

2004 Annual Report to the Coalition
for Environmentally Responsible Economies (CERES)

Contributing to the Sustainability of Our Community



conEdison, inc.

To Our Stakeholders

November 2005

New York City is one of the most vibrant cities in the world, and Con Edison is proud to call it home. We work to provide the reliable energy services that keep the metropolitan area thriving, and we continue to build a broad infrastructure to help sustain the city's ongoing growth.

In this, our fourth annual report to the Coalition for Environmentally Responsible Economies (CERES), we focus on our programs and performance that contribute to the sustainability of New York City and its neighboring communities. Protecting the environment is crucial, but sustainability goes beyond strong environmental management. It encompasses social and economic responsibilities as well.

This CERES report describes our environmental, social, and economic initiatives. It offers a closer look at how Con Edison integrates commitment to sustainability in its day-to-day business practices to address the needs of employees, customers, investors, and the communities we serve.



Randolph S. Price

Vice President

Environment, Health and Safety

Consolidated Edison Company of New York, Inc.

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Company Profile

Consolidated Edison, Inc. (CEI or Con Edison) is one of the nation's largest investor-owned energy companies. CEI (NYSE: ED) provides a wide range of energy-related products and services to its customers through its six subsidiaries:

Consolidated Edison Company of New York, Inc. (CECONY) is a regulated utility providing electric service to more than 3.1 million customers and gas service to nearly 1.1 million customers in New York City and Westchester County. CECONY also provides steam service in parts of Manhattan.

Orange and Rockland Utilities, Inc. (Orange and Rockland or O&R) is a regulated utility that delivers electricity and natural gas. Orange and Rockland provides electric service to nearly 291,000 customers in southeastern New York and adjacent sections of New Jersey and northeastern Pennsylvania, and gas service to more than 123,000 customers in southeastern New York and northeastern Pennsylvania.

Con Edison Solutions, Inc. is an unregulated subsidiary that sells electricity and gas to delivery customers of CECONY, O&R, and other utilities, and also offers energy-related services.

Con Edison Energy, Inc., an unregulated subsidiary, provides energy and capacity to Con Edison Solutions and others, and markets the output of plants owned or operated by Con Edison Development.

Con Edison Development, Inc. is an unregulated subsidiary that owns and operates generating plants and energy and other infrastructure projects.

Con Edison Communications, LLC (CEC), an unregulated subsidiary, builds and operates fiber-optic networks to provide telecommunications services.

At year-end 2004, Con Edison employed 14,096 people. The vast majority of employees work in the regulated subsidiaries.



New York's famed Brooklyn Bridge spans the East River, home and flyway to many species of waterfowl.

Company Profile

Based in New York City, Con Edison had revenues in 2004 totaling \$9.758 billion. Virtually all revenues are generated in the United States. For more information, visit Con Edison's Web site at <http://www.conedison.com>.

This report focuses principally on Con Edison's two wholly-owned regulated subsidiaries: CECONY and O&R. They are, by far, CEI's largest subsidiaries in terms of employees and revenue.

Both CECONY and O&R have divested most of their electric generation capacity over the past several years as required by the New York State Public Service Commission (NYSPSC).

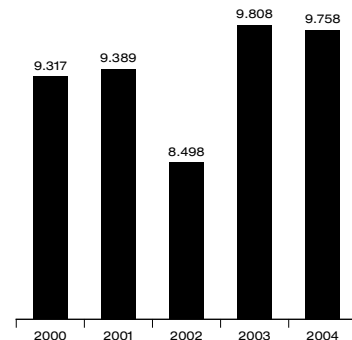
CECONY retains only 630 MW of generation capacity in New York City. O&R has no electric generation.

CECONY Characteristics

CECONY is Con Edison's largest subsidiary, providing electric service throughout New York City (except for a small section of Queens) and most of Westchester County. The majority of CECONY's electric customers are served by an underground distribution system.

CECONY also provides natural gas service in Manhattan, the Bronx, and parts of Queens and Westchester County. Finally, CECONY owns and operates the world's largest steam distribution system, providing steam service for heating and air conditioning to almost two thousand customers in Manhattan south of 96th Street. They comprise a cross-section of the city's most prominent public and private institutions and establishments, who, serve hundreds of thousands of New Yorkers and visitors to the city. Six CECONY stations generate this steam for year-round use. The steam system displaces roughly 400 MW of electric generation, and operates at a higher efficiency than conventional generating stations, based on cogeneration of steam and electricity at several boilers. Information on the scale of CECONY's operations is provided in the following table.

Con Edison Revenues
(\$ billions)



Skilled splicers maintain and reinforce the most reliable electricity delivery system in the nation.

Company Profile

Energy Sector	Measure of Scale	Amount
ELECTRICITY		
Generation	Total rated peak summer 2004 capacity in MW	565
	Total MWh generated by CECONY in 2004.....	1,441,498
Transmission	Km of underground cable.....	1,100
	Km of overhead wire.....	695
Distribution	Km of underground cable.....	145,161
	Km of overhead wire.....	52,840
Sales	Peak MW load in 2004	11,327
	Total MWh delivered in franchise area in 2004	54,741,689
Customers	Average customers for 2004	3,152,023
NATURAL GAS		
Distribution	LNG storage (m ³).....	38,000
	Km of gas mains.....	6,856
Sales	Total sales and transportation in 2004 (dekatherms)	196,634,741
Customers	Average customers for 2004	1,041,454
STEAM		
Supply	Winter peak sendout in 2004 (metric tons per hour)	4,400
	Net station capacity (metric tons per hour).....	5,400
	Total steam supplied in 2004 (million metric tons).....	11.9
	Km of steam mains and service lines	169
Customers	Average customers for 2004	1,811

Company Profile

Orange and Rockland Characteristics

O&R is a regulated CEI subsidiary, headquartered in Pearl River, New York, delivering electricity in northern New Jersey, as well as both electricity and natural gas in southeastern New York and northeastern Pennsylvania. Within its tristate service territory, O&R provides service to a population of roughly 730,000. O&R divested its electric generation assets in 1999. O&R characteristics are presented below.



Orange and Rockland crews sharpen their skills at their state-of-the-art electric overhead school.

Energy Sector	Measure of Scale	Amount
ELECTRICITY		
Transmission & Distribution	Km of underground cable.....	4,325
	Km of overhead wire.....	8,238
Deliveries	Total MWh delivered in franchise area in 2004	5,742,555
Customers	Average for 2004	290,905
NATURAL GAS		
Distribution	Km of gas mains.....	2,904
Sales	Total sales and transportation in dekatherms in 2004	30,681,786
Customers	Average for 2004	123,505

Complying With Environmental Regulations

Compliance with federal, state and local environmental regulations is one of the most fundamental strategies for sound environmental management. Regulatory compliance is also fundamental to sustainability. A key element of Con Edison's Environment, Health & Safety (EH&S) policy is a commitment to compliance with all applicable environmental regulations.

Compliance is an integral part of each employee's day-to-day activities. Senior management carefully monitors performance in adhering to environmental regulations. EH&S performance reports are prepared monthly, covering compliance with air, water and waste regulations, in addition to other EH&S performance parameters. These reports are analyzed by various management groups, including CECONY's Environment and Safety Committee, which consists of the company's senior officers and the Environmental Quality Review Board (three external consultants who monitor the EH&S programs). The committee is chaired by CECONY's EH&S vice president. O&R has a similar committee that oversees its environmental performance. Ultimately, the EH&S Committee of the Board of Directors governs Con Edison's overall environmental programs.

Auditing also plays an essential role in ensuring regulatory compliance. Risk-based EH&S audits are conducted by the EH&S group in CECONY's Auditing department. This group audits all facilities and programs, including regulated (CECONY and O&R) and unregulated Con Edison facilities. During 2004, approximately 30 facilities in every major operating organization were included in these EH&S audits. Formal audit reports are distributed to all officers whose organizations have responsibilities for corrective actions, based on the audit findings. The CEO and other senior officers receive copies of EH&S audit reports, as does the Audit Committee of the Board and CECONY's independent auditors.

The discussions below provide a snapshot of CECONY's five-year history in complying with certain regulations. Several charts also are provided, tracking CECONY's and O&R's progress in minimizing various types of spills.

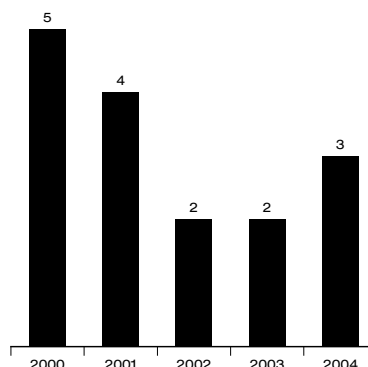


Many beautiful parks and play areas grace the Con Edison service territory.

Complying With Environmental Regulations

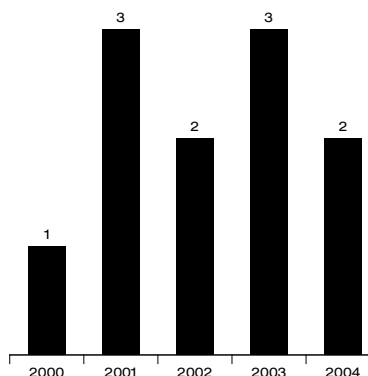
For CECONY facilities that operate boilers and other combustion equipment, the New York State Department of Environmental Conservation (NYSDEC) has established requirements for opacity (smoke) in stack emissions. An opacity exceedance is defined as an event characterized by any smoke condition from stacks that exceeds 20 percent opacity for any 6-minute period. In 2004, there were three opacity events, attributable to operator error, that exceeded NYSDEC limits. In working to meet its goal of zero opacity exceedances, each event is investigated and reviewed with operations, maintenance and technical managers to help minimize the chance of recurrences.

State-Regulated Opacity Exceedances



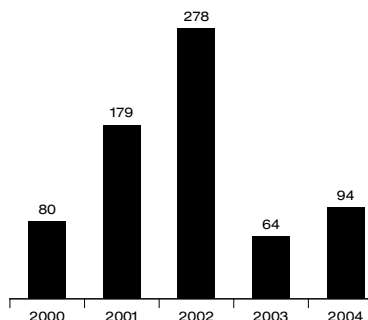
State Pollutant Discharge Elimination System (SPDES) permits are issued by the NYSDEC, consistent with provisions of the federal Clean Water Act and New York State Environmental Conservation Law. These permits are required for facilities that discharge wastewater or storm water to rivers, streams or other bodies of water. SPDES permits specify discharge limitations and require systematic monitoring of discharged water to determine compliance with those limitations. CECONY has 20 SPDES permits. In 2004, only two of approximately 3,000 samples taken identified discharge limit exceedances. Root-cause analyses are conducted for exceedance events as part of an overall effort to improve performance.

SPDES Exceedances



Dielectric fluid is contained in CECONY pipe casings that house some types of electrical transmission feeder cables. Similar to mineral oil, it insulates the cables, transfers heat away from the conductors and protects them against arcing. Dielectric fluid releases to the environment can result from third-party events such as water main breaks or contractor excavations that breach the pipe casings. Other causes include corrosion, fault currents, and mechanical failures. To help curtail dielectric fluid releases, detection and warning systems are used, some capable of detecting fluid losses as small as one gallon per hour.

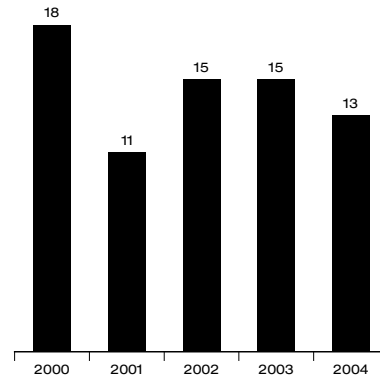
Dielectric Fluid Releases



Complying With Environmental Regulations

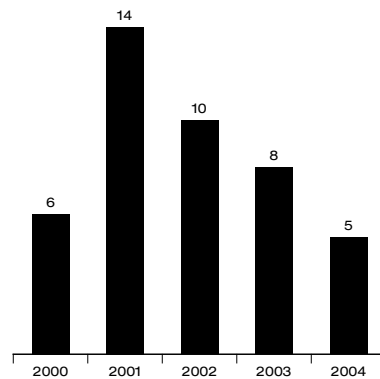
During 2004, transformer oil leaked from CECONY equipment into sewers or waterways on 13 occasions. In some instances, the leaks occurred from pole-mounted transformers as a result of storm damage or vehicle impacts with the poles. In other cases, transformers in underground vaults or mounted on surface pads released oil because of corrosion or other causes. CECONY manages more than 75,000 pieces of oil-filled electrical equipment. We inspect these units on a regular basis, conduct preventive maintenance, and take equipment out of service for refurbishment or replacement as necessary. To further guard against release of transformer oil to the environment, we install secondary containment and leak-detection equipment where appropriate. For some underground transformer vaults that may contain storm water, devices called oil minders are installed. The oil minders are designed to prevent water-contaminated oil from entering sewers. Approximately 3,000 of these devices have been installed on the distribution system.

Transformer Releases to Sewers and Waterways



In 2004, CECONY experienced five chemical releases that exceeded federally established reportable quantities. Of the five, one was a release of refrigerant, and four were antifreeze. Root-cause analyses are used to investigate spill incidents. Findings identify improvements to reduce the likelihood of releases in the future.

Chemical Releases Above Reportable Quantities

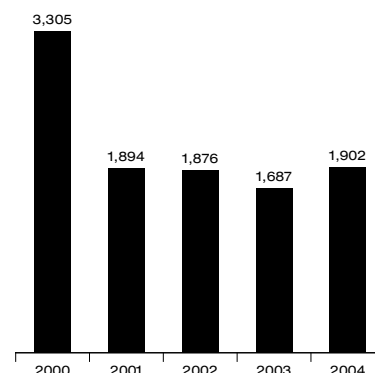


CECONY installs “oil minder” units in underground facilities and equipment that normally empty to sewers to prevent the release of oil to the environment.

Complying With Environmental Regulations

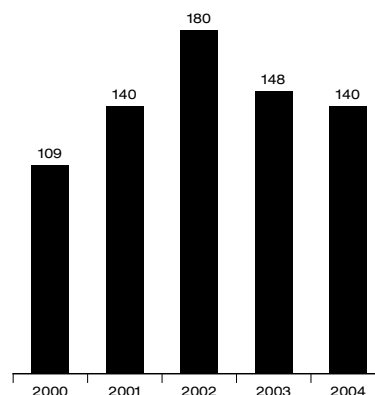
Most oil spills at CECONY take place in manholes or underground vaults, where they are contained until field crews clean them up. The vast majority of these reported spills do not escape to the environment. We estimate that “third parties” (i.e., not CECONY personnel) cause approximately 30-50 percent of reportable oil spills into CECONY manholes and underground vaults. They consist of used motor oil, cooking fat, drained grease pits, and other sources of oil and grease, as well as other types of waste. Street runoff flowing into manholes and vaults also can result in spills that CECONY must clean up. CECONY is studying new manhole cover designs to help prevent other parties from spilling or discharging wastes into CECONY equipment. Approximately 75% of CECONY’s reportable oil spills are less than 5 gallons.

Reportable Oil Spills



Most oil spills at O&R are associated with overhead electrical equipment and are caused by storms, third party damage, or equipment failure. Of the 140 spills in 2004, 125 (89%) were less than 5 gallons.

O&R Oil Spills



Any violation notices received from regulatory agencies are managed seriously. CECONY’s Environment and Safety Committee (consisting primarily of senior officers) oversees the tracking and response to violation notices. Despite efforts to maintain 100% compliance, environmental violations can occur. In 2004, CECONY received nine violation notices from environmental regulatory agencies. Two violations involved lead (Pb) exceedances in wastewater, five violations dealt with the management of non-hazardous waste containers, and two violations related to asbestos abatement project management and record-keeping. CECONY paid \$4,750 in fines for these violations.

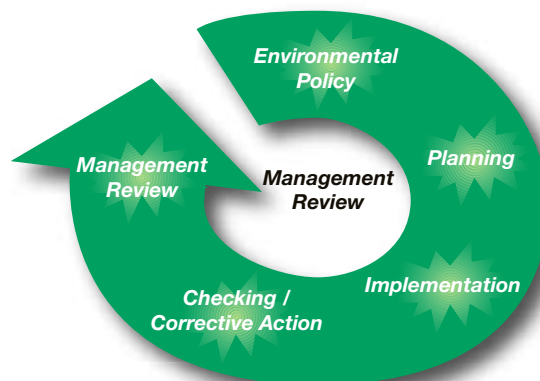
In addition, CECONY entered into two Orders on Consent with the NYSDEC in 2004. The first involved a \$3,500 civil penalty for self-reporting non-compliance with environmental record-keeping requirements. The second resulted in a civil penalty of \$10,000, plus a \$10,000 environmental benefits project for a self-reported non-permitted wetlands disturbance on Staten Island.

In 2004, O&R received no violation notices and did not enter into any consent orders with any regulatory agencies.

Implementing Environmental Management Systems

An environmental management system (EMS) is used to plan, organize, implement and monitor CECONY's environmental program. The EMS has proved highly effective in ensuring regulatory compliance and achieving other environmental goals. It also enables CECONY to anticipate and address emerging environmental issues that become important to the company and its stakeholders.

Dynamics of an Environmental Management System



CECONY has been refining its EMS for more than a decade. The EMS begins with an environmental policy that commits the company to strive for environmental excellence. To implement this policy, we have established formal strategic objectives and annual environmental goals for all departments. Other implementation components making up the EMS include training and education, information management, technology development, risk assessment, communications, and auditing, among many others.

Checking and corrective action are accomplished through systematic self-assessments by each department and formal EH&S audits by the Auditing department. Also, CECONY received ISO 14001 certification for its EMS in 2002 through Lloyd's Register Quality Assurance, Inc. (Lloyd's). In 2004, two third-party surveillance audits of CECONY's EMS were conducted by Lloyd's as a condition of maintaining certification. Neither audit resulted in any findings of non-conformance; thus, we maintained our company-wide compliance with ISO 14001 standards. This certification covers every operating and supporting department in CECONY. Con Edison Development is establishing comprehensive environmental management systems based on ISO 14001 for each facility over which it has operational authority.

Building and implementing the EMS is everyone's responsibility at CECONY. In 2004, there were approximately 300 people throughout the company dedicated full-time to environmental, health or safety functions — one of the largest staff commitments for the utility industry. We will maintain a strong EMS in the coming years to move us closer to environmental excellence, which, in turn, will foster a sustainable environment.

Based on the success of the environmental management system, CECONY recently developed a Safety Management System (SMS) to enhance the management and performance of the safety and health program.

Implementing Environmental Management Systems

Con Edison Environment, Health & Safety Policy

Consolidated Edison, Inc. is committed to continuing to strive for excellence in its environmental, health and safety performance, while complying with all laws and regulations that apply to company operations. Business and operational decisions throughout the company incorporate environmental, health, and safety aspects into the decision-making process. All Con Edison employees are held accountable for knowing the corporate environmental, health and safety requirements that apply to their assigned responsibilities, and for using the information in planning and completing their work. In support of this policy, Con Edison:

- Maintains procedures and provides training to meet the Corporation's environmental, health and safety standards.
- Openly communicates environmental, health and safety issues with our employees, customers, and stakeholders.
- Promotes effective environmental, health and safety program management through auditing, monitoring, reviewing, and corrective action efforts.
- Advances the identification, analysis, and management of environmental, health and safety risks to foster prediction and prevention efforts.
- Recognizes and encourages outstanding environmental, health and safety performance.
- Strives to reduce waste and prevent pollution through recycling and effective work planning programs and promotes strategies for energy conservation.
- Maintains systems, procedures, and personnel to prevent incidents, and, when necessary, to respond to emergencies.
- Promotes research to develop new and better technologies for environmental, health and safety management.
- Establishes metrics to track progress.

The Environmental Mission and Business Planning

CECONY business planning fully integrates environmental and community concerns. In strategic planning, the Environment and Safety Committee plays a key role in integrating environmental issues. This committee, which meets monthly, is chaired by CECONY's EH&S vice president and includes the president, senior officers from operating organizations, and the three members of the Environmental Quality Review Board. This committee is responsible for maintaining and updating Con Edison's EH&S policy, which strongly influences company strategy and initiatives. In addition, the committee reviews the company's EH&S performance and significant EH&S programs and initiatives.

All capital projects undergo rigorous environmental analyses at an early stage. Formal Corporate Environmental Procedures (CEPs) specify to engineers and planners how to address environmental, health, and safety considerations in project designs to minimize any adverse environmental impacts through appropriate facility location, and the use of environmentally friendly processes and equipment wherever feasible. Other CEPs, which must be followed by all organizations, specify how to address environmental issues when acquiring or divesting real estate, equipment and facilities.

In New York City and Westchester County, CECONY works with community boards or municipal planning boards to formally address public questions and concerns on community and environmental issues associated with major new construction, expansions, and shutdowns. The process of working with community boards includes issuing public notices, providing the public an opportunity to comment, and participating in public hearings. Depending on the location, public notices may be made in Spanish or other foreign language newspapers, as well as English language papers.

O&R employs a Citizen Participation Plan format for major projects, when directed by the NYSPSC, the New Jersey Board of Public Utilities, other government agencies, or as deemed necessary by the company. These plans facilitate two-way communication with individuals, groups, and organizations that have expressed an interest in a project or are affected by the project activities.



Engineers and planners ensure that projects are designed to minimize environmental impact.

The Environmental Mission and Business Planning

O&R's Community Relations department is actively involved in creating community partnerships with not-for-profit agencies, business groups, civic organizations and local governments. The company relies on these contacts as a prime source of input, and as a forum for communicating vital information about programs or projects. O&R's Vegetation and Tree Management Program is a prime example of how the company proactively seeks to exchange information with this network of contacts. O&R conducts workshops on herbicide application, tree care and compatible species planting. Partly as a result of this effort, for three consecutive years the National Arbor Day Foundation has named O&R a "Tree Line USA Utility," in recognition of its national leadership in caring for trees while meeting its service objectives.

Finally, Con Edison integrates environmental issues into every-day operational decision-making – particularly in field activities – through daily briefings, typically conducted by first-line supervisors at the beginning of a shift. Environmental and safety considerations relevant to the day's activities are discussed along with basic job planning. Con Edison's environmental policy holds employees accountable for knowing the corporate environmental – as well as health and safety – requirements that apply to their assigned responsibilities and for using the information in planning and completing their work.



Orange and Rockland has been recognized for the third year in a row by the National Arbor Day Foundation for "leadership in caring for trees while meeting service objectives."

Curbing Pollution and Mitigating Environmental Risks

In striving toward sustainability, it is critical for our society to continually improve on existing technologies and to create new environmentally friendly processes and equipment. For many years, Con Edison has been a leader in implementing and developing low-pollution technologies for our industry.

In generating steam and electricity, CECONY uses the cleanest fossil fuels – natural gas and low-sulfur oil. O&R sold all of its generating capacity six years ago. CECONY and O&R purchase the remainder of their electricity requirements under firm power contracts or through the wholesale electricity market administered by the New York Independent System Operator (NYISO).



Con Edison invests in research and development technologies, including projects that develop pollution prevention measures.

We often work with other utilities and with industry groups, such as the Electric Power Research Institute (EPRI) and the Gas Research Institute (GRI), to develop systems and equipment that reduce environmental risks. By working together with these other organizations, the fruits of these R&D projects benefit many utility organizations and stakeholders.

In 2004, Con Edison invested more than \$12.5 million in research and development activities, including R&D on low-pollution technologies. Examples of low-pollution technologies we have helped develop or are currently working on are noted below.

- Solid dielectric transmission and distribution cable to replace some types of oil-filled cable
- Hydrogen fuel cells for use in large substations to provide back-up energy in case of a blackout and to maintain lead-acid batteries at maximum charge
- Superconductivity technology to increase the capacity of electrical transmission lines
- Microturbines for use in commercial buildings.

Con Edison is proactively working to mitigate its environmental risks. Its regulated subsidiaries, CECONY and O&R, have entered into agreements with regulatory agencies to investigate and clean up, where necessary, manufactured gas plant (MGP) and storage holder sites that were operated by Con Edison subsidiaries or predecessor companies, in some cases more than 100 years ago. CECONY is addressing 50 sites and O&R is working with seven sites. Investigations are either underway or completed at the majority of the MGP sites.

At its own initiative, CECONY conducted a program to replace 32,000 mercury-containing gas regulators with non-mercury spring regulators at customer locations. By 2004, the company had removed approximately 2,000 pounds of mercury that potentially could have been released into the environment.

Curbing Pollution and Mitigating Environmental Risks

Much of CECONY's hazardous waste previously consisted of lead-contaminated sediment removed from underground manholes and vaults. In 2003, the NYSDEC initially approved use of a stabilization process that renders the sediment non-hazardous before it is removed from underground structures. As a result of the use of this process, the amount of hazardous waste generated by the company decreased from 9,500 tons in 2003 to 4,600 tons in 2004. In fact, since 2000, CECONY reduced its hazardous waste generation by 70%.

And lastly, CECONY and O&R have established an Incident Command System (ICS) protocol that serves to mobilize and deploy resources in case of system emergencies.

Developing Greenhouse Gas Strategies

Greenhouse gases in the atmosphere do not inhibit the sun's direct warming of the earth's surface, but trap the heat that would be radiated back to space from the earth's atmosphere. This heating effect is analogous to the way the glass enclosure of a greenhouse traps the sun's radiation. Greenhouse gases include carbon dioxide, methane, sulfur hexafluoride (SF₆), and water vapor. Greenhouse gases occur naturally, but their concentrations in the atmosphere are generally believed to be increasing through human activity, and as such, enhancing the greenhouse effect and contributing to potential climate change.

Con Edison recognizes the need to address greenhouse gas emissions and to encourage others, both in the public and private sectors to formulate effective policies and strategies. In 2003, we joined with a group of companies and the World Resources Institute to explore prospective private-sector actions to address climate change. This diverse group includes companies from various industries, of differing size and geographical reach. In 2004, this group issued a report titled, "A Climate of Innovation: Northeast Business Action to Reduce Greenhouse Gases." This report was intended "to share experiences and build momentum among companies for the benefit of the business community, for informing emerging regional climate policy discussions, and for devising strategies to succeed in a 'carbon-constrained world.'" In particular, the group assessed the drivers for action, the management systems for quantifying and analyzing emissions, and the energy-related projects for reducing emissions." The report is available through the World Resources Institute website at www.wri.org.

Con Edison is actively involved in a voluntary initiative to reduce greenhouse gas emissions. In 2004, seven power sector groups signed an umbrella Climate VISION Memorandum of Understanding (MOU) with the U.S. Department of Energy and rolled out an implementation work plan that highlights the actions of member companies. Congressional activity continues in an attempt to establish binding greenhouse gas reduction targets. Con Edison, through the Edison Electric Institute (Power Partners) signed on to this voluntary initiative in which Power Partners has agreed to reduce collectively the power sector's greenhouse gas emission intensity by an equivalent of 3-5% below 2000-2002 baseline levels, as measured over the 2010-2012 period. Con Edison subsidiaries actively search for ways to reduce greenhouse gas emissions. CECONY's progress is presented below along with measured emission levels over the past five years.

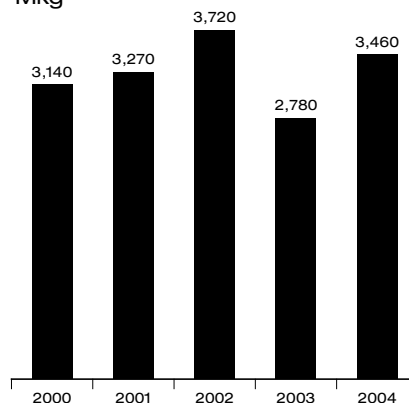


Con Edison's transmission system takes electricity from power producers.

Developing Greenhouse Gas Strategies

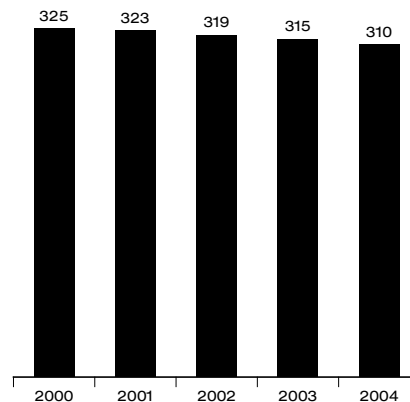
CECONY's carbon dioxide (CO₂) emissions are driven primarily by the demand for steam and electricity. CO₂ emissions result from burning fuel to generate steam. This system is optimized through the use of cogeneration technology so that energy released during steam production can also be used to generate electricity. In 2004, estimated CO₂ emissions totaled 3,460 Mkg (millions of kilograms). To help keep emissions low, CECONY uses only clean-burning natural gas and low-sulfur fuel oil in its utility boilers; refined kerosene provides fuel for combustion turbines. In addition, a sophisticated computer model has been developed to help operate the steam system more efficiently.

CECONY Carbon Dioxide Emissions, Mkg



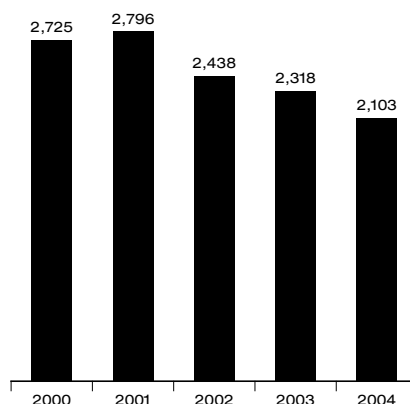
Methane (CH₄) is another greenhouse gas. In 2004, estimated methane emissions totaled 310 Mkg in carbon dioxide equivalent. Methane emissions result chiefly from CECONY's natural gas distribution system. The sources of these emissions include leaks from supply stations and surface facilities as well as distribution piping leaks. To control these emissions, CECONY has enhanced inspections and maintenance at gas facilities, and continues to implement equipment upgrades on an ongoing basis. For example, last year almost 52 miles of distribution piping were replaced, and 7,480 leaks were repaired in mains and services. CECONY is a charter member of the U.S. Environmental Protection Agency's Natural Gas STAR Program, assessing the program's best management practices for reducing natural gas emissions and implementing those that are applicable to our operations.

CECONY Methane Emissions, Carbon Dioxide Equivalent, Mkg



Sulfur hexafluoride (SF₆) is a potent greenhouse gas used as an insulating material in some high-voltage switching contacts. In 2004, estimated CECONY SF₆ emissions from equipment leaks totaled 2103 Mkg in carbon dioxide equivalent. To help detect SF₆ leaks, CECONY and O&R worked with EPRI and other utilities to develop a Laser Imaging Camera. Through another EPRI program, we developed improved methods and materials to seal small leaks, pending more permanent repairs that could be scheduled as part of less frequent equipment overhauls.

CECONY Sulfur Hexafluoride Emissions, Carbon Dioxide Equivalent, Mkg



Promoting Renewable Energy Development

Renewable energy sources can help reduce our dependency on fossil fuels and decrease emissions of greenhouse gases. The increased use of more efficient renewable energy technologies is an important strategy in environmental sustainability.

Con Edison promotes renewable energy development by offering renewable energy through an unregulated subsidiary, Con Edison Solutions. This product is called Green Power. It consists of 100% renewable energy that is generated entirely within New York State.

Residential customers of CECONY and O&R may purchase their full electrical requirements with a mix of 75% low-impact hydropower and 25% wind energy. For commercial customers, we can supply between 5% and 100% of their electricity requirements with 100% wind energy. Sales of these products have increased the demand for renewable energy by approximately 30,000 MWh/year.

In 2004, the PSC established a renewable portfolio standard under which the agency aims to raise the percentage of renewable power used by consumers in New York State from 19% to 25% by 2013. The New York State utilities will contribute funds to the New York State Energy Research and Development Authority (NYSERDA) to subsidize qualifying renewable generators. Con Edison's contributions will amount to approximately \$10.2 million in 2006, \$18.3 million in 2007, \$26.4 million in 2008, and \$35.3 million in 2009. O&R's contribution in these same years will amount to approximately \$945,000, \$1.7 million, \$2.4 million, and \$3.2 million. These contributions will continue until 2013.

Con Edison Solutions Green Power is Green-e certified. Green-e is a leading national labeling program that sets consumer protection and environmental standards for environmentally superior electricity products. Recently, NYSERDA supported the Con Edison Solutions Green Power initiative by providing funding for marketing support. Con Edison Solutions now offers Green Power throughout New York State, and in parts of Massachusetts, New Jersey, and Maryland. We plan to further promote Green Power and to introduce it in new markets.

Con Edison also supports renewable energy development through its R&D program. For example, CECONY, in collaboration with NYSERDA, the Greenpoint (Brooklyn) Manufacturing and Design Center, and the Powerlight Corporation, developed and built the largest roof-top solar power system in New York City (<http://www.powerlight.com>).



New York City's largest commercial solar power system, three panels totaling 5,000 square feet, is funded by public and private organizations, including CECONY.

Promoting Energy Efficiency

Improving energy efficiency can lead to lower energy consumption and the conservation of fossil fuels and other natural resources. This can significantly contribute to enhanced environmental sustainability.

Energy Efficiency Programs for Commercial Customers

Con Edison considers energy conservation to be critically important for all of our stakeholders. CECONY and O&R, Con Edison's regulated subsidiaries, have a broad range of energy conservation programs for residential and business customers. Programs for business customers consist of the following elements:

- *Real-Time Pricing*, a rate class that is available to large users of electricity who are full-service customers of CECONY and O&R. Under this program, electricity customers pay hourly retail electric energy rates that reflect the hourly changes in wholesale energy rates. Customers can garner substantial savings over time by installing an Energy Management System or by using various load-curtailement strategies.
- *Emergency Demand Response*, for customers who can replace at least 100 kW of power from the CECONY grid by using an emergency generator, shedding load, or any combination of these when the NYISO declares a power emergency. Based on applications received from customers, this program could result in a potential load reduction of approximately 19 MW.
- *Special Case Resources*, for customers who can replace at least 100 kW of power from the CECONY grid by using an emergency generator, shedding load or any combination of these when the NYISO declares a power emergency. Customers will receive a capacity payment rate during each month the customer pledges load reduction to the program.
- *Distribution Load Relief*, for customers who can replace at least 100 kW of power from the CECONY grid by using an emergency generator, shedding load, or any combination of these actions when CECONY declares a power emergency within a distribution network. This program has a potential load reduction of more than 95 MW.
- *Day-Ahead Demand Reduction*, for customers who agree to reduce load when wholesale electric market prices exceed a predetermined "strike" price. CECONY would aggregate the load reduction nominations for customers and submit them to the ISO for evaluation. The ISO would accept these load reduction nominations as needed. Customers would receive payment incentives based on forecasted wholesale prices for the load reductions if their nominations were accepted.



Highly trained transmission operators use the latest technology to manage a complex energy delivery system in a way that promotes energy conservation and ensures system reliability.

Promoting Energy Efficiency

- *Clean Energy Programs*, for customers of O&R's New Jersey subsidiary, Rockland Electric Company. These programs provide rebates to business customers for purchasing high-efficiency equipment such as lighting, motors, and variable speed drives. In addition, Rockland Electric offers design assistance for new buildings to improve their energy efficiency.
- *Commercial Gas Efficiency Program*, for commercial customers of CECONY's gas business. Under this program, administered by NYSERDA, many small businesses are eligible for energy audits to help them make informed energy decisions and to implement energy efficiency strategies. Larger businesses are offered cost sharing or loans for energy audits and gas-efficient equipment.
- *Partnerships With Small Business Associations*, such as the Times Square Business Improvement District and the Brooklyn Chamber of Commerce, to implement demand response initiatives during system emergencies. CECONY has more than 23,000 businesses under this collaborative program.

Programs for Residential Customers

- *Voluntary Time-of-Use*, where customers will be charged for electricity, depending on the time of day when it is used. Under this new program, customers can save money by using electricity during off-peak periods when costs are lower.
- *Direct Load Control*, for customers with central air conditioning who agree to have CECONY replace their thermostats with programmable thermostats that CECONY can control when needed during peak demand to reduce the energy used by the customer's central air conditioning system.
- *Clean Energy Programs* have been implemented by O&R's New Jersey subsidiary, Rockland Electric Company, to provide rebates to residential customers for high-efficiency air conditioners, lighting systems, washing machines, and other appliances. Customers who install renewable resources such as solar panels also are eligible for rebates. Rockland Electric also provides free information on cost-effective energy reduction measures to low-income customers.

CECONY educates its customers about energy conservation through a variety of channels:

- *"Con Edison Kids" Web site* (<http://www.coned.com/kids>) is a trip for the mind, the eyes, and the ears. The site is a fun-filled, educational trip through the underground maze of wires, pipes, gauges, and meters that make up the CECONY system. Characters demonstrate the do's and don'ts of gas and electric safety, and teach about the history of electricity and gas, the environment, and how to conserve energy in everyday life.
- *Appliance Guide* – This pamphlet shows customers how to get the best efficiency from existing appliances and make energy-wise choices when purchasing new ones. Tens of thousands are distributed annually via the mail and at various events and functions. The Appliance Guide may also be viewed, downloaded, or ordered by customers at <http://www.coned.com/customercentral/applianceguide.asp>.
- *"Energy Savings" Content of the CECONY Web site* – This feature, at <http://www.coned.com/athome/athome.asp?subframe=savings>, spells out energy-saving measures customers can put to work in their own homes. It also publicizes a variety of conservation initiatives.

Promoting Energy Efficiency

- *EnergyLine 1-800-609-4488* – A toll-free information line for customers that gives energy-efficiency advice and offers booklets and a video that describe household conservation measures.
- *Customer News* – This utility bill insert contains general conservation messages along with other items of interest. All CECONY customers receive six issues each year. Customer News is also available online at <http://www.coned.com/customercentral/customernews.asp>.
- *Energy Savers* – This O&R pamphlet provides customers with tips on energy conservation through weatherization, landscaping and more cost-conscious appliance use.
- *Home Energy Guide* – This pamphlet, prepared by O&R, provides a comprehensive listing of programs and services including PowerSwitch, storm preparedness, electrical safety, community involvement and volunteerism.
- *Radio Advertising* – CECONY and O&R periodically produce radio ads encouraging listeners to conserve energy. These ads reach nearly 100 percent of their customer base.
- *Print Advertising* – CECONY and O&R place ads in major dailies and over 300 local and ethnic newspapers as part of our energy-efficiency educational campaign during the summer months.

Through its support of the Council on the Environment of New York City (CENYC) (<http://www.cenyc.org>), CECONY has helped to establish centers of energy education and action efforts at city high schools and intermediate schools. The CENYC trains more than 1,600 students each school year to organize environmental improvement projects such as water conservation, solid waste reduction, and more.

Energy Conservation at CECONY

CECONY maintains a variety of energy conservation and resource efficiency programs for its own operations. For example, CECONY has prepared an Energy Reduction Response Plan covering all



Con Edison Kids, our colorful, interactive Web site filled with safety and energy games and information, also has environmental facts sheets on such topics as global warming and greenhouse gases. It's a good place to learn about our world environment, as well as Con Edison and its energy systems.

Promoting Energy Efficiency

facilities to reduce non-essential electrical usage in case of a system or local event that could require an energy reduction response. The steps to be taken include turning off some lighting, operating air conditioners at higher thermostat settings, taking some elevators out of service, curtailing some cafeteria services, and turning off certain computers. Energy-saving equipment is also installed and in use at company facilities on a regular basis. Measures include automatic light shutoff devices, climate control timers, and water conservation equipment.

CECONY has taken numerous steps over the past several years to decrease the environmental burden associated with employee transportation for work-related and other purposes. These steps target fossil fuel utilization, vehicle emissions, and urban/highway congestion. CECONY has focused on reducing the use of single occupancy vehicles (SOVs), encouraging the increased use of mass transit, and introducing bi-fuel vehicles. CECONY has relied on both education and procedures to encourage employees to protect the environment by reducing their use of SOVs.

In 2004, CECONY operated alternative-fuel vehicles, including 74 natural-gas-powered vehicles and 18 bi-fuel vehicles (natural gas/gasoline) to help reduce air emissions. An additional 247 vehicles were modified to use bio-diesel last year; these vehicles consumed approximately 184,000 gallons of CNG and bio-diesel fuel.

Resource Efficiency at Con Edison

Con Edison's EH&S policy includes a commitment to conserve natural resources. One of the EH&S strategic objectives, "Promote the wise and effective use of natural resources," focuses on conservation. CECONY requires organizations and major facilities to establish and maintain formal resource conservation plans, characterizing their waste streams and waste management processes. The plans also address specific initiatives to reduce waste generation, reuse waste materials and recycle.

In 2004, the U.S Environmental Protection Agency's WasteWise program recognized CECONY's electronics recycling program, bestowing an Honorable Mention for "commendable achievement." This recycling program has resulted in the recycling of approximately 3,000 pieces of electronic equipment such as computers, keyboards, TVs/monitors, printers, and fax machines.

Con Edison Development's subsidiary Con Edison Energy Massachusetts, Inc. (CEEMI) has demonstrated the wise use of natural resources in a landfill and settling basin closure project. CEEMI is in the process of capping a former unlined coal ash landfill and ash settling basins constructed by a previous site owner. The closure process will use beneficial reuse materials, such as crushed glass, flowable fill, and paper mill fiber, in place of traditional filling and capping materials. The project will result in an estimated "savings" of 230,000 cubic yards of clean soil, sand, and clay, which will have been substituted by materials normally considered as unusable.

Environmental Education and Training

Environmental education and training for Con Edison employees are critical to ensuring that all operations are conducted in compliance with all applicable environmental requirements and in a way that helps us strive for environmental excellence in all we do. Con Edison also recognizes the importance of providing environmental training for contractors and local regulators working in our communities. Education and training provides employees and stakeholders with appropriate awareness and skills to help protect the environment and conserve resources.



At the Con Edison Learning Center employees keep skills up-to-date.

Educational Programs Build Employee EH&S Skills

CECONY provides a comprehensive array of education and training programs for employees to update and expand their skills and knowledge. For example, employees can earn a Certificate in Environmental Management from the New York Institute of Technology (NYIT), where courses are offered online or at one of three NYIT campuses. CECONY reimburses 50-85% of course tuition following the achievement of passing grades. The course credits may be applied toward a master's degree in Environmental Management, for which CECONY also provides financial support to approved candidates.

Mercy College is working in partnership with CECONY to offer employees a special training program leading to a Certificate of Occupational Safety and Health. This program, initiated in 2001, is available to both management and union employees. Courses are held at CECONY's offices in Rye, New York.

An Extensive In-House Program For EH&S Training

CECONY has established The Learning Center, a state-of-the-art training, meeting, and conference center in Long Island City, New York. The facility has 35 classrooms, 39 laboratories, a state-of-the-art library, an auditorium, and a cafeteria. The Learning Center offers more than 832 classes, covering technical courses, skills enhancement, and leadership development. There are approximately 57 EH&S training courses offered by The Learning Center to improve employees' understanding of regulations, CECONY policies, procedures, technologies and operations. Courses cover all the areas for which EH&S procedures have been developed.

In 2004, approximately 9,800 employees received EH&S training at The Learning Center. In addition, EH&S-related training was provided to a number of local organizations including the New York City Department of Environmental Protection, the Port Authority of New York, other local utilities, and electrical and gas contractors.

Environmental Education and Training

Training coordinators within each organization work with management to determine exactly which training courses each employee should have. Several employees have taken advantage of the growing number of interactive distance learning and web-based courses (especially certain annual refresher training courses) offered through CECONY's intranet website.

Formal on-the-job training (OJT) is conducted for employees by each operating department – using curricula developed by personnel from The Learning Center, Corporate EH&S, Legal, and operating departments. Several hundred EH&S OJT courses are available, covering the full range of CECONY's operations. OJT training courses include spill reporting, spill response and cleanup, hazardous waste management, oil and chemical management, waste sampling and noise control, among many others.

At O&R, all operations employees in Electric, Gas, Transportation, Facilities, and Substations attend annual Environmental Awareness Training (First Responder Operations Level). This training covers numerous additional topics relative to environmental management such as petroleum bulk storage, natural resource management, transportation, and Spill Prevention Control and Countermeasure and Contingency Plans. In total, these programs impact approximately half of O&R's employees. All O&R Environmental Service personnel are trained to the Hazardous Materials Technician level. They also attend workshops and seminars relative to manufactured gas plant investigation/remediation, wetlands, and hazardous waste. O&R's Forestry, Facilities, Safety Training and Substations supervisory staff have also been cross-trained to the Hazardous Material Technician level to assist Environmental Services during a spill or release event, if necessary.

Promoting Environmental Education in Our Schools

In 2004, for the ninth consecutive year, CECONY sponsored Green Horizons, a conference that provides middle school students considering a career in environmental and natural resources the opportunity to work with professionals in those fields. This year's event was held at the Staten Island Botanical Garden, where students from schools throughout New York City had access to hands-on lessons keyed to a variety of environmental careers.

In 2004, for the sixth year in a row, CECONY sponsored New York City Envirothon, a competition that tests high school students on various environmental fields, including aquatics, forestry, biodiversity, soils/geology, and wildlife. At the awards presentation ceremony at the New York Botanical Garden in the Bronx, EH&S Vice President Randolph S. Price stated, "The Envirothon inspires students to bring their environmental knowledge and skills into their communities, where they engage in recycling programs, and work toward the restoration and protection of our environment."

Supporting Key Nature Conservation Programs

Perhaps contrary to assumptions, the environment of New York City hosts an array of plants and wildlife. Extensive wetlands and parkland are homes to diverse flora and fauna, freshwater and marine ecosystems. Many New Yorkers enjoy the natural environment within the city and in surrounding communities. They are keenly aware of nature's value, and the need to restore and maintain sensitive areas.

At Con Edison, we relish the opportunity to work alongside stakeholders within our community to help restore and maintain sensitive environmental areas and conserve the natural environment during the course of our daily operations.



Con Edison programs seek to improve the teaching and learning of science.

CECONY and O&R provide corporate support to approximately 140 environmental organizations, large and small. CECONY actively participates in community-oriented environmental activities throughout the year. CECONY partners with a number of environmental organizations to provide curricula and materials for use in schools for science projects, nature projects, and energy conservation. These organizations include the Audubon Society, The Council on the Environment, Horticultural Society of New York, and the National Wildlife Federation.

Our support of Queens College's Project GLOBE continues. This international program seeks to improve the teaching and learning of science, based on the premise that students best learn science by doing science. Global Learning and Observations to Benefit the Environment (GLOBE) was founded by federal agencies, such as NASA and the National Science Foundation, to bolster U.S. students' science education. Queens College is the only GLOBE learning center in southern New York State. CECONY's continued support has helped the program train teachers from schools across Brooklyn and Staten Island. Since 2002, the program has trained a total of 300 schools – nearly 25% of the entire New York City public school system.

CECONY maintains a strong relationship with the Wildlife Conservation Society, an organization that manages the Bronx Zoo, the Central Park Zoo, and the New York Aquarium, among others. CECONY maintains a corporate membership in the Society so that all employees and their families may enjoy the various wildlife exhibits without charge on designated Corporate Weekends. CECONY volunteers work with the Wildlife Conservation Society to build holiday light displays each winter. In addition, Con Edison's chairman serves on the society's Board of Trustees.

Trout in the Classroom is a new environmental education program funded by CECONY. Supported by businesses as well as federal and state agencies, the program teaches students the importance of maintaining clean, cold, moving water in New York's watershed areas. Participating schools are pro-

Supporting Key Nature Conservation Programs

vided with aquarium equipment in which students raise trout from eggs provided by state hatcheries for eight months and then release them into upstate streams.

CECONY also supports the Metropolitan Waterfront Alliance, which is conducting Changing Tides: The Evolving Landscape of the East River. This is an exposition held at the Urban Center Gallery in Manhattan covering the industrial, ecological, and transportation history that has made the East River a wellspring of growth and activity in New York.

A new Audubon Center run by Brooklyn Prospect Park Alliance houses a special classroom known as the “Con Edison Discover Nature Theater.” CECONY supports this learning center, which serves as a comprehensive environmental education hub with special focus on children.

CECONY co-sponsors the annual Water Conservation Art and Poetry Contest, conducted among fifth and sixth graders from public, private, and parochial schools throughout New York City. Participating students create original works of art and poetry that relate to water conservation, water quality, wastewater treatment and the history of the city’s water supply system. The New York City Department of Environmental Protection (NYCDEP) conducts the contest; last year, the NYCDEP Commissioner presented awards to more than 300 students from approximately 100 schools.

On America Recycles Day, hundreds of people, including school children, attended a celebration at CECONY’s Learning Center and enjoyed creating robots from scrap computer parts and cardboard and playing games with a recycling theme to win prizes.

O&R makes grants available to community-based organizations for educational, environmental, cultural, or public safety programs, including the following:

Keep Rockland Beautiful – O&R is the largest corporate sponsor of this organization dedicated to keeping public areas clean, and an O&R employee serves on its board of directors.

United Way Day of Caring – O&R employees participate in community improvement and cleanup projects affiliated with this United Way program. Employees are released from their normal assignments for this daylong event.

Arbor Day Celebration – O&R participates with local schools and other organizations in providing students with information, trees and tree seedlings to celebrate Arbor Day.

Open Space Initiatives – O&R maintains a forestry preserve in Sullivan County, NY. O&R permits employee and visitor access to this vital woodland and watershed area. The property is a winter sanctuary for numerous bald eagles. In addition, O&R has deeded vast tracts of land from this property to the State of New York for parkland.

Downtown Revitalization Projects – O&R is actively engaged with local communities seeking to beautify downtown areas, serving on committees and providing technical expertise as needed. In addition, the company is working with a village to create a vest-pocket park on unused company-owned land.

Commitment to Excellence

Con Edison's environmental, health & safety policy includes a commitment "to continue to strive for excellence in environmental, health and safety performance." As a result, the company will participate in critical dialogue, help establish environmental standards for our industry, and support a variety of environmental initiatives.

For example, Con Edison is working with EEI, other utility companies, and state and federal agencies to formulate rational greenhouse gas emission strategies, including initiatives to reduce greenhouse gas emissions both in the short- and long-terms.



Con Edison uses the latest available technologies to monitor system performance.

CECONY hosts annual Environmental Excellence forums. In 2004, the forum brought together leaders from more than 20 major corporations in the Northeast to discuss the influence of human factors on managing environmental programs. Forum discussions were based in part on extensive research into organizational development done by Dr. Edgar Schein of the MIT Sloan School of Management. Jonathan Lash, president of the World Resources Institute (WRI), was the keynote speaker at the forum. WRI chose this event to release the findings of its report, "A Climate of Innovation: Northeast Business Action to Reduce Greenhouse Gases." Con Edison teamed with WRI in 2003 to form the Climate Northeast Initiative, which focuses on climate change management strategies for energy use, emissions tracking and green power purchasing.

Con Edison has received recognition for these undertakings from a variety of sources. For example, Con Edison ranked third out of 26 North American utilities in the 2004 Innovest Strategic Value Advisors U.S. Utility Industry Report. Innovest analyzed the corporate environmental performance of the participant electric utilities, ranking them in 12 categories, including environmental management systems, total air emissions rate, environmental accounting/reporting, and corporate governance. Con Edison ranked well above average in most categories, earning the highest rating in total air emissions rate. In its overall EcoValue Rating, Innovest gave Con Edison a rating of AAA, the highest in environmental performance.

In addition, Con Edison has been ranked among *Fortune* magazine's "America's Most Admired Companies" for 2005. The company was ranked 4th among electric and gas utilities. *Fortune* develops its "Most Admired" list by weighing a combination of factors, including customer satisfaction, shareholder return, employee talent, and community citizenship.

Providing Sustainable Development Reports

This CERES report addresses environmental management, social responsibility, and economic strategies in a single document. Con Edison will continue to report on these issues in various ways that provide effective communications with specific stakeholder groups. This includes Web site material, reports – such as 10Q and 10K reports – to the financial community, bill inserts for our customers, and special information videos for our employees.

To obtain further information about Con Edison's programs for sustainable development, please contact:

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Community Involvement

At Con Edison, we believe that we must fully participate in the communities we serve, and that we need to be part of the social framework that sustains a community.

The most important thing we do is to provide reliable energy service to our customers, but Con Edison also supports our communities in other important ways.

We actively support key community and social activities throughout our customer service area, providing financial and in-kind support to environmental organizations, neighborhood revitalization programs, schools, adult education and employment programs, as well as to museums and cultural organizations. In addition, our employees participate in Con Edison's formal volunteer program that supports a variety of programs and organizations, including tutoring, environmental stewardship, and recycling.

At our corporate headquarters and regional offices, we work closely with our stakeholders including customers, shareholders, non-profit groups, the general public, private industry, and local, state, and federal government agencies. We believe in open and transparent communication and regularly share news about our operations. And we share information about our successes and challenges.

We recognize that our most important resource is our people. Most of our employees live in our service area, and represent the full array of ethnic, racial and religious diversity in the communities we serve. Con Edison is recognized as an industry leader in diversity, and has been recognized for our support to the Hispanic community, as well as for our commitment to a gender-neutral work environment.

Con Edison's corporate culture is built around a strong commitment to ethical business practices. We have established a strong Code of Conduct for our employees, and have developed a system to identify and correct potential problems. We empower our employees to take responsibility; our workforce is required to report violations as well as environmental and safety risks. Employees should have no fear of retaliation for reporting violations, risks or "close calls."

The following pages provide details about our social responsibility efforts and how they contribute to the sustainable development of our community.



Con Edison's community programs focus on the young people who will carry our environmental commitment forward.

Providing Reliable Service

Reliable and economical energy drives the growth of New York City, our surrounding communities, and the rest of the United States. Con Edison operates one of the most complex electrical distribution systems in the world. We designed our system to ensure maximum service reliability to our more than three million metered customers in New York City, New York State, New Jersey, and Pennsylvania. An industry leader in this regard, Con Edison employs a mixture of network and radial distribution systems, with approximately 80% of the electric load in the service territory supplied by networks. Each of our networks serves customers in specific geographical areas ranging in size from several city blocks to 30 square miles. New York City alone has 57 major electric networks.

Unlike overhead radial systems, which are the most commonly used distribution systems in the United States, our electric networks are completely underground and protected from storms, providing exceptional reliability. Each network operates independently. A typical grid is fed from a single area substation by many feeder lines. The failure of one – or even two – feeder lines will not disrupt the grid, helping to prevent service interruptions.

Our network approach has provided our customers with the most reliable electric service in New York State. Our national standing is even higher. CECONY’s electric service is many times more reliable than any other provider in the United States.

Location	System Average Interruption Frequency Index (SAIFI)
Con Edison (network customer)	0.01
Con Edison (non-network customer)	0.46
New York State (excluding Con Edison)	0.92
United States.....	1.17
Canada	2.11
Spain	3.30

CECONY is recognized as one of the most reliable services providers in the United States. In 2003, PA Consulting Group named CECONY the “most reliable utility in North America,” finding CECONY’s reliability to be approximately nine times better than the national average. In October 2003, CECONY received the ReliabilityOne Award during a ceremony in Orlando, Florida.

To continue maintaining this high level of reliability, CECONY is investing heavily in our infrastructure, both to provide new distribution sources and to upgrade our existing system.

In 2004, CECONY completed three new substations. These substations made the distribution system more reliable and enhanced our ability to meet our current needs. We spent \$4.5 billion to upgrade and expand our system over the last ten years, and we plan on investing more than \$3 billion during the next three years. The repowering of one of CECONY’s generating stations in Manhattan, which produces both steam and electricity, neared completion in late 2004. In addition to this capital investment, CECONY is working to identify, develop, and implement new technologies that will make our existing infrastructure more efficient – to get more power and capacity from our system. Some of these efforts include:

Providing Reliable Service

- In 2003, Con Edison opened a Cable and Splice Center for Excellence in the Bronx. The Center is dedicated to the advancement and understanding of distribution-class electric power cable systems. At the heart of this facility is a high voltage test area and diagnostic lab. These facilities are designed to assess the condition of new and field-aged distribution cables and to develop new technologies to improve the safety, reliability, and performance of distribution cable systems. The center was established in conjunction with the Electric Power Research Institute (EPRI) and works through the EPRI Cable Testing Network to collaborate with other utilities, academic institutions, manufacturers, and industry experts to shape the future of electric distribution systems.
- Con Edison has been working over the last two years on a project known as “3G (third generation) System of the Future.” The purpose of the project is to design a more flexible system architecture, focusing first on distribution from the substation to the customer, and eventually on the entire power delivery system. Ultimately, the system would reduce the costs associated with constructing and operating new facilities by allowing resource-sharing between substations, result in smaller substations, improve system integration and efficiency, and maintain reliability by interconnecting distribution feeders that would allow transfer of load during contingencies.
- Con Edison is supporting research on the development of fault current limiters that would enable application of new technologies such as superconductive cables and distributed generation. This research includes devices such as the solid-state current limiter that quickly senses fault current and opens up to disconnect the fault from the system. Since there are no moving parts in this power electronic switch (it acts like a transistor, but at a high power level), it can operate much faster than mechanical switches or circuit breakers currently found on power systems. Other devices Con Edison is supporting, such as the matrix type fault current limiter, use superconductivity itself to quench fault currents when the currents increase above their normal levels. Once deployed, fault current limiters would mitigate stress on power system components caused by fault currents, and facilitate other new technologies whose uses are currently restricted by fault current concerns.



Transmission towers deliver electricity to Con Edison and Orange and Rockland customers.

As a member of the GridWise™ Alliance, CECONY is working with the U.S. Department of Energy (DOE), the utility industry and other public and private stakeholders to transform the national electric system. The GridWise™ approach integrates new information technology, advanced communications and automated controls into existing electrical systems. The national electric grid will become more collaborative, meeting real-time consumer needs so that the existing infrastructure can be used more efficiently. This will allow the existing infrastructure to provide more capacity, more reliably.

Supporting Key Community and Social Activities

Con Edison is committed to sustaining and enhancing the cultural and economic vitality of our community. The company provides financial and technical support for a variety of programs throughout our service area, while our employees voluntarily give of their time, money, and expertise to support important programs and institutions that promote the environmental causes, education, community services, and the arts. In addition to critical financial support, we believe in working alongside our fellow New Yorkers to build and strengthen our neighborhoods.

CECONY has Public Affairs offices in each of New York City's five boroughs and in Westchester County to build strong working relationships within our communities. Our public affairs personnel work closely with local leaders, schools, programs and organizations. CECONY's Strategic Partnerships Program provides financial, in-kind, and volunteer support to institutions and organizations that promote the strength and vibrancy of our communities. We support 185 arts and cultural organizations ranging from the Bronx Museum of the Arts, to El Museo del Barrio, to South Street Seaport Museum.

We are environmental partners with 132 programs or institutions, including the Bronx River Alliance, the Central Park Conservancy, and Rocking the Boat, a boat-building and environmental after-school education program.

Our education partners include more than 226 institutions and programs, such as the Harlem Educational Activities Fund, the National Academy of Engineering, and PENCIL (Public Education Needs Civic Involvement in Learning).

CECONY donated approximately \$7 million in 2004, contributing:

- 25% to environmental programs,
- 28% to education,
- 18% to arts and culture,
- 25% to civic and community organizations, and
- 4% to health-related services.

In addition to our Strategic Partnerships program, between 600 and 800 employees are actively involved in CECONY's Employee Volunteer Program. The program focuses on providing consistent volunteer support to social, educational, and environmental initiatives.

We have supported the Lower East Side Recycling Center (LESRC), a leader in electronics recycling. In addition to providing financial support, CECONY promotes the program by featuring information about the organization in bill inserts and participating in LESRC events, including Earth Day. LESRC estimates that New York City generates about 34,000 tons of waste electronics every year. With CECONY's help, at two events in 2004 alone, LESRC collected approximately 15,000 pounds of electronic waste.

Supporting Key Community and Social Activities

CECONY has sponsored the Medgar Evers College's annual Environmental Issues Conference for the past nine years. The conference brings together high school, undergraduate, and graduate students, educators, elected officials, and environmental professionals to exchange ideas and discuss current environmental issues.

Through CECONY's support, the Brooklyn Center for the Urban Environment provides urban tours of New York City almost every weekend from March to October. The tours include the Sustainable Brooklyn Bike Tour, where participants learn how residents of Brooklyn are using innovative energy conservation techniques in their homes or workspaces, creating healthier indoor spaces, and spreading the word about sustainability throughout the city.

We are also working with The Point Community Development Center to spur recreational use of the Bronx River. The Point has developed guided tours and excursions, and is helping local entrepreneurs develop eco-tourism businesses. CECONY support has helped The Point buy kayaks, storage containers, public outreach materials, and to pay for training.

One of the ways in which we help our community is by helping customers who are experiencing financial difficulties to pay their electric bills. EnergyShare was established with an initial grant of \$300,000 from CECONY in 2000. All contributions to EnergyShare by customers and others are matched proportionally by CECONY. EnergyShare assists low-income residential customers who are facing financial difficulties and the risk of possible termination of service. Through HeartShare, the social service organization administering the program under contract to CECONY, eligible homeowners or renters receive one-time grants of up to \$200. Through March 2004, \$890,000 was distributed to 4,624 customers.



Hundreds of Con Edison employees participate in volunteer programs and events.

Communicating Openly

Con Edison has cultivated close and long-standing relationships with stakeholders, including community organizations, the public at large, our customers, industry counterparts, environmental groups, investors, and local, state, and federal government agencies. We want to keep stakeholders well informed, and we want to understand their concerns. By consulting with our stakeholders, we learn how to better meet their needs, address issues, and maintain a productive exchange.



CECONY communicates with its customers and the general public through many channels.

- Our bill inserts provide updates on matters of interest and identify opportunities for the public to participate in community events (e.g., Lower East Side Recycling Center electronic waste collection days).
- Customer News, a newsletter for our customers, is distributed six times a year. The newsletter provides tips to cut down on residential energy use, information about electrical safety, information on dealing with extreme weather, and other topical features.
- Our Web site, www.conEd.com, provides up-to-date information on environmental, health and safety issues, energy conservation, and other subjects of interest. We also have a children's Web site that explains how energy is produced, used in our homes, and how to save energy.
- We place public service announcements in newspapers, other print, and on radio, and run public education campaigns on energy use, prices, and reliability.

CECONY works with key environmental groups, including the New York League of Conservation Voters, Coalition for Environmentally Responsible Economies (CERES), and Clean Air Communities to identify opportunities for environmental enhancement. In 2004, we hosted the third Annual Environmental Excellence Forum at our Learning Center, bringing together large corporations to explore the influence of human factors on managing environmental programs. We are actively working with the World Resources Institute on climate change management issues and information. We also participated in the U.S. Environmental Protection Agency's WasteWise program, where we were recognized in 2004 for our electronics-recycling program.

In New York City and Westchester County, CECONY works with community boards or municipal planning boards to formally address public questions and concerns related to major new construction, expansions, and shutdowns. The process of working with community boards includes issuing public notices, providing the public an opportunity to comment, and participating in public hearings. Depending on the location, public notices may be made in Spanish or other foreign language newspapers, as well as English language newspapers.

Communicating Openly

O&R uses a Citizen Participation Plan (CPP) format for major projects, when directed by the Public Service Commission, the New Jersey Board of Utilities, other government agencies, or as deemed necessary by the company. CPPs facilitate two-way communication with individuals, groups, and organizations that have expressed an interest in a project or are affected by the project activities.



An Orange and Rockland bucket truck surveys a country lane.

O&R distributes quarterly newsletters (Connections) to approximately 3,500 community leaders. The company also publishes regularly scheduled billing inserts (@-Home for residential customers nine times a year). O&R distributes pamphlets on how energy savings and reliability can be improved by the proper planting and maintenance of trees and shrubs that are compatible with overhead wires.

For nearly ten years, O&R has proactively sought community input on a variety of issues through the use of consumer advisory panels and focus groups. They are key parts of O&R's outreach program, and such groups are convened whenever appropriate.

O&R's Community Relations is actively involved in creating community partnerships with not-for-profit agencies, business groups, civic organizations and local governments. The company relies on these contacts as a primary source of feedback and as a forum for communicating vital information on programs and projects. O&R's Vegetation and Tree Management Program is a prime example of how the company proactively seeks to exchange information with this network of contacts. O&R conducts workshops on herbicide application, tree care and compatible species planting. Partly as a result of this effort, for three consecutive years, the National Arbor Day Foundation has named O&R a "Tree Line USA Utility," in recognition of its national leadership in caring for trees while meeting its service objectives.

Con Edison provides an annual report to the financial community, along with a 10K report, to share information to our shareholders on our achievements in infrastructure, efficiency, and growth; the generation of dividends; and financial information.

Finally, we regularly provide speakers for community functions. Our employees participate in many volunteer programs, including educational and environmental programs. Our regional public affairs offices, located in all five boroughs of New York City and in Westchester County, provide immediate support and response to our customers and the public.

Employment and Diversity

Con Edison employees make their homes in New York City, New Jersey, New York State, Connecticut, and Pennsylvania, representing one of the most diverse communities in the country. We are one of the largest employers in our community; at year-end 2004, Con Edison employed 14,096 people. We are committed to ensuring that our workforce is representative of our community. Our employees include a rich mix of racial and ethnic backgrounds. We support and promote minorities and women in management, technical, and general utility support. In 2004:

- Minorities made up almost 39% of our workforce, including almost 15% women;
- Women held approximately 22% of upper-management positions; and
- Minorities held 17% of upper-management positions.

We have a strong record of diversity in our workforce and are working hard to ensure that all of our employees feel valued and understood. In 2004, Con Edison launched a mandatory on-line training program on Equal Employment Opportunity for all management staff. Con Edison is working to place women in non-traditional jobs, training women as welders, electricians, operations and technicians. We are working with organizations such as Non-traditional Employment for Women, which helps underemployed women in New York City get jobs in blue-collar trades through training and counseling.

We are recognized in industry as a leader in diversity.

The June 2004, Fortune magazine ranked Con Edison No. 22 on its “50 Best Companies for Minorities” list, bettering the 2003 ranking of No. 29. The magazine reported that 10 percent of our highest-paid employees, 21.1% of our officials and managers, and 37.8% of our workforce overall, were minorities. In addition, we placed on *DiversityInc’s* “Top 50 Companies for Diversity” list, where we were also ranked No. 5 in the subcategory for Latino diversity.

In 2004, Con Edison placed in the LATINA Style 50 for the third time. The ranking, which included more than 600 prominent corporations in the United States, evaluates corporate America’s sensitivity to professional Hispanic women’s needs and goals.

The New York Urban League (NYUL) hailed Con Edison as a “Champion of Diversity” at an awards breakfast in February 2004. The NYUL strives to improve opportunities for minorities and salutes companies that have made a strong commitment to diversity.



Con Edison values the contributions of women and minorities in its workforce.

Supporting Standards of Ethics

Con Edison's Code of Conduct is based on our core values: service, honesty, concern, courtesy, excellence, and teamwork. We have developed a framework known as "The Way We Work" that enables all employees to apply six guiding principles on the job. These are:

- *Plan the Work and Work the Plan* – We plan all activities, track progress, monitor results, and implement lessons learned. Improving efficiency and helping ensure that EH&S requirements are met are the goals.
- *Seek and Accept Responsibility* – Our personnel are not afraid to take initiative and to suggest and implement improvements. Our corporate culture empowers us to admit and learn from mistakes, focusing on solving problems.
- *Communicate Openly* – Our culture is open. We have regular meetings with management and union staff. We share information among our operating areas and with our shareholders and customers freely.
- *Work in Teams* – Con Edison fosters teamwork by making full use of the skills, knowledge, and experience of all our employees. We value a strong management-union relationship. We encourage diversity.
- *Improve Continuously* – We strive to increase our efficiency and effectiveness every day. Con Edison employees are free to ask questions, to look for ways to improve our work. Just as we maintain and upgrade our hard assets, we offer training to our employees over the entire length of their careers, to ensure that they have the knowledge and experience to do their jobs.
- *Celebrate Success* – We believe that success breeds success. We provide quick and positive feedback to all Con Edison employees, recognizing individual milestones and achievements.

Strong business ethics is a core value of Con Edison. Recently, all management employees were required to complete an on-line training course in business ethics. Company departments are responsible for conducting ethics training for union employees.

Adhering to our Code of Conduct is a condition of employment for all of our employees. We do not tolerate violations of law or corporate policy. We encourage our employees to report any and all concerns to their supervisors, and provide several ways for employees to confidentially report serious concerns. This includes an Ethics Helpline and an Action Line to report EH&S violations by company contractors.

CECONY's Manager of Business Ethics and Corporate Policy oversees the company's Ethics and Compliance Program, including the Ethics Helpline. This manager also is responsible for providing ethics and compliance training as well as updating the Code of Conduct (which is available to all employees). O&R has an Ethics Officer who oversees its Ethics and Standards of Conduct program.

Supporting Standards of Ethics

Con Edison has established the following independent oversight organizations to monitor and investigate ethics issues as well as EH&S violations:

- Office of the Ombudsman* – The Office of the Corporate Ombudsman provides employees with an independent office to which they can confidentially refer suspected violations of Con Edison’s Code of Conduct, including EH&S requirements, or ethical and legal concerns. The Ombudsman and Deputy Ombudsman have the authority to either investigate these matters or refer them to appropriate authorities within Con Edison. The Ombudsman reports directly to the chairman.
- Independent Monitor* – The Independent Monitor investigates select and significant environmental and safety events, including claims of harassment for raising ethical, environmental or safety concerns. The monitor determines which events and claims to investigate personally and which to refer to other appropriate organizations. The Monitor reports directly to the chairman.
- Corporate Auditing* – The corporate Auditing department investigates incidents and violations when called upon by employees or other departments. Reports of Auditing investigations are transmitted to affected departments, to senior officers, and to the Audit Committee of the Board of Directors.



Daytime crowds enliven the Times Square theater district.

To encourage employees to report potential safety issues or incidents where an accident nearly occurred, our union and management staff developed and implemented the “Close Call” program. The program empowers all employees to report a close call that resulted from an unsafe situation. Employees know that reports will not result in retribution — they won’t be blamed for what went wrong — but that information will be used to address the safety problem and prevent accidents.

CECONY also instituted a “Time Out” program under which every employee has the authority to stop work on any job site, if unresolved EH&S issues arise.

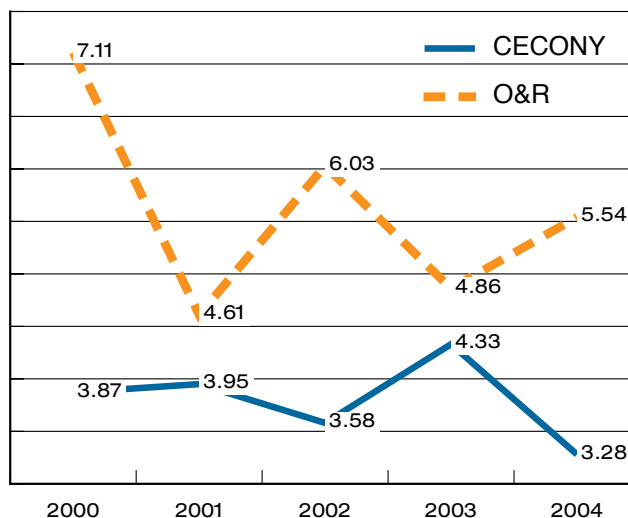
Supporting Standards of Ethics

Health and Safety of Employees and the Public

Con Edison has an integrated approach to workforce and public safety. Where possible, we incorporate new or improved technologies to reduce the risks to our employees and the public. We regularly review and update our safety policies and procedures, and we train our employees on their practical application.

In 2004, CECONY instituted an initiative titled “The Way We Work Is Safely.” This program focused on the individual responsibility of every employee to understand and use proper safety procedures on the job.

CECONY and O&R OSHA Incidence Rate History



Our union and management employee committees worked together in 2004 to exchange and share best practices and safety information among operating departments, and to develop benchmarking studies that resulted in best practice templates. More than 300 union and management employees throughout Con Edison attended the fourth annual safety conference on worker and public health safety. In 2004, CECONY had fewer work related injuries than ever before – achieving an OSHA incidence rate of 3.28. According to statistics from the Edison Electric Institute, OSHA incidence rates for comparable utility companies range from 0.74 to 6.82, so CECONY’s performance is in the middle ground. Also, preventable motor vehicle accidents were down 12 percent. At the same time, we also revised our process for reporting and investigating accidents and incidents. The revised process expedited the investigation process.

Despite these improvements, four operations-related fatalities occurred in 2004: three CECONY employees and one member of the public. CECONY responded to these fatalities through increased inspections, upgraded and rigorously applied specifications and procedures, and an increased investment in safety research and development.

Stray voltage from electrical equipment was involved in one of the 2004 fatalities. In addition to the responses listed above, CECONY has developed and field-tested two systems to detect stray voltage so that repairs can be made and exposures prevented. The Vehicle-Mounted Stray Voltage Detection System can detect stray voltage on manhole covers, service boxes, gratings, light poles and buildings. The Walking Stray Voltage Detector was developed to allow CECONY employees to conduct walking surveys of sidewalk areas to identify stray voltage.

Supporting Standards of Ethics

Also, to preclude the risk of manhole covers being displaced from their mountings and potentially causing injury, significant system upgrades are being put in place. In addition, more than 80,000 manhole covers throughout CECONY's service territory are being replaced with new covers that feature a vented design. The new vented covers are designed to release smoke or high-pressure surges freely from the underground space so that the manhole cover is not raised off its mount.

To ensure worker safety below ground, we developed an advanced communication system for use in many of our tunnels. The system consists of a special cable running the length of the tunnel, which enables workers using certain handheld communication units to keep in touch with each other from any point in the tunnel.

Finally, CECONY participated in the New York City Department of Transportation's Streetlight Backlog Restoration Project to repair more than 10,000 streetlights in city. In addition to addressing the safety issues associated with non-functioning streetlights, the project also reduced the added public health risk of stray voltage where streetlights were powered with temporary overhead services.

Employee Well-Being

Con Edison has developed a comprehensive compensation program for employees intended to attract and retain bright and motivated people. Management salaries are structured to be competitive with those in other industries in New York. The wages and benefits of union employees are determined based on collective bargaining agreements with certified labor unions.

Employee benefits cover an exceptionally broad range. They include the standard benefits for our industry such as paid holidays, vacation, sick leave, medical insurance, a prescription drug plan, vision care, dental plan, term life insurance, pension, and 401(k) savings program (with matching contributions). In addition, Con Edison provides employees with unique benefits such as commuter transportation reimbursement accounts, childcare cost reimbursement accounts, long-term disability insurance, in-house counseling services for employees and family members with substance abuse problems, outside work-home wellness counseling for employees and their families, eldercare counseling and information services, life planning seminars and sports club membership discounts, among others.

Business Development Overview

Con Edison has a long history of providing a consistent and solid return on investment. The prospects for continued growth are strong, as growth in the New York City metropolitan area increases the demand for energy services. Con Edison has committed more than one billion dollars each year for the past three years for building and improving our infrastructure. In the coming years, even more expenditures are planned to continue to provide our community with the high level of service reliability that our customers have come to expect.



Pedestrians through a Manhattan street near one of the city's busy public transit hubs.

To make sure that our distribution system is up-to-date, as well as environmentally sound and safe, Con Edison expends considerable financial and human resources on research and development, and training. In 2004, we invested more than \$12.5 million in R&D for environmental, distribution and safety projects. Our training program for our employees is unmatched, and we share our training capabilities with a broad range of stakeholders throughout the community.

Con Edison contributes to sustaining our community by helping small businesses to become established. We accomplish this through reduced rates and helping businesses secure grants and business loans. Also, we work with the city government to help retain businesses that might close or relocate elsewhere.

We manage our supply chain to select businesses in our communities that share our vision of environmental and public safety. Minority- and women-owned businesses within our communities make up a significant portion of our vendors and contractors.

The concluding segments of this CERES report provide basic information about Con Edison's economic responsibilities and how they are managed. These pages are not intended to replace quarterly and annual reports provided to the Securities and Exchange Commission (through 10-Q and 10-K reports). Rather, we are taking this opportunity to summarize our business philosophy, our plans, and the business results from last year's operations.

Adding Shareholder Value

To sustain our long-term viability as a major energy company, Con Edison strives to be an attractive entity to the investor community. Over the past five years, Con Edison shareholders have enjoyed an average annualized return of 11 percent, including dividends, compared with 11.3 percent for the S&P Electric Utilities Index and -2.3 percent for the S&P 500. Over the past ten years, Con Edison shareholders received an average annualized return of 11.8 percent, compared with 10.6 percent for the S&P Electric Utilities Index and 12.1 percent for the S&P 500.

These steady returns are made possible by stringent oversight that places a priority on managing finances prudently and maintaining the strength of our balance sheet, which affords us access to the capital markets on favorable terms. To help us achieve these goals, in May 2004 we issued \$512 million of new equity through the sale of 14 million shares of common stock, and we issued \$400 million in CECONY debentures in February 2004. We also continue to issue new equity through our dividend reinvestment and employee stock plans.

At year-end 2004, our equity ratio was 51 percent. We were one of just a few electric utilities rated in the "A" range by both Standard & Poor's and Moody's for both our holding company and our regulated utilities, CECONY and O&R. Moody's also raised its outlook on CECONY and O&R from negative to stable.

Senior management believes that sustaining shareholder value relies on:

- A dependable and predictable earnings stream;
- A strong balance sheet, solid credit ratings, and ample liquidity; and
- An attractive dividend yield and total return performance.

In looking toward the future, Con Edison's overall business philosophy will be geared to continuing to build shareholder value. Key elements comprise:

- Maintaining strong corporate governance,
- Focusing primarily on the regulated business,
- Limiting investments in non-regulated business areas, and
- Taking a disciplined, low-risk approach to non-regulated business opportunities.

Delivering Competitive Returns on Assets/Equity

Con Edison has a long history of providing solid and consistent returns for investors. This trend continued in 2004 as net income was \$537 million or \$2.28 per share. Common stock ended the year at \$43.75 per share, up 1.7% in 2004. Including dividends, total return to Con Edison shareholders in 2004 was 7.3%. Returns to Con Edison shareholders have been steady over the long term, due in large part to our strong dividend record. In January 2005, we increased our dividend for the 31st consecutive year to an annualized \$2.28 per share. That represents a 5.2% yield to investors, based on January's average stock price. Con Edison is the only utility in the S&P 500 to be included in Standard & Poor's Dividend Aristocrats list, a group of 58 companies in the index that have increased dividends in each of the past 25 years.

Factors that affect Con Edison's returns include weather, sales growth, pensions and post-retirement benefits costs, depreciation and property tax expenses, operations and maintenance costs, interest rates, and long-term debt. One of the principal drivers of returns is our rate structure, covering the prices we are allowed to charge our customers for the electricity, natural gas and steam that we provide. The New York State Public Service Commission (PSC) approves most of Con Edison's rate plans.

In 2004, Con Edison was at or near the end of our major multi-year rate plans. Some expenses exceeded the amounts allowed in rates, as did certain costs associated with our expanding capital program. From 2005 forward, with new rate plans in effect, we expect earnings to increase to levels that will maintain the company's financial strength and flexibility. In January 2005, we announced expected earnings for 2005 in the range of \$2.75 to \$2.90 per share. This forecast was reaffirmed at midyear.

Rate requests for CECONY's gas and steam services were filed with the PSC in November 2003. An agreement was reached among the major parties to the cases in mid-2004. The new gas and steam rate plans became effective on October 1, 2004, and will remain in effect through October 2007 and October 2006, respectively. These new rates are expected to add \$126.3 million in net revenues in the first year.

In April 2004, a rate increase request for CECONY's electric service was filed with the PSC, and a new three-year rate plan was agreed upon which took effect on April 1, 2005. The plan calls for an increase of \$104.6 million in the first year, a rate freeze in the second year, and an increase of \$220.4 million in the third year. This increase represents the first time that electric delivery rates have been increased for more than a decade.

Our communities will benefit from a number of provisions in the new rate plans, including rate discounts for low-income customers and incentive rates to attract and retain commercial businesses. Through new initiatives we will also seek ways to grow our steam business to take advantage of existing capacity and relieve pressure on our electrical system.

Overall, the new rate plans will allow us to fund necessary capital programs while providing safe and reliable service, and enable us to earn a reasonable return for our investors.

Improved Productivity and Efficiency

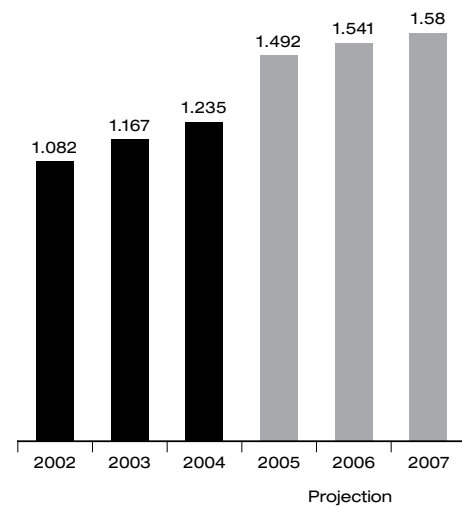
Con Edison aggressively strives for productivity and efficiency improvements, primarily through investments in new systems and equipment. In each of the past three years, infrastructure investments have exceeded \$1.0 billion per year. These investments will increase even more in the coming years.

Recent infrastructure investments that will enhance our efficiency, productivity, and reliability include:

- *The East River Repowering Project (ERRP)* has replaced the Waterside Generating Station with more highly efficient, low emissions combustion technology. The ERRP adds incremental electric capacity of approximately 200 MW based on a winter nominal rating, or approximately 125 MW based on a summer nominal rating. This project produces both steam and electricity at a lower cost than did Waterside. Steam customers are expected to save \$37 million per year. Overall annual air emissions from the ERRP are expected to be 70% less than those from the Waterside Station.
- *Murray Hill Substation, Trade Center Substation, and Grasslands Substation* were all energized in 2004. This is the first time in many years that CECONY has added three new substations to the system in a single year. The Murray Hill substation adds needed distribution capacity to midtown Manhattan. The Trade Center substation replaces the substation that was destroyed during the terrorist attack on September 11, 2001. The completion of this new substation restores Lower Manhattan distribution capability to pre-9/11 levels, both from a substation capacity and transformer vault perspective. The Grasslands substation supplies some of the electrical needs for central Westchester County; it will have a capacity of approximately 161 MW.
- *Upper Saddle River Substation, Chester Substation, Darlington Substation, and Matamoras Substation* were all completed by O&R in 2004. They will enable O&R to continue providing reliable service to its rapidly expanding customer base.

In addition, CECONY plans three new substations in Manhattan and the Bronx. In the Bronx, work has already started, and we expect to begin work at the Manhattan site in the near future. By 2010, we expect to build a total of six new substations in Westchester, the Bronx, and Manhattan. Our capital investment program reflects the vibrancy of our service territory and the continuing growth of the New York City metropolitan area.

Infrastructure Investments \$ Billion



The installation of a new transformer at a major transmission substation in Westchester County helps ensure adequate power and continued reliability.

Supporting Research and Development

Con Edison customers are using more energy every day, at home and at work. And our customer base keeps growing. In 2004 alone, the number of New York City housing permits increased by 50% above the annual average from the previous five years to 25,200 permits (a 30-year record). To meet this need, we are working harder and smarter. Con Edison invests significant resources, both human and financial, to make sure that we are helping to develop and implement technologies that improve our capability to provide energy to our customers, while protecting the environment as well as the health and safety of our employees and the public.

In 2004, we invested more than \$12.5 million on major research and development initiatives to improve energy delivery, protect the environment, and enhance employee and public safety. The vast majority of this R&D activity was conducted in partnership with the Electric Power Research Institute (EPRI), the Gas Research Institute (GRI) and other industry peers. Much of the knowledge gained from this R&D is made available to other utilities. Over the years, Con Edison has been one of the largest contributors to EPRI and GRI R&D programs.

For example, our engineers and planners are working with to develop a third generation system design to deliver power to our customers. The 3rd Generation System Design, or “3G” will be the foundation for future power delivery.

In 2004, we significantly increased our ability to detect theft-of-service (TOS) and other unmetered consumption, increasing our revenues and thus our shareholder value.

CECONY conducted a pilot program to rehabilitate corroded and leaking gas regulator manhole vent pipes using a technology more typically used in water and sewer services. Reworking the existing technology to meet our specific needs, we used a cured-in-place flexible pipe lining system. We also demonstrated that the system could be used to restore corroded entry conduits, or sweeps, on streetlights.

CECONY is providing the primary support to EPRI for developing a solid-state current limiter (SSCL) to restrict fault current in the transmission grid. Fault current introduced to the grid (e.g., by independent power producers) can cause circuit breaker failure at substations under certain conditions. SSCLs may be an alternative to larger and more expensive circuit breakers to maintain power quality, helping to enable distributed generation and energy storage as well as superconducting transmission cables.

Our environmental R&D also bore fruit. We developed, and are now demonstrating, a mobile, field-ready, and user-friendly analyzer to locate oil leaks from transmission lines using perfluorocarbon tracer (PFT) technology.



A state-of-the-art control center ensures that the natural gas transmission and delivery system can respond quickly and efficiently to systems needs, from the greatest to the smallest in the field.

Supporting Research and Development

Over the past several years, CECONY has been a leader in using solid dielectric feeder cable, replacing some types of oil-insulated cable. Where solid dielectric cable is not feasible, CECONY engineers and scientists have researched water-cooled 345-kV cable systems.

Con Edison invested significant resources into our new Stray Voltage Protection Program. In 2004, we developed a model Vehicle-Mounted Stray Voltage Protection System to detect the presence of stray voltage on manhole covers, gratings, service boxes, light poles and other structures. We also developed and tested a Walking Stray Voltage Detector that enables our staff to conduct walking surveys of sidewalk areas. These hand-held devices are fully integrated, with Global Position System (GPS), data logging, and communications capabilities.

Con Edison will continue to aggressively support technology and environmental, health and safety R&D programs in our industry.

Supply Chain Management

At Con Edison, we reach beyond our own business practices and develop relationships with suppliers that share our philosophy about the environment and social responsibility. Where possible, we select businesses within our communities to provide supplies, contract labor support, and other services. In addition, we have spread our commitment to diversity outside our own hiring practices and have widened our business relationships to ensure that women and minority-owned businesses in our communities share in our growth.



Interdepartmental meetings foster communication and teamwork.

We work hard to ensure that our contractors meet our environmental, health, and safety standards. Before CECONY enters into a relationship with a service contractor (such as for excavation, construction, or system maintenance), we verify that the contractor has the financial resources and insurance to meet our needs. We then conduct a rigorous environmental, health, and safety review of the contractor to validate their corporate EH&S programs, including a review of all OSHA safety records and the history of violations associated with the contractor.

In certain cases, we require contractors to participate in CECONY training (available through online programs) to ensure that their health and safety plans and training meet our requirements. All contractor health and safety plans are reviewed and approved by CECONY subject matter experts before the contractor begins work. Where a contractor has experienced recent accidents or EH&S violations on CECONY assignments, we may require them to hire a third-party monitor to ensure that they are performing according to environmental, health and safety requirements. Periodically, our Purchasing department issues an Environmental & Safety Newsletter for Contractors, covering recent violations and new regulations, as well as best EH&S practices employed by exemplary contractors. For example, the Spring 2005 issue provided articles on new federal requirements for temporary traffic control services, an asbestos abatement contractor suspended for EH&S program deficiencies, mandatory OSHA awareness training for employees, vendors, and contracted workers, and New York State Industrial Code 753 (and the One-Call System).

CECONY's major operating areas manage a formal contractor oversight program to evaluate contractor performance including safety, environment, and quality. Contractors regularly undergo on-site inspections by trained and experienced CECONY project managers and receive semi-annual report cards about their performance.

If a vendor needs help maintaining EH&S performance, CECONY helps them upgrade their health and safety plans. We maintain a special action line for employees and members of the public to report environmental, health, and safety violations and potentially risky behavior. Purchasing uses

Supply Chain Management

a special committee to review contractor violations and assess disciplinary action (e.g., replace site manager or field personnel, undergo special training, become ineligible for further CECONY contracts for a specified period of time).

These rigorous steps help ensure that contractors work safely and in compliance with applicable EH&S regulations on CECONY assignments. Mirroring our commitment to diversity in our own workforce, Con Edison and O&R operate a Minority- and Women-Owned Business Program. In addition to contracting with them directly, we encourage our contractors and suppliers to mentor and support minority and women vendors. In 2004, *DiversityInc* ranked CECONY No. 4 in the country for our Supplier Diversity program. Also in 2004, the Supplier Development Diversity Council of New Jersey recognized O&R for the development and growth of its relationship with minority- and women-owned businesses and communities in New Jersey.

We work closely with our minority- and women-owned vendors and suppliers. We regularly participate in and conduct training, seminars and networking opportunities for minority- and women-owned businesses and mentor them in the procurement process.

Reducing Liabilities and Mitigating Risks

Con Edison's business is influenced by many factors that are difficult to predict and that may materially affect income and financial conditions. We systematically identify and address all major risks and liabilities that may affect our economic health. Examples include:

Our revenues and results of operations reflect regulatory actions. Con Edison's utility subsidiaries have rate plans approved by state utility regulators that cover the prices they can charge their customers. These prices generally may not be changed during the specified terms of the rate plans, other than for the recovery of energy costs and other limited exceptions. These rate plans include earning adjustments for meeting or failing to meet certain standards. Certain of the plans require actions by regulators at their expiration dates, which may include approval of new plans with different provisions. Regulators may also take action outside of the framework of the approved rate plans.

Our ability to pay dividends or interest is subject to regulatory restrictions. Our ability to pay dividends on our common stock or interest on our external borrowings depends primarily on the dividends and other distributions we receive from our subsidiaries. The dividends that the utility subsidiaries may pay are generally limited to not more than 100% of their respective income available for dividends calculated on a two-year rolling average basis.

We purchase the vast majority of the energy we sell to our customers. A disruption or delay in our energy supply arrangements could adversely affect our ability to meet our customers' energy needs and our results of operations. We have policies to manage the economic risks related to energy supply, including related hedging transactions and the risk of a supplier's non-performance. The utility subsidiaries generally recover their fuel, purchased power and gas costs, including the cost of hedging transactions, in accordance with rate provisions approved by state utility regulators.

We have a substantial ongoing utility construction program. The utility subsidiaries' construction expenditures will approach or exceed \$1.5 billion in each of the next three years. The ongoing construction program includes large energy transmission and distribution system projects. The failure to complete these projects in a timely manner could adversely affect our ability to meet our customers' growing energy needs with the high level of reliability that we currently provide. CECONY and O&R expect to use internally generated funds and external financing to fund the construction expenditures. Changes in capital market conditions or in our credit ratings could adversely affect our ability to raise money. Our current credit ratings are strong.

We are subject to extensive government regulation. Our operations are subject to extensive federal, state, and local regulation and require numerous permits, approvals, and certificates from various governmental agencies. We may be subject to new laws or regulations, to the amendment of existing laws and regulations, or to the implementation of new regulatory policies.

We are exposed to risks beyond our control. Our results of operations can be affected by changes in the weather, which directly influence the demand for electricity, gas, and steam, and can affect the price of energy commodities. The cost of repairing damage to CECONY and O&R operating facilities and the potential disruption of their operations due to storms, natural disasters, wars, terrorist acts, and other catastrophic events could be substantial. The occurrence, or risk of occurrence, of future terrorist attacks or related acts of war could also adversely affect the New York or United States

Reducing Liabilities and Mitigating Risks

economy. A lower level of economic activity for these or other reasons could result in a decline in energy consumption, which could adversely affect our revenues and earnings and limit future growth prospects.

We are exposed to potential liabilities relating to hazardous substances and other related environmental issues. Hazardous substances, such as asbestos, polychlorinated biphenyls (PCBs), and coal tar, have been used or produced in the course of past CECONY and O&R operations and are present on properties or in facilities and equipment currently or previously owned. As of June 30, 2005, approximately \$250 million has been accrued for environmental liabilities, including Superfund site liabilities and former manufactured gas plant (MGP) sites. Accrued liability for asbestos proceedings exceeds \$100 million.

Proactively, CECONY is conducting a comprehensive program to identify and address environmental, health, and safety risks. CECONY has developed and implemented a web-based operational risk management application for use by field organizations in their identification, assessment and management of EH&S-related risk issues.

Empowering Business Development

Con Edison fosters community development by helping new businesses get started and providing assistance for businesses that have suffered accidents or losses. We offer these companies reduced electrical rates and help them secure grants and business loans from federal, state, and local agencies. Last year, CECONY concentrated on business redevelopment in Lower Manhattan, below Canal Street – the area devastated by the terrorist attacks on 9/11.



Looking north at mid-Manhattan buildings at twilight.

CECONY also supports New York City's efforts to attract and retain business. The city typically will negotiate a grant to a business (perhaps a combination of real estate tax adjustments and equipment sales tax reductions) for up to three years, if the business agrees to remain in the city and retain its employees. CECONY participates by offering incentive rates for electricity, gas, and steam.

Openly Communicating Our Commitment

In addition, Con Edison publishes an extensive Environment, Health and Safety Annual Report that provides an in-depth look at the company's programs, results achieved, strategic initiatives for the future, and five-year logs of key environmental, health, and safety performance trends. You may view it on the CECONY Web site at www.coned.com.

Also at this site, there is information on CECONY's Strategic Partnerships program. Through this commitment, we provide financial or in-kind support to organizations whose activities advance strong, vibrant, and stable communities. We choose these groups carefully, looking to their ability to enrich the quality of life of all New Yorkers. We especially support organizations that share the company's concern for preserving and protecting the environment through conservation, education, and beautification projects. There are links to the environmental and community-based programs we support, and news about our employee volunteers' activities and participation.

The Con Edison, Inc. Web site at www.conedison.com provides a wide variety of information about the corporation, its regulated and unregulated subsidiaries, corporate governance, news and public issues, and investor information.



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