).

Other operations and maintenance expenses increased $1 million in the six months ended June 30, 2015 compared with the 2014 period due primarily to an increase in surcharges for assessments and fees that are collected in revenues from customers.

Depreciation and amortization increased $1 million in the six months ended June 30, 2015 compared with the 2014 period due primarily to higher gas utility plant balances.

Income Tax Expense

Income taxes decreased $6 million in the six months ended June 30, 2015 compared with the 2014 period due primarily to lower income before income tax expense, offset in part by higher amortization of New York State's Metropolitan Transportation Authority business tax ($1 million).

Competitive Energy Businesses

The competitive energy businesses' results of operations for the six months ended June 30, 2015 compared with the 2014 period is as follows:

Six Months Ended

(Millions of Dollars)	June 30, 2015	June 30, 2014	Variation
Operating revenues	$702	$612	$90
Purchased power	542	491	51
Gas purchased for resale	68	46	22
Other operations and maintenance	61	50	11
Depreciation and amortization	11	11	—
Taxes, other than income taxes	10	9	1
(Gain) on sale of solar electric production projects	—	(45)	45
Operating income	$10	$50	$(40)

Table of Contents

Operating revenues increased $90 million in the six months ended June 30, 2015 compared with the 2014 period, due primarily to higher electric retail revenues. Electric retail revenues increased $82 million due to higher sales volumes ($83 million), offset by lower unit prices ($1 million). Wholesale revenues decreased $3 million due to lower sales volume. Solar revenues decreased $2 million primarily due to Con Edison Development’s May 2014 sale of 50 percent of its membership interest in California Solar. Net mark-to-market values decreased $23 million, of which $21 million in losses are reflected in purchased power expenses and $2 million in losses are reflected in revenues. Other revenues increased $15 million due primarily to higher energy services revenues.

Purchased power expenses increased $51 million in the six months ended June 30, 2015 compared with the 2014 period due primarily to higher volumes ($70 million) and changes in mark-to-market losses ($21 million), offset by lower unit prices ($40 million).

Gas purchased for resale increased $22 million in the six months ended June 30, 2015 compared with the 2014 period due primarily to higher volumes.

Other operations and maintenance expenses increased $11 million in the six months ended June 30, 2015 compared with the 2014 period due primarily to an increase in solar electric production projects in operation during 2015 and higher health benefit costs.

Taxes, other than income taxes increased $1 million in the six months ended June 30, 2015 compared with the 2014 period principally due to higher property taxes on its renewable electric production investments.

Gain on sale of solar electric production projects decreased $45 million reflecting Con Edison Development's May 2014 sale of 50 percent of its membership interest in California Solar.

Net Interest Expense
Net interest expense increased $12 million in the six months ended June 30, 2015 compared to the 2014 period due primarily to adjustments to accrued interest on taxes relating to the LILO transactions which were terminated in 2013.

Income Tax Expense
Income taxes decreased $27 million in the six months ended June 30, 2015 compared with the 2014 period due primarily to lower income before income tax expense and higher production tax credits and amortization of investment tax credits ($5 million).

Other
For Con Edison, “Other” includes parent company and consolidation adjustments.

Liquidity and Capital Resources
The Companies’ liquidity reflects cash flows from operating, investing and financing activities, as shown on their respective consolidated statement of cash flows and as discussed below.

Changes in the Companies’ cash and temporary cash investments resulting from operating, investing and financing activities for the six months ended June 30, 2015 and 2014 are summarized as follows:

	Con Edison			CECONY		
(Millions of Dollars)	2015	2014	Variance	2015	2014	Variance
Operating activities	$1,486	$1,257	$229	$1,202	$882	$320
Investing activities	(1,725)	(1,233)	(492)	(1,209)	(1,104)	(105)

Financing activities	249	76	173	28	285	(257)
Net change	10	100	(90)	21	63	(42)
Balance at beginning of period	699	674	25	645	633	12
Balance at end of period	$709	$774	$(65)	$666	$696	$(30)

Cash Flows from Operating Activities
The Utilities' cash flows from operating activities reflect principally their energy sales and deliveries and cost of operations. The volume of energy sales and deliveries is affected primarily by factors external to the Utilities, such as growth of customer demand, weather, market prices for energy, economic conditions and measures that promote energy efficiency. Under the revenue decoupling mechanisms in the Utilities' New York electric and gas rate plans, changes in delivery volumes from levels assumed when rates were approved may affect the timing of cash flows but generally not net income. The prices at which the Utilities provide energy to their customers are determined in accordance with their rate plans. In general, changes in the Utilities' cost of purchased power, fuel and gas may affect the timing of cash flows but not net income because the costs are recovered in accordance with rate plans.

Net income is the result of cash and non-cash (or accrual) transactions. Only cash transactions affect the Companies' cash flows from operating activities. Principal non-cash charges or credits include depreciation, deferred income tax expense and amortizations of certain regulatory assets and liabilities. Non-cash charges or credits may also be accrued under the revenue decoupling and cost reconciliation mechanisms in the Utilities' New York electric and gas rate plans.

Net cash flows from operating activities for the six months ended June 30, 2015 for Con Edison and CECONY were $229 million and $320 million higher, respectively, than in 2014. The increase in net cash flows for Con Edison reflects primarily the lower income taxes paid, net of refunds received in 2015 ($527 million) and special deposits applied against accrued taxes in 2014 related to the LILO transactions ($308 million). For CECONY, the increase in net cash flows reflects primarily the lower income taxes paid, net of refunds received in 2015.

The change in net cash flows also reflects the timing of payments for and recovery of energy costs. This timing is reflected within changes to accounts receivable – customers, recoverable energy costs and accounts payable balances.

Cash Flows Used in Investing Activities
Net cash flows used in investing activities for Con Edison and CECONY were $492 million and $105 million higher, respectively, for the six months ended June 30, 2015 compared with the 2014 period. The changes for Con Edison and CECONY reflect increased utility construction expenditures in 2015. In addition, the change for Con Edison reflects primarily the increased investments in/acquisitions of renewable electric production projects ($145 million), the proceeds from sale of solar electric production projects in 2014 ($108 million) and increased non-utility construction expenditures related to solar electric production projects ($65 million).

Cash Flows From Financing Activities
Net cash flows from financing activities for Con Edison and CECONY were $173 million higher and $257 million lower, respectively, in the six months ended June 30, 2015 compared with the 2014 period.

In June 2015, O&R issued $120 million of 4.95 percent 30-year debentures, the net proceeds from the sale of which were used to repay short-term borrowings and for other general corporate purposes. In April 2015, O&R redeemed at maturity $40 million of 5.30 percent 10-year debentures.

In June 2015, a Con Edison Development subsidiary issued $118 million aggregate principal amount of 3.94 percent Senior Notes maturing in 2036.

In March 2014, CECONY issued $850 million of 4.45 percent 30-year debentures, the net proceeds from the sale of which were used to repay short-term borrowings and for other general corporate purposes. In February 2014, CECONY redeemed at maturity $200 million of 4.70 percent 10-year debentures. In April 2014, CECONY redeemed at maturity $275 million of 5.55 percent 5-year debentures.

Cash flows from financing activities of the Companies also reflect commercial paper issuance. The commercial paper amounts outstanding at June 30, 2015 and 2014 and the average daily balances for the six months ended June 30, 2015 and 2014 for Con Edison and CECONY were as follows:

Table of Contents

(Millions of Dollars, except Weighted Average Yield)	2015 Outstanding at June 30,	Daily average	2014 Outstanding at June 30,	Daily average
Con Edison	$1,245	$536	$1,531	$800
CECONY	$995	$183	$1,482	$682
Weighted average yield	0.4%	0.4%	0.2%	0.2%

Capital Requirements and Resources

Con Edison has increased its estimates of capital expenditures by its competitive energy businesses from $375 million to $835 million for 2015 and from $366 million to $985 million for 2016 to reflect additional renewable energy project development. See "Con Edison Development," below.

For each of the Companies, the ratio of earnings to fixed charges (Securities and Exchange Commission basis) for the six months ended June 30, 2015 and 2014 and the twelve months ended December 31, 2014 was:

	Ratio of Earnings to Fixed Charges		
	For the Six Months Ended June 30, 2015	For the Six Months Ended June 30, 2014	For the Twelve Months Ended December 31, 2014
Con Edison (a)	3.5	3.8	3.6
CECONY	3.7	3.7	3.8

(a) Reflects after-tax benefit/(charge) to earnings relating to Con Edison Development's LILO transactions of $7 million and $(1) million for the six months ended June 30, 2014 and twelve months ended December 31, 2014, respectively. Also reflects an after-tax benefit to earnings relating to Con Edison Development's gain on sale of solar electric production projects of $26 million for the six months ended June 30, 2014 and twelve months ended December 31, 2014.

For each of the Companies, the common equity ratio at June 30, 2015 and December 31, 2014 was:

	Common Equity Ratio (Percent of total capitalization)	
	June 30, 2015	December 31, 2014
Con Edison	51.8	52.0
CECONY	50.8	50.7

Other Changes in Assets and Liabilities

The following table shows changes in certain assets and liabilities at June 30, 2015, compared with December 31, 2014.

(Millions of Dollars)	Con Edison 2015 vs. 2014 Variance	CECONY 2015 vs. 2014 Variance
Assets		
Assets held for sale	$167	$—
Regulatory asset — Unrecognized pension and other postretirement costs	(446)	(418)
Income taxes receivable	(224)	—
Liabilities		

Deferred income taxes and investment tax credits	$332	$259
Liabilities held for sale	91	—
Pension and retiree benefits	(494)	(482)

Assets Held for Sale and Liabilities Held for Sale
The increase in assets held for sale and liabilities held for sale reflects Con Edison's plan to actively market and sell the retail electric supply business of its competitive energy businesses. See Note O to the Second Quarter Financial Statements.

Table of Contents

Regulatory Asset for Unrecognized Pension and Other Postretirement Costs and Liability for Pension and Retiree Benefits

The decrease in the regulatory asset for unrecognized pension and other postretirement costs and the liability for pension and retiree benefits reflects the final actuarial valuation of the pension and other retiree benefit plans as measured at December 31, 2014, in accordance with the accounting rules for retirement benefits. The change in the regulatory asset also reflects the year’s amortization of accounting costs. The change in the liability for pension and retiree benefits reflects in part contributions to the plans made by the Utilities in 2015. See Notes B, E and F to the Second Quarter Financial Statements.

Income Taxes Receivable

The decrease in income taxes receivable for Con Edison reflects the refund received in March 2015 from the Internal Revenue Service as a result of the extension of bonus depreciation in December 2014.

Deferred Income Taxes and Investment Tax Credits

The increase in the liability for deferred income taxes and investment tax credits reflects primarily the timing of the deduction of expenditures for utility plant which resulted in amounts being collected from customers to pay income taxes in advance of when the income tax payments will be required. For Con Edison, the increase also reflects the accelerated deductions for expenditures and investment tax credits primarily related to its renewable electric production projects.

Off-Balance Sheet Arrangements

None of the Companies’ interests in variable interest entities (VIEs) meet the SEC definition of off-balance sheet arrangements. For information regarding the Companies’ VIEs, see Note M to the Second Quarter Financial Statements.

Regulatory Matters

In February 2015, the NYSPSC issued an order in its Reforming the Energy Vision (REV) proceeding in which, among other things, the NYSPSC:

- Ordered CECONY, O&R and the other electric utilities to file distributed system implementation plans pursuant to which the utilities, under the NYSPSC’s authority and supervision, would serve as distributed system platforms to optimize the use of distributed energy resources (DER);
- Indicated that the utilities will be allowed to own DER only under limited circumstances, and that utility affiliate ownership of DER within the utility’s service territory will require market power protections;
- Ordered the utilities to file energy efficiency plans with their program costs to be recovered through rates (instead of through the current surcharge);
- Instituted a separate track in the REV proceeding to consider large-scale renewable generation; and
- Indicated that the design and implementation of the reformed energy system will occur over a period of years.

In June 2015, the New York State Energy Research and Development Authority (NYSERDA) submitted a report in the large-scale renewable generation track of the REV proceeding. The report included program design principles and strategies. The NYSPSC requested comments on, among other things: ratepayer funding mechanisms; utility-backed power purchase agreements; financing options; and utility-owned generation.

In July 2015, the NYSPSC staff submitted a white paper on ratemaking and utility business models in the REV proceeding. The NYSPSC staff indicated that the proposals included in the white paper reflect several foundational principles: align earning opportunities with customer value; maintain flexibility; provide accurate and appropriate value signals; maintain a sound electric industry; shift balance of regulatory incentives to market incentives; and achieve public policy objectives. The white paper, among other things, included proposals for: market based earnings opportunities, including distributed system platform revenues; adoption of earnings impact mechanisms to incent peak demand reduction, energy efficiency, customer engagement and information access, affordability and interconnection; retention of existing safety, reliability, customer service and utility-specific performance mechanisms; modifications to rate plan net utility plant reconciliations to encourage cost-effective use of operating resources and third-party investment; tying rate plan earnings sharing mechanisms to a performance index; pre-approval, where appropriate, of investments in distributed system platform capabilities; three-year rate plans, with an opportunity for two-year extensions; and rate design and DER compensation, including net energy metering,

Table of Contents

standby service tariffs, study of demand charges and facilitation of time-of use rates. The NYSPSC has requested comments on the white paper.

In June 2015, the New York State Energy Planning Board released its 2015 State Energy Plan. Under New York State law, any energy-related action or decision of State agencies must be reasonably consistent with the Plan. The Plan reflects clean energy initiatives, including the REV proceeding, NYSERDA's clean energy fund proposal (discussed below), and the following goals for New York State to meet by 2030: a 40 percent reduction in greenhouse gas emissions from 1990 levels; 50 percent of electric generation from renewable energy sources; and a 23 percent decrease in energy consumption in buildings from 2012 levels.

In June 2015, NYSERDA supplemented the clean energy fund proposal it submitted in September 2014 for NYSPSC approval. The proposal is for a 10-year, approximately $5 billion plan, to fund four programs beginning in 2016: market development; innovation and research; NY Green Bank and NY Sun. As proposed, the Utilities would bill clean energy fund surcharges to customers and would no longer bill customers for the energy efficiency portfolio standard, the renewable portfolio standard and system benefit surcharges.

For information about the extension of CECONY's current electric rate plan through 2016, a Joint Proposal, which is subject to NYSPSC approval, for new O&R electric and gas rate plans and additional regulatory matters, see Note B to the Second Quarter Financial Statements.

Environmental Matters

In August 2015, the United States Environmental Protection Agency (EPA) issued its Clean Power Plan to reduce carbon dioxide emissions from existing power plants 32 percent from 2005 levels by 2030. Under the Clean Power Plan, each state is required to submit for EPA approval a plan to reduce its emissions to specified rate-based or equivalent mass-based target levels (as determined in accordance with the Clean Power Plan) applicable to the state. For New York State, the emissions rate-based target level for 2030 is approximately 20 percent below its 2012 emissions rate. State plans may, among other things, include participation in regional cap-and-trade programs, such as the Regional Greenhouse Gas Initiative (in which New York State participates), and renewable energy and energy efficiency programs. State plans are to be submitted to the EPA in 2016, with possible extensions to 2018, and are to be in effect not later than 2022. The costs resulting from the Clean Power Plan could be substantial.

Table of Contents

Con Edison Development

The following table provides information about the renewable electric production projects Con Edison Development owned at June 30, 2015:

Project Name	Production Technology	Generating Capacity (a) (MWs AC)	PPA Term (In Years)	Actual/Expected In-Service Date	Location (State)
Wholly owned projects					
Flemington	Solar	8	n/a (b)	2011	New Jersey
Frenchtown I, II and III	Solar	14	n/a (b)	2011-13	New Jersey
PA Solar	Solar	10	n/a (b)	2012	Pennsylvania
Shrewsbury	Solar	3	20 (b)	2012	Massachusetts
Groveland	Solar	3	20 (b)	2012	Massachusetts
White River 2	Solar	20	20	2014	California
Oak Tree Wind	Wind	20	20	2014	South Dakota
Texas Solar 3	Solar	5	25	2015	Texas
Corcoran 2	Solar	20	20	2015	California
Atwell West	Solar	20	20	2015	California
Projects of less than 3 MW	Solar	14	Various	Various	Various
Jointly owned projects					
Pilesgrove	Solar	9	n/a (b)	2011	New Jersey
California Solar	Solar	55	25	2012-13	California
Mesquite Solar 1	Solar	83	20	2013	Arizona
Copper Mountain Solar 2 Phase 1 and 2	Solar	75	25	2013-15	Nevada
Copper Mountain Solar 3	Solar	128	20	2014-15	Nevada
Broken Bow II	Wind	37	25	2014	Nebraska
Texas Solar 4	Solar	32	25	2014	Texas
Total MW in Operation		556			
Alamo Solar 5 (c)	Solar	95	25	2015	Texas
Campbell County Wind (d)	Wind	95	30	2015	South Dakota
Corcoran 3	Solar	20	20	2015	California
California Solar 3 (e)	Solar	110	20	2016	California
Total MW in Construction		320			
Total MW		876			

(a) Represents Con Edison Development's ownership interest in the project.

(b) New Jersey, Pennsylvania and Massachusetts assets have 3-5 year Solar Renewable Energy Credit hedges in place.

(c) In May 2015, Con Edison Development purchased a company that is the owner of a 95 MW (AC) solar electric production project in Uvalde, Texas (Alamo Solar 5). The total cost of the project is expected to be approximately $310 million. Electricity generated by the project is to be purchased by the City of San Antonio pursuant to a long-term power purchase agreement.

(d) In June 2015, Con Edison Development purchased a company that is the owner of a 95 MW (AC) wind electric production project in Campbell County, South Dakota (Campbell County Wind). The total cost of the project is expected to be approximately $180 million. Electricity generated by the project is to be purchased by the Basin Electric Power Cooperative pursuant to a long-term power purchase agreement.

(e) In January and February 2015, Con Edison Development purchased a company that is the owner of 110 MW (AC) of solar electric production projects in California (California Solar 3). The total cost of these projects is expected to be approximately $280 million. Electricity generated by these projects is to be purchased by Pacific Gas and Electric Company and Southern California Edison pursuant to long-term power purchase agreements.

Con Edison Transmission

In April 2015, the Federal Energy Regulatory Commission (FERC) issued an order granting certain transmission incentives and setting the return on equity and the requested formula rate for hearing and settlement. FERC rejected the New York Transco LLC's (NY Transco) proposed cost allocation and laid out alternative approaches to address cost allocation. FERC also said it did not need to provide authorization for the sale of projects to NY Transco because they are expected to be sold before assets are placed in service.

Financial and Commodity Market Risks

The Companies are subject to various risks and uncertainties associated with financial and commodity markets. The most significant market risks include interest rate risk, commodity price risk, credit risk and investment risk.

Table of Contents

Interest Rate Risk

The Companies' interest rate risk relates primarily to variable rate debt and to new debt financing needed to fund capital requirements, including the construction expenditures of the Utilities and maturing debt securities. Con Edison and its businesses manage interest rate risk through the issuance of mostly fixed-rate debt with varying maturities and through opportunistic refinancing of debt. Con Edison and CECONY estimate that at June 30, 2015, a 10 percent increase in interest rates applicable to its variable rate debt would result in an increase in annual interest expense of $1 million. Under CECONY's current gas, steam and electric rate plans, variations in actual variable rate tax-exempt debt interest expense are reconciled to levels reflected in rates. Under O&R's current New York rate plans, variations in actual tax-exempt (and under the gas rate plan, taxable) long-term debt interest expense are reconciled to the level set in rates. Certain regulatory assets relating to the O&R interest rate reconciliation have been charged off. See "Rate Plans - O&R New York - Electric and Gas" in Note B to the Second Quarter Financial Statements.

Commodity Price Risk

Con Edison's commodity price risk relates primarily to the purchase and sale of electricity, gas and related derivative instruments. The Utilities and Con Edison's competitive energy businesses apply risk management strategies to mitigate their related exposures. See Note K to the Second Quarter Financial Statements.

Con Edison estimates that, as of June 30, 2015, a 10 percent decline in market prices would result in a decline in fair value of $55 million for the derivative instruments used by the Utilities to hedge purchases of electricity and gas, of which $49 million is for CECONY and $6 million is for O&R. Con Edison expects that any such change in fair value would be largely offset by directionally opposite changes in the cost of the electricity and gas purchased. In accordance with provisions approved by state regulators, the Utilities generally recover from customers the costs they incur for energy purchased for their customers, including gains and losses on certain derivative instruments used to hedge energy purchased and related costs.

Con Edison's competitive energy businesses use a value-at-risk (VaR) model to assess the market price risk of their portfolio of electricity and gas commodity fixed-price purchase and sales commitments, physical forward contracts, generating assets and commodity derivative instruments. VaR represents the potential change in fair value of the portfolio due to changes in market prices, for a specified time period and confidence level. These businesses estimate VaR across their portfolio using a delta-normal variance/covariance model with a 95 percent confidence level. Since the VaR calculation involves complex methodologies and estimates and assumptions that are based on past experience, it is not necessarily indicative of future results. VaR for the portfolio, assuming a one-day holding period, for the six months ended June 30, 2015 and the year ended December 31, 2014, respectively, was as follows:

95% Confidence Level, One-Day Holding Period	June 30, 2015	December 31, 2014
	(Millions of Dollars)	
Average for the period	$1	$1
High	2	7
Low	1	—

The competitive energy businesses compare the measured VaR results against performance due to actual prices and stress test the portfolio each quarter using an assumed 30 percent price change from forecast. The stress test includes an assessment of the impact of volume changes on the portfolio because the businesses generally commit to sell their customers their actual requirements, an amount which is estimated when the sales commitments are made. The businesses limit the volume of commodity derivative instruments entered into relative to their estimated sale commitments to maintain net market price exposures to their estimated sale commitments within a certain percentage of maximum and minimum exposures.

Credit Risk

The Companies are exposed to credit risk related to transactions entered into primarily for the various energy supply and hedging activities by the Utilities and the competitive energy businesses. See Note K to the Second Quarter Financial Statements.

Table of Contents

Investment Risk

The Companies' investment risk relates to the investment of plan assets for their pension and other postretirement benefit plans. The Companies' current investment policy for pension plan assets includes investment targets of 58 percent equities and 42 percent fixed income and other securities. At June 30, 2015, the pension plan investments consisted of 58 percent equity and 42 percent fixed income and other securities.

For the Utilities' pension and other postretirement benefit plans, regulatory accounting treatment is generally applied in accordance with the accounting rules for regulated operations. In accordance with the Statement of Policy issued by the NYSPSC and its current electric, gas and steam rate plans, CECONY defers for payment to or recovery from customers the difference between the pension and other postretirement benefit expenses and the amounts for such expenses reflected in rates. Generally, O&R also defers such difference pursuant to its rate plans.

Material Contingencies

For information concerning potential liabilities arising from the Companies' material contingencies, see Notes B, G and H to the Second Quarter Financial Statements.

Table of Contents

Item 3: Quantitative and Qualitative Disclosures About Market Risk

For information about the Companies' primary market risks associated with activities in derivative financial instruments, other financial instruments and derivative commodity instruments, see "Financial and Commodity Market Risks," in Part I, Item 2 of this report, which information is incorporated herein by reference.

Item 4: Controls and Procedures

The Companies maintain disclosure controls and procedures designed to provide reasonable assurance that the information required to be disclosed in the reports that they submit to the Securities and Exchange Commission (SEC) is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. For each of the Companies, its management, with the participation of its principal executive officer and principal financial officer, has evaluated its disclosure controls and procedures as of the end of the period covered by this report and, based on such evaluation, has concluded that the controls and procedures are effective to provide such reasonable assurance. Reasonable assurance is not absolute assurance, however, and there can be no assurance that any design of controls or procedures would be effective under all potential future conditions, regardless of how remote.

There was no change in the Companies' internal control over financial reporting that occurred during the Companies' most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Companies' internal control over financial reporting.

Table of Contents

Part II Other Information

Item 1: Legal Proceedings
For information about certain legal proceedings affecting the Companies, see Notes B, G and H to the financial statements in Part I, Item 1 of this report, which information is incorporated herein by reference.

Item 1A: Risk Factors
There were no material changes in the Companies’ risk factors compared to those disclosed in Item 1A of the Form 10-K.

Table of Contents

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds
ISSUER PURCHASES OF EQUITY SECURITIES
The following table provides information about Con Edison common shares purchased in open-market transactions for the quarter ended June 30, 2015. The number of shares purchased approximated the number of treasury shares used for the company's employee stock plans.

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Appropriate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
April 1, 2015 to April 30, 2015	145,153	$60.72	—	—
May 1, 2015 to May 31, 2015	57,264	61.51	—	—
June 1, 2015 to June 30, 2015	85,537	60.00	—	—
Total	287,954	$60.66	—	—

Table of Contents

Item 6: Exhibits
Con Edison

Exhibit 12.1	Statement of computation of Con Edison's ratio of earnings to fixed charges for the six-month periods ended June 30, 2015 and 2014, and the 12-month period ended December 31, 2014.
Exhibit 31.1.1	Rule 13a-14(a)/15d-14(a) Certifications – Chief Executive Officer.
Exhibit 31.1.2	Rule 13a-14(a)/15d-14(a) Certifications – Chief Financial Officer.
Exhibit 32.1.1	Section 1350 Certifications – Chief Executive Officer.
Exhibit 32.1.2	Section 1350 Certifications – Chief Financial Officer.
Exhibit 101.INS	XBRL Instance Document.
Exhibit 101.SCH	XBRL Taxonomy Extension Schema.
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase.
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase.
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase.

Table of Contents

CECONY

Exhibit 12.2	Statement of computation of CECONY's ratio of earnings to fixed charges for the six-month periods ended June 30, 2015 and 2014, and the 12-month period ended December 31, 2014.
Exhibit 31.2.1	Rule 13a-14(a)/15d-14(a) Certifications – Chief Executive Officer.
Exhibit 31.2.2	Rule 13a-14(a)/15d-14(a) Certifications – Chief Financial Officer.
Exhibit 32.2.1	Section 1350 Certifications – Chief Executive Officer.
Exhibit 32.2.2	Section 1350 Certifications – Chief Financial Officer.
Exhibit 101.INS	XBRL Instance Document.
Exhibit 101.SCH	XBRL Taxonomy Extension Schema.
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase.
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase.
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase.

Pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K, instruments defining the rights of holders of long-term debt of Con Edison's subsidiaries other than CECONY, the total amount of which does not exceed ten percent of the total assets of Con Edison and its subsidiaries on a consolidated basis, are not filed as exhibits to Con Edison's Form 10-K or Form 10-Q. Con Edison agrees to furnish to the SEC upon request a copy of any such instrument.

Table of Contents

Signatures

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

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

DATE: August 6, 2015

By /s/ Robert Hoglund
Robert Hoglund
Senior Vice President, Chief
Financial Officer and Duly
Authorized Officer