

CROSS TIMBERS ROYALTY TRUST
Form 8-K
August 19, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934
Date of report (Date of earliest event reported): August 19, 2014

CROSS TIMBERS ROYALTY TRUST
(Exact Name of Registrant as Specified in Its Charter)

Texas
(State or Other Jurisdiction
of Incorporation)

1-10982
(Commission
File Number)

75-6415930
(IRS Employer
Identification No.)

U.S. Trust, Bank of America

Private Wealth Management

Trustee

P.O. Box 830650

Dallas, Texas
(Address of Principal Executive Offices)

75283-0650
(Zip Code)

(855) 588-7839

(Registrant's Telephone Number, Including Area Code)

NONE

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- .. Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- .. Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- .. Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- .. Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operations and Financial Condition.

On August 19, 2014, the Registrant issued a news release announcing its monthly cash distribution to unitholders of record on August 29, 2014. A copy of the news release is furnished as Exhibit 99.1.

The information in this Current Report, including the news release attached hereto, is being furnished pursuant to Item 2.02 of Form 8-K and shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liabilities of that Section.

Item 9.01. Financial Statements and Exhibits.

(c) Exhibits.

99.1 News Release dated August 19, 2014

SIGNATURES

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

CROSS TIMBERS ROYALTY TRUST

By: BANK OF AMERICA, N.A., TRUSTEE

Date: August 19, 2014

By: /s/ DICKERMAN C. SADLER
Dickerman C. Sadler
Managing Director

EXXON MOBIL CORPORATION

By: /s/ BETH E. CASTEEL
Beth E. Casteel
Vice President Upstream Business Services

EXHIBIT INDEX

Exhibit Number and Description

99.1 News Release dated August 19, 2014

4

ORDER-BOTTOM:1px solid #000000" ALIGN="right">18,445

Current Assets

Cash and temporary cash investments (Note A)

210 94

Restricted cash

1 18

Accounts receivable customers, less allowance for uncollectible accounts of \$47 and \$45 in 2007 and 2006, respectively

970 825

Accrued unbilled revenue (Note A)

149 122

Other receivables, less allowance for uncollectible accounts of \$6 and \$4 in 2007 and 2006, respectively

405 649

Fuel oil, at average cost

44 56

Gas in storage, at average cost

215 253

Materials and supplies, at average cost

146 157

Prepayments

119 157

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Fair value of derivative assets

36 122

Recoverable energy costs (Notes A and B)

213 235

Deferred derivative losses

45 237

Current assets held for sale (Note U)

40 -

Other current assets

12 12

Total Current Assets

2,605 2,937

Investments (note A)

378 366

Deferred Charges, Regulatory Assets And Noncurrent Assets

Goodwill (Note K)

408 406

Intangible assets, less accumulated amortization of \$1 and \$34 in 2007 and 2006, respectively (Note K)

2 80

Regulatory assets (Note B)

4,531 4,179

Noncurrent assets held for sale (Note U)

88 -

Other deferred charges and noncurrent assets

417 286

Total Deferred Charges, Regulatory Assets And Noncurrent Assets

5,446 4,951

Total Assets

\$28,343 \$26,699

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

Table of Contents**Consolidated Edison, Inc.****Consolidated Balance Sheet**

(Millions of Dollars)	At December 31,	
	2007	2006
Capitalization and Liabilities		
Capitalization		
Common shareholders' equity (See Statement of Common Shareholders' Equity)	\$ 9,076	\$ 8,004
Preferred stock of subsidiary (See Statement of Capitalization)	213	213
Long-term debt (See Statement of Capitalization)	7,611	8,298
Total Capitalization	16,900	16,515
Minority Interests	43	41
Noncurrent Liabilities		
Obligations under capital leases (Note J)	22	26
Provision for injuries and damages (Note G)	161	155
Pensions and retiree benefits	938	737
Superfund and other environmental costs (Note G)	327	292
Uncertain income taxes	155	-
Asset retirement obligations (Note Q)	110	97
Fair value of derivative liabilities	52	97
Noncurrent liabilities held for sale (Note U)	61	-
Other noncurrent liabilities	95	93
Total Noncurrent Liabilities	1,921	1,497
Current Liabilities		
Long-term debt due within one year	809	374
Notes payable	840	117
Accounts payable	1,187	1,126
Customer deposits	249	228
Accrued taxes	26	36
Accrued interest	149	139
Accrued wages	82	79
Fair value of derivative liabilities	118	395
Deferred derivative gains (Note B)	10	6
Deferred income taxes recoverable energy costs (Note L)	86	96
Current liabilities held for sale (Note U)	28	-
Other current liabilities	311	276
Total Current Liabilities	3,895	2,872
Deferred Credits and Regulatory Liabilities		
Deferred income taxes and investment tax credits (Notes A and L)	4,465	4,095
Regulatory liabilities (Note B)	1,097	1,657
Other deferred credits	22	22
Total Deferred Credits and Regulatory Liabilities	5,584	5,774
Total Capitalization and Liabilities	\$ 28,343	\$ 26,699

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

Table of Contents**Consolidated Edison, Inc.****Consolidated Income Statement**

(Millions of Dollars/Except Share Data)	For the Years Ended December 31,		
	2007	2006	2005
Operating Revenues (Note A)			
Electric	\$ 8,110	\$ 7,634	\$ 7,543
Gas	2,025	1,849	1,858
Steam	686	623	649
Non-utility	2,299	1,856	1,293
Total Operating Revenues	13,120	11,962	11,343
Operating Expenses			
Purchased power	5,428	4,976	4,700
Fuel	624	553	596
Gas purchased for resale	1,173	1,082	1,155
Other operations and maintenance	2,080	1,879	1,661
Depreciation and amortization (Note A)	645	595	558
Taxes, other than income taxes	1,323	1,249	1,180
Income taxes (Notes A and L)	452	407	367
Total Operating Expenses	11,725	10,741	10,217
Operating Income	1,395	1,221	1,126
Other Income (Deductions)			
Investment and other income (Note A)	58	39	37
Allowance for equity funds used during construction (Note A)	8	6	9
Preferred stock dividend requirements of subsidiary	(11)	(11)	(11)
Other deductions	(23)	(23)	(13)
Income taxes (Notes A and L)	15	18	19
Total Other Income (Deductions)	47	29	41
Interest Expense			
Interest on long-term debt	470	441	402
Other interest	57	75	27
Allowance for borrowed funds used during construction (Note A)	(10)	(6)	(7)
Net Interest Expense	517	510	422
Income From Continuing Operations	925	740	745
Income/(Loss) From Discontinued Operations (Net of Income Tax Expense/(Benefit) of \$1, \$(13) and \$(11) in 2007, 2006 and 2005, respectively) (Notes T and U)	4	(3)	(26)
Net Income	\$ 929	\$ 737	\$ 719
Earnings Per Common Share Basic			
Continuing operations	\$ 3.48	\$ 2.97	\$ 3.05
Discontinued operations	0.01	(0.01)	(0.10)
Net income	\$ 3.49	\$ 2.96	\$ 2.95
Earnings Per Common Share Diluted			
Continuing operations	\$ 3.46	\$ 2.96	\$ 3.04
Discontinued operations	0.01	(0.01)	(0.10)
Net income	\$ 3.47	\$ 2.95	\$ 2.94
Dividends Declared Per Share of Common Stock	\$ 2.32	\$ 2.30	\$ 2.28
Average Number of Shares Outstanding Basic (in Millions)	266.3	249.3	243.9
Average Number of Shares Outstanding Diluted (in Millions)	267.3	250.3	244.7

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

Table of Contents**Consolidated Edison, Inc.****Consolidated Statement of Comprehensive Income**

(Millions of Dollars)	For the Years Ended December 31,		
	2007	2006	2005
Net Income	\$ 929	\$ 737	\$ 719
Other Comprehensive Income/(Loss), Net of Taxes			
Pension plan liability adjustments, net of \$(3) taxes in 2006 and 2005	-	(5)	(5)
Unrealized gains/(losses) on derivatives qualified as cash flow hedges, net of \$2, \$(69) and \$27 taxes in 2007, 2006 and 2005, respectively	3	(99)	39
Less: Reclassification adjustment for gains/(losses) included in net income, net of \$(25), \$(50) and \$41 taxes in 2007, 2006 and 2005, respectively	(37)	(71)	59
Total Other Comprehensive Income/(Loss), Net of Taxes	40	(33)	(25)
Comprehensive Income	\$ 969	\$ 704	\$ 694

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

Table of Contents

Consolidated Edison, Inc.

Consolidated Statement of Common Shareholders Equity

(Millions of Dollars/Except Share Data)	Common Stock			Retained Earnings	Treasury Stock		Accumulated Capital Other StockComprehensive		Total
	Shares	Amount	Additional Paid-In Capital		Shares	Amount	Expense	Income/(Loss)	
Balance as of December 31, 2004	242,514,183	\$ 26	\$ 2,642	\$ 5,451	23,210,700	\$(1,001)	\$ (55)	\$ (9)	\$ 7,054
Net income				719					719
Common stock dividends				(556)					(556)
Issuance of common shares dividend reinvestment and employee stock plans	2,771,875	1	126	(9)					118
Other comprehensive loss								(25)	(25)
Balance as of December 31, 2005	245,286,058	\$ 27	\$ 2,768	\$ 5,605	23,210,700	\$(1,001)	\$ (55)	\$ (34)	\$ 7,310
Net income				737					737
Common stock dividends				(573)					(573)
Issuance of common shares public offering	9,715,000	1	449				(3)		447
Issuance of common shares dividend reinvestment and employee stock plans	2,455,245		120						120
Stock options			(23)	35					12
Other comprehensive loss								(33)	(33)
Adjustment to initially apply FASB Statement No. 158, net of tax (Notes E and F)								(16)	(16)
Balance as of December 31, 2006	257,456,303	\$ 28	\$ 3,314	\$ 5,804	23,210,700	\$(1,001)	\$ (58)	\$ (83)	\$ 8,004
Net income				929					929
Common stock dividends				(620)					(620)
Issuance of common shares public offering	11,000,000	1	559				(2)		558
Issuance of common shares dividend reinvestment and employee stock plans	3,568,571		165						165
Other comprehensive income								40	40
Balance as of December 31, 2007	272,024,874	\$ 29	\$ 4,038	\$ 6,113	23,210,700	\$(1,001)	\$ (60)	\$ (43)	\$ 9,076

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

Table of Contents**Consolidated Edison, Inc.****Consolidated Statement of Cash Flows**

(Millions of Dollars)	For the Twelve Months Ended December 31,		
	2007	2006	2005
Operating Activities			
Net Income	\$ 929	\$ 737	\$ 719
Principal Non-Cash Charges/(Credits) to Income			
Depreciation and amortization	667	620	584
Deferred income taxes	335	338	(79)
Rate case amortization and accruals	(316)	(218)	(93)
Net transmission and distribution reconciliation	(187)	(115)	(38)
Common equity component of allowance for funds used during construction	(8)	(6)	(9)
Prepaid pension costs (net of capitalized amounts)	(13)	(23)	(43)
Impairment charge	-	-	9
Net derivative losses	8	37	4
Other non-cash items (net)	72	69	(2)
Changes in Assets and Liabilities			
Accounts receivable - customers, less allowance for uncollectibles	(150)	200	(284)
Materials and supplies, including fuel oil and gas in storage	45	(41)	(100)
Other receivables and other current assets	217	(262)	(147)
Prepayments	38	277	(341)
Recoverable energy costs	16	51	(88)
Accounts payable	64	(108)	317
Pensions and retiree benefits	(21)	7	16
Accrued taxes	(3)	(58)	58
Accrued interest	10	37	7
Deferred charges, noncurrent assets and other regulatory assets	(66)	(208)	(119)
Deferred credits and other regulatory liabilities	(173)	(27)	118
Other assets	(19)	13	125
Other liabilities	110	34	176
Net Cash Flows from Operating Activities	1,555	1,354	790
Investing Activities			
Utility construction expenditures (excluding capitalized support costs of \$(63), \$(45) and \$(11) in 2007, 2006 and 2005, respectively)	(1,928)	(1,847)	(1,617)
Cost of removal less salvage	(190)	(167)	(184)
Non-utility construction expenditures	(6)	(6)	(19)
Common equity component of allowance for funds used during construction	8	6	9
Decrease/(increase) in restricted cash	-	(3)	3
Proceeds from sale of properties	30	60	534
Proceeds from sale of Con Edison Communications	-	39	-
Net Cash Flows Used in Investing Activities	(2,086)	(1,918)	(1,274)
Financing Activities			
Net proceeds from/(payments of) short-term debt	723	(638)	598
Retirement of long-term debt	(699)	(523)	(597)
Issuance of long-term debt	525	1,775	991
Issuance of common stock	685	510	78
Debt issuance costs	(5)	(14)	(13)
Common stock dividends	(582)	(533)	(518)
Net Cash Flows from Financing Activities	647	577	539
Cash and Temporary Cash Investments:			
Net Change for the Period	116	13	55
Balance at Beginning of Period	94	81	26
Balance at End of Period	\$ 210	\$ 94	\$ 81
Supplemental Disclosure of Cash Flow Information			

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Cash paid during the period for:

Interest	\$ 463	\$ 451	\$ 429
Income taxes	\$ 234	\$ 67	\$ 283

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

Table of Contents**Consolidated Edison, Inc.****Consolidated Statement of Capitalization**

(Millions of Dollars)	Shares outstanding		At December 31,	
	December 31, 2007	December 31, 2006	2007	2006
Total Common Shareholders Equity Less Accumulated Other Comprehensive Loss	272,024,874	257,456,303	\$ 9,119	\$ 8,087
Accumulated Other Comprehensive Loss				
Pension plan liability adjustments, net of \$(10) taxes in 2006			(17)	(17)
Adjustment to initially apply FASB Statement No. 158, net of \$(23) taxes in 2006 (Notes E and F)			(16)	(16)
Unrealized gains/(losses) on derivatives qualified as cash flow hedges, net of \$(31) and \$(33) taxes in 2007 and 2006, respectively			(44)	(47)
Less: Reclassification adjustment for gains/(losses) included in net income, net of \$(24) and \$1 taxes in 2007 and 2006, respectively			(34)	3
Total Accumulated Other Comprehensive Loss, Net of Taxes			(43)	(83)
Total Common Shareholders Equity (See Statement of Common Shareholders Equity And Note C)			9,076	8,004
Preferred Stock Of Subsidiary (Note C)				
\$5 Cumulative Preferred, without par value, authorized 1,915,319 shares	1,915,319	1,915,319	175	175
Cumulative Preferred, \$100 par value, authorized 6,000,000 shares				
4.65% Series C	153,296	153,296	16	16
4.65% Series D	222,330	222,330	22	22
Total Preferred Stock			\$ 213	\$ 213

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

Table of Contents**Consolidated Edison, Inc.****Consolidated Statement of Capitalization**

Long-Term Debt (Note C) (Millions of Dollars)		Series	At December 31,	
Maturity	Interest Rate		2007	2006
Debentures:				
2007	6.45%	1997B	\$ -	\$ 330
2008	6.25	1998A	180	180
2008	6.15	1998C	100	100
2008	3.625	2003A	200	200
2009	7.15	1999B	200	200
2009	4.70	2004C	275	275
2010	8.125	2000A	325	325
2010	7.50	2000A	55	55
2010	7.50	2000B	300	300
2012	5.625	2002A	300	300
2013	4.875	2002B	500	500
2013	3.85	2003B	200	200
2014	4.70	2004A	200	200
2015	5.375	2005C	350	350
2015	5.30	2005A	40	40
2016	5.45	2006A	75	75
2016	5.50	2006C	400	400
2016	5.30	2006D	250	250
2027	6.50	1997F	80	80
2028	7.10	1998B	105	105
2028	6.90	1998D	75	75
2029	7.00	1999G	45	45
2033	5.875	2003A	175	175
2033	5.10	2003C	200	200
2034	5.70	2004B	200	200
2035	5.30	2005A	350	350
2035	5.25	2005B	125	125
2036	5.85	2006A	400	400
2036	6.20	2006B	400	400
2036	5.70	2006E	250	250
2037	6.30	2007A	525	-
2042	7.25	2002A	-	325
Total Debentures			6,880	7,010
Transition Bonds:				
2019	5.22%	2004-1	40	42
Total Transition Bonds			40	42
Tax-Exempt Debt Notes issued to New York State Energy Research and Development Authority for Facilities Revenue Bonds*:				
2014	3.37% (Note O)	1994**	55	55
2015	3.37	1995**	44	44
2032	3.763	2004B Series 1	127	127
2034	4.467	1999A	293	293
2035	4.60	2004B Series 2	20	20
2036	4.70 (Note O)	2001A	225	222
2036	4.50	2001B	98	98
2039	4.23	2004A	98	98
2039	3.433	2004C	99	99
2039	3.363	2005A	126	126
Total Tax-Exempt Debt			1,185	1,182

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Long-term debt Newington (Note P)	326	330
Other long-term debt	9	128
Unamortized debt discount	(20)	(20)
Total	8,420	8,672
Less: long-term debt due within one year	809	374
Total Long-Term Debt	7,611	8,298
Total Capitalization	\$ 16,900	\$ 16,515

* Other than Series 2001A, rates reset weekly or by auction held every 35 days; December 31, 2007 rates shown.

** Issued for O&R pollution control financing.

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

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Report of Management on Internal Control over Financial Reporting

Management of Con Edison of New York is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of the effectiveness of controls to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Management of Con Edison of New York assessed the effectiveness of internal control over financial reporting as of December 31, 2007, using the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework*. Based on that assessment, management has concluded that Con Edison of New York had effective internal control over financial reporting as of December 31, 2007.

The effectiveness of Con Edison of New York's internal control over financial reporting as of December 31, 2007, has been audited by PricewaterhouseCoopers LLP, Con Edison of New York's independent registered public accounting firm, as stated in their report which appears on the following page of this Annual Report on Form 10-K.

Kevin Burke
Chairman and Chief

Executive Officer

Robert Hoglund
Senior Vice President and Chief

Financial Officer
February 15, 2008

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Report of Independent Registered Public Accounting Firm

To the Stockholder and Board of Trustees of Consolidated Edison Company of New York, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Consolidated Edison Company of New York, Inc. and its subsidiaries at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our audits (which was an integrated audit in 2007). We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Notes E and F to the consolidated financial statements, the Company changed its method of accounting for defined benefit pension and other postretirement benefit plans in 2006.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

New York, New York

February 15, 2008

Table of Contents**Consolidated Edison Company of New York, Inc.****Consolidated Balance Sheet**

(Millions of Dollars)	At December 31,	
	2007	2006
Assets		
Utility Plant, at Original Cost (Note A)		
Electric	\$ 15,027	\$ 13,872
Gas	2,999	2,848
Steam	1,755	1,691
General	1,599	1,510
Total	21,380	19,921
Less: Accumulated depreciation	4,360	4,173
Net	17,020	15,748
Construction work in progress	973	832
Net Utility Plant	17,993	16,580
Non-Utility Property (Note A)		
Non-utility property, less accumulated depreciation of \$18 and \$17 in 2007 and 2006, respectively	12	15
Net Plant	18,005	16,595
Current Assets		
Cash and temporary cash investments (Note A)	121	47
Accounts receivable - customers, less allowance for uncollectible accounts of \$43 and \$40 in 2007 and 2006, respectively	832	716
Other receivables, less allowance for uncollectible accounts of \$3 in 2007 and 2006	251	375
Accounts receivable from affiliated companies	96	138
Fuel oil, at average cost	44	47
Gas in storage, at average cost	170	193
Materials and supplies, at average cost	138	126
Prepayments	81	84
Fair value of derivative assets	3	-
Recoverable energy costs (Notes A and B)	190	213
Deferred derivative losses	44	213
Other current assets	5	4
Total Current Assets	1,975	2,156
Investments		
	111	91
Deferred Charges, Regulatory Assets and Noncurrent Assets		
Regulatory assets (Note B)	4,123	3,764
Other deferred charges and noncurrent assets	345	210
Total Deferred Charges, Regulatory Assets and Noncurrent Assets	4,468	3,974
Total Assets	\$ 24,559	\$ 22,816

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

Table of Contents**Consolidated Edison Company of New York, Inc.****Consolidated Balance Sheet**

(Millions of Dollars)	At December 31,	
	2007	2006
Capitalization and Liabilities		
Capitalization		
Common shareholder's equity (See Statement of Common Shareholder's Equity)	\$ 8,086	\$ 7,132
Preferred stock (See Statement of Capitalization)	213	213
Long-term debt (See Statement of Capitalization)	7,172	6,925
Total Capitalization	15,471	14,270
Noncurrent Liabilities		
Obligations under capital leases (Note J)	22	26
Provision for injuries and damages (Note G)	154	148
Pensions and retiree benefits	638	449
Superfund and other environmental costs (Note G)	271	243
Uncertain income taxes	142	-
Asset retirement obligations (Note Q)	110	96
Fair value of derivative liabilities	17	35
Other noncurrent liabilities	77	72
Total Noncurrent Liabilities	1,431	1,069
Current Liabilities		
Long-term debt due within one year	280	330
Notes payable	555	-
Accounts payable	899	866
Accounts payable to affiliated companies	19	14
Customer deposits	234	214
Accrued taxes	30	118
Accrued interest	134	121
Accrued wages	74	71
Fair value of derivative liabilities	63	193
Deferred derivative gains (Note B)	5	5
Deferred income taxes recoverable energy costs (Note L)	77	87
Other current liabilities	275	233
Total Current Liabilities	2,645	2,252
Deferred Credits and Regulatory Liabilities		
Deferred income taxes and investment tax credits (Notes A and L)	4,018	3,682
Regulatory liabilities (Note B)	976	1,524
Other deferred credits	18	19
Total Deferred Credits and Regulatory Liabilities	5,012	5,225
Total Capitalization and Liabilities	\$ 24,559	\$ 22,816

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

Table of Contents**Consolidated Edison Company of New York, Inc.****Consolidated Income Statement**

(Millions of Dollars)	For the Years Ended December 31,		
	2007	2006	2005
Operating Revenues (Note A)			
Electric	\$ 7,440	\$ 7,052	\$ 6,948
Gas	1,759	1,613	1,630
Steam	686	623	649
Total Operating Revenues	9,885	9,288	9,227
Operating Expenses			
Purchased power	3,014	3,052	3,322
Fuel	588	525	526
Gas purchased for resale	978	902	965
Other operations and maintenance	1,780	1,616	1,421
Depreciation and amortization (Note A)	593	545	509
Taxes, other than income taxes	1,263	1,183	1,114
Income taxes (Notes A and L)	392	355	329
Total Operating Expenses	8,608	8,178	8,186
Operating Income	1,277	1,110	1,041
Other Income (Deductions)			
Investment and other income (Note A)	41	34	31
Allowance for equity funds used during construction (Note A)	7	5	9
Other deductions	(12)	(12)	(11)
Income taxes (Notes A and L)	-	6	(1)
Total Other Income (Deductions)	36	33	28
Interest Expense			
Interest on long-term debt	428	386	350
Other interest	39	65	21
Allowance for borrowed funds used during construction (Note A)	(9)	(5)	(7)
Net Interest Expense	458	446	364
Net Income	855	697	705
Preferred Stock Dividend Requirements	11	11	11
Net Income for Common Stock	\$ 844	\$ 686	\$ 694

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

Table of Contents**Consolidated Edison Company of New York, Inc.****Consolidated Statement of Comprehensive Income**

(Millions of Dollars)	For the Years Ended December 31,		
	2007	2006	2005
Net Income	\$ 855	\$ 697	\$ 705
Other Comprehensive Income/(Loss), Net of Taxes			
Pension plan liability adjustments, net of \$(3) and \$(2) taxes in 2006 and 2005, respectively	-	(5)	(4)
Unrealized losses on derivatives qualified as cash flow hedges, net of \$(1) taxes in 2006	-	(1)	-
Less: Reclassification adjustment for gains included in net income, net of \$1 taxes in 2005	-	-	1
Total Other Comprehensive Loss, Net Of Taxes	-	(6)	(5)
Comprehensive Income	\$ 855	\$ 691	\$ 700

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

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Consolidated Edison Company of New York, Inc.

Consolidated Statement of Common Shareholders' Equity

(Millions of Dollars/Except Share Data)	Common Stock		Additional Paid-In Capital	Retained Earnings	Repurchased	Accumulated		Total
	Shares	Amount			Con Edison Stock	Capital Stock	Other Comprehensive Income/(Loss)	
Balance as of December 31, 2004	235,488,094	\$ 589	\$ 1,802	\$ 4,748	\$ (962)	\$ (55)	\$ (6)	\$ 6,116
Net income				705				705
Common stock dividend to parent				(368)				(368)
Cumulative preferred dividends				(11)				(11)
Other comprehensive loss							(5)	(5)
Balance as of December 31, 2005	235,488,094	\$ 589	\$ 1,802	\$ 5,074	\$ (962)	\$ (55)	\$ (11)	\$ 6,437
Net income				697				697
Common stock dividend to parent				(440)				(440)
Capital contribution by parent			450			(3)		447
Cumulative preferred dividends				(11)				(11)
Other comprehensive loss							(6)	(6)
Adjustment to initially apply FASB Statement No. 158, net of tax (Notes E and F)							8	8
Balance as of December 31, 2006	235,488,094	\$ 589	\$ 2,252	\$ 5,320	\$ (962)	\$ (58)	\$ (9)	\$ 7,132
Net income				855				855
Common stock dividend to parent				(548)				(548)
Capital contribution by parent			660			(2)		658
Cumulative preferred dividends				(11)				(11)
Balance as of December 31, 2007	235,488,094	\$ 589	\$ 2,912	\$ 5,616	\$ (962)	\$ (60)	\$ (9)	\$ 8,086

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

Table of Contents**Consolidated Edison Company of New York, Inc.****Consolidated Statement of Cash Flows**

(Millions of Dollars)	For the Twelve Months Ended December 31,		
	2007	2006	2005
Operating Activities			
Net income	\$ 855	\$ 697	\$ 705
Principal Non-Cash Charges/(Credits) to Income			
Depreciation and amortization	593	545	509
Deferred income taxes	320	312	(112)
Rate case amortization and accruals	(316)	(218)	(93)
Net transmission and distribution reconciliation	(187)	(115)	(38)
Common equity component of allowance for funds used during construction	(7)	(5)	(9)
Prepaid pension costs (net of capitalized amounts)	(13)	(23)	(43)
Other non-cash items (net)	(17)	(1)	(4)
Changes in Assets and Liabilities			
Accounts receivable customers, less allowance for uncollectibles	(116)	164	(215)
Materials and supplies, including fuel oil and gas in storage	14	(51)	(72)
Other receivables and other current assets	198	(248)	(35)
Prepayments	3	333	(343)
Recoverable energy costs	28	44	(88)
Accounts payable	38	(142)	263
Pensions and retiree benefits	(39)	14	13
Accrued taxes	(82)	15	45
Accrued interest	13	34	7
Deferred charges, noncurrent assets and other regulatory assets	(138)	(197)	(113)
Deferred credits and other regulatory liabilities	(2)	(27)	118
Other assets	-	-	145
Other liabilities	106	32	178
Net Cash Flows from Operating Activities	1,251	1,163	818
Investing Activities			
Utility construction expenditures (excluding capitalized support costs of \$(63), \$(45) and \$(11) in 2007, 2006 and 2005, respectively)	(1,816)	(1,737)	(1,530)
Cost of removal less salvage	(187)	(167)	(180)
Common equity component of allowance for funds used during construction	7	5	9
Loan to affiliate	(55)	-	-
Proceeds from sale of properties	30	60	534
Net Cash Flows Used in Investing Activities	(2,021)	(1,839)	(1,167)
Financing Activities			
Net proceeds from/(payments of) short-term debt	555	(520)	420
Retirement of long-term debt	(330)	(500)	(578)
Issuance of long-term debt	525	1,700	951
Debt issuance costs	(5)	(14)	(13)
Capital contribution by parent	658	447	-
Dividend to parent	(548)	(440)	(369)
Preferred stock dividends	(11)	(11)	(11)
Net Cash Flows from Financing Activities	844	662	400
Cash and Temporary Cash Investments:			
Net Change for the Period	74	(14)	51
Balance at Beginning of Period	47	61	10
Balance at End of Period	\$ 121	\$ 47	\$ 61
Supplemental Disclosure of Cash Flow Information			
Cash paid during the period for:			
Interest	\$ 407	\$ 351	\$ 330
Income taxes	\$ 307	\$ 89	\$ 352

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

Table of Contents**Consolidated Edison Company of New York, Inc.****Consolidated Statement of Capitalization**

(Millions of Dollars)	Shares outstanding		At December 31,	
	December 31, 2007	December 31, 2006	2007	2006
Total Common Shareholder s Equity Less Accumulated Other Comprehensive Loss	235,488,094	235,488,094	\$ 8,095	\$ 7,141
Accumulated Other Comprehensive Loss				
Pension plan liability adjustments, net of \$(9) taxes in 2006			(15)	(15)
Adjustment to initially apply FASB Statement No. 158, net of \$(4) taxes in 2006 (Notes E and F)			8	8
Unrealized gains on derivatives qualified as cash flow hedges, net of \$(3) taxes in 2006			(4)	(4)
Less: Reclassification adjustment for gains included in net income			(2)	(2)
Total Accumulated Other Comprehensive Loss, Net of Taxes			(9)	(9)
Total Common Shareholder s Equity (See Statement of Common Shareholder s Equity and Note C)			8,086	7,132
Preferred Stock (Note C)				
\$5 Cumulative Preferred, without par value, authorized 1,915,319 shares	1,915,319	1,915,319	175	175
Cumulative Preferred, \$100 par value, authorized 6,000,000 shares				
4.65% Series C	153,296	153,296	16	16
4.65% Series D	222,330	222,330	22	22
Total Preferred Stock			\$ 213	\$ 213

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

Table of Contents**Consolidated Edison Company of New York, Inc.****Consolidated Statement of Capitalization**

Long-Term Debt (Note C) (Millions of Dollars)		Series	At December 31,	
Maturity	Interest Rate		2007	2006
Debentures:				
2007	6.45%	1997B	\$ -	\$ 330
2008	6.25	1998A	180	180
2008	6.15	1998C	100	100
2009	7.15	1999B	200	200
2009	4.70	2004C	275	275
2010	8.125	2000A	325	325
2010	7.50	2000B	300	300
2012	5.625	2002A	300	300
2013	4.875	2002B	500	500
2013	3.85	2003B	200	200
2014	4.70	2004A	200	200
2015	5.375	2005C	350	350
2016	5.50	2006C	400	400
2016	5.30	2006D	250	250
2028	7.10	1998B	105	105
2028	6.90	1998D	75	75
2033	5.875	2003A	175	175
2033	5.10	2003C	200	200
2034	5.70	2004B	200	200
2035	5.30	2005A	350	350
2035	5.25	2005B	125	125
2036	5.70	2006E	250	250
2036	5.85	2006A	400	400
2036	6.20	2006B	400	400
2037	6.30	2007A	525	-
Total Debentures			6,385	6,190
Tax-Exempt Debt Notes issued to New York State Energy Research and Development Authority for Facilities Revenue Bonds*:				
2032	3.763%	2004B Series 1	127	127
2034	4.467	1999A	293	293
2035	4.60	2004B Series 2	20	20
2036	4.70 (Note O)	2001A	225	222
2036	4.50	2001B	98	98
2039	4.23	2004A	98	98
2039	3.433	2004C	99	99
2039	3.363	2005A	126	126
Total Tax-Exempt Debt			1,086	1,083
Unamortized debt discount			(19)	(18)
Total			7,452	7,255
Less: long-term debt due within one year			280	330
Total Long-Term Debt			7,172	6,925
Total Capitalization			\$ 15,471	\$ 14,270

* Other than Series 2001A, rates reset weekly or by auction held every 35 days; December 31, 2007 rates shown. The accompanying notes are an integral part of these financial statements.

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Notes to the Financial Statements

General

These combined notes accompany and form an integral part of the separate consolidated financial statements of each of the two separate registrants: Consolidated Edison, Inc. and its subsidiaries (Con Edison) and Consolidated Edison Company of New York, Inc. and its subsidiaries (Con Edison of New York). Con Edison of New York is a subsidiary of Con Edison and as such its financial condition and results of operations and cash flows, which are presented separately in the Con Edison of New York consolidated financial statements, are also consolidated, along with those of Con Edison's other utility subsidiary, Orange and Rockland Utilities, Inc. (O&R), and Con Edison's competitive energy businesses (discussed below) in Con Edison's consolidated financial statements. The term "Utilities" is used in these notes to refer to Con Edison of New York and O&R.

As used in these notes, the term "Companies" refers to Con Edison and Con Edison of New York and, except as otherwise noted, the information in these combined notes relates to each of the Companies. However, Con Edison of New York makes no representation as to information relating to Con Edison or the subsidiaries of Con Edison other than itself.

Con Edison has two regulated utility subsidiaries: Con Edison of New York and O&R. Con Edison of New York provides electric service and gas service in New York City and Westchester County. The company also provides steam service in parts of Manhattan. O&R, along with its regulated utility subsidiaries, provides electric service in southeastern New York and adjacent areas of northern New Jersey and eastern Pennsylvania and gas service in southeastern New York and adjacent areas of eastern Pennsylvania. Con Edison has the following competitive energy businesses: Consolidated Edison Solutions, Inc. (Con Edison Solutions), a retail energy services company that sells electricity and also offers energy-related services; Consolidated Edison Energy, Inc. (Con Edison Energy), a wholesale energy supply company; and Consolidated Edison Development, Inc. (Con Edison Development), a company that owns, leases or operates generating plants and participates in other infrastructure projects. In December 2007, Con Edison Development and its subsidiary, CED/SCS Newington, LLC, agreed to sell their ownership interests in power generating projects with an aggregate capacity of approximately 1,706 megawatts. See Note U to the financial statements.

Note A Summary of Significant Accounting Policies

Principles of Consolidation

The Companies' consolidated financial statements include the accounts of their respective majority-owned subsidiaries, and variable interest entities (see Note P), as required. All intercompany balances and transactions have been eliminated.

Accounting Policies

The accounting policies of Con Edison and its subsidiaries conform to accounting principles generally accepted in the United States of America. For the Utilities, these accounting principles include the Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation," and, in accordance with SFAS No. 71, the accounting requirements of the Federal Energy Regulatory Commission (FERC) and the state public utility regulatory commissions having jurisdiction.

SFAS No. 71 specifies the economic effects that result from the causal relationship of costs and revenues in the rate-regulated environment and how these effects are to be accounted for by a regulated enterprise. Revenues intended to cover some costs may be recorded either before or after the costs are incurred. If regulation provides assurance that incurred costs will be recovered in the future, these costs would be recorded as deferred charges or "regulatory assets" under SFAS No. 71. If revenues are recorded for costs that are expected to be incurred in the future, these revenues would be recorded as deferred credits or "regulatory liabilities" under SFAS No. 71.

The Utilities' principal regulatory assets and liabilities are detailed in Note B. The Utilities are receiving or being credited with a return on all of their regulatory assets for which a cash outflow has been made, and are paying or being charged with a return on all of their regulatory liabilities for which a cash inflow has been received. The Utilities' regulatory assets and liabilities will be

recovered from customers, or applied for customer benefit, in accordance with rate provisions approved by the applicable public utility regulatory commission.

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

Plant and Depreciation

Utility Plant

Utility plant is stated at original cost. The cost of repairs and maintenance is charged to expense and the cost of betterments is capitalized. The capitalized cost of additions to utility plant includes indirect costs such as engineering, supervision, payroll taxes, pensions, other benefits and an allowance for funds used during construction (AFDC). The original cost of property is charged to expense over the estimated useful lives of the assets. Upon retirement, the original cost of property is charged to accumulated depreciation. See Note Q.

Rates used for AFDC include the cost of borrowed funds and a reasonable rate of return on the Utilities' own funds when so used, determined in accordance with regulations of the FERC or the state public utility regulatory authority having jurisdiction. The rate is compounded semiannually, and the amounts applicable to

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borrowed funds are treated as a reduction of interest charges, while the amounts applicable to the Utilities' own funds are credited to other income (deductions). The AFDC rates for Con Edison of New York were 7.3 percent, 6.7 percent and 7.4 percent for 2007, 2006 and 2005, respectively. The AFDC rates for O&R were 5.2 percent, 5.0 percent and 3.9 percent for 2007, 2006 and 2005, respectively.

The Utilities generally compute annual charges for depreciation using the straight-line method for financial statement purposes, with rates based on average service lives and net salvage factors. The average depreciation rate for Con Edison of New York was 2.9 percent for 2007, 2006 and 2005. The average depreciation rates for O&R were 2.8 percent for 2007 and 2006 and 2.9 percent for 2005.

The estimated lives for utility plant for Con Edison of New York range from 5 to 80 years for electric, 5 to 85 years for gas, 5 to 70 years for steam and 5 to 50 years for general plant. For O&R, the estimated lives for utility plant range from 5 to 65 years for electric, 5 to 75 years for gas and 5 to 55 years for general plant.

At December 31, 2007 and 2006, the capitalized cost of the Companies' utility plant, net of accumulated depreciation, was as follows:

(Millions of Dollars)	Con Edison		Con Edison of New York	
	2007	2006	2007	2006
Electric				
Generation	\$ 344	\$ 319	\$ 344	\$ 319
Transmission	1,857	1,675	1,733	1,564
Distribution	10,498	9,612	9,954	9,095
Gas*	2,729	2,599	2,424	2,307
Steam	1,458	1,430	1,458	1,430
General	1,142	1,069	1,055	990
Held for future use	57	47	52	43
Construction work in progress	1,028	872	973	832
Net utility plant	\$ 19,113	\$ 17,623	\$ 17,993	\$ 16,580

* Primarily distribution.

Non-Utility Plant

Non-utility plant is stated at original cost. For the Utilities, non-utility plant consists primarily of land and telecommunication facilities that are currently not used within electric, gas or steam utility operations. For Con Edison's competitive energy businesses, non-utility plant consists primarily of electric generating facilities. Depreciation on these assets is computed using the straight-line method for financial statement purposes over their estimated useful lives, which range from 3 to 75 years. See Note U.

The average non-utility plant depreciation rates for Con Edison Development were 2.5 percent for 2007 and 2.8 percent for 2006 and 2005.

Goodwill

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In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, Con Edison is required to test goodwill for impairment annually. Goodwill is tested for impairment using a two-step approach. The first step of the goodwill impairment test compares the estimated fair value of a reporting unit with its carrying value, including goodwill. If the estimated fair value of a reporting unit exceeds its carrying value, goodwill of the reporting unit is considered not impaired. If the carrying value exceeds the estimated fair value of the reporting unit, the second step is performed to measure the amount of impairment loss, if any. The second step requires a calculation of the implied fair value of goodwill. See Note K.

Impairments

In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the Companies evaluate the impairment of long-lived assets, based on projections of undiscounted future cash flows, whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. In the event an evaluation indicates that such cash flows cannot be expected to be sufficient to fully recover the assets, the assets are written down to their estimated fair value.

In accordance with Accounting Principles Board Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock, Con Edison Development recognized pre-tax impairment charges of \$7 million and \$6 million in 2007 and 2006, respectively related to its equity investment in a 29 MW electric generating plant in Michigan. Con Edison also wrote-off its cost-based investment of \$6 million in 2007 related to a supply chain services company due to a decline in the investment's value that was deemed to be other than temporary.

Revenues

The Utilities and Con Edison Solutions recognize revenues for electric, gas and steam service on a monthly billing cycle basis. The Utilities defer over a 12-month period net interruptible gas revenues, other than those authorized by the New York State Public Service Commission (PSC) to be retained by the Utilities, for refund to firm gas sales and transportation customers. O&R and Con Edison Solutions accrue revenues at the end of each month for estimated energy service not yet billed to customers, while Con Edison of New York does not accrue such revenues, in accordance with current regulatory agreements. Unbilled revenues included in Con Edison's balance sheet at December 31, 2007 and 2006 were \$149 million and \$122

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Notes to the Financial Statements Continued

million, respectively. Con Edison of New York estimates its unbilled revenues at December 31, 2007 and 2006 to be approximately \$410 million and \$357 million, respectively.

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

Recoverable Energy Costs

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

New York Independent System Operator (NYISO)

The Utilities purchase electricity through the wholesale electricity market administered by the NYISO. The difference between purchased power and related costs initially billed to the Utilities by the NYISO and the actual cost of power subsequently calculated by the NYISO is refunded by the NYISO to the Utilities, or paid to the NYISO by the Utilities. The reconciliation payments or receipts are recoverable from or refundable to the Utilities' customers. See "Regulatory Assets and Liabilities" in Note B.

Certain other payments to or receipts from the NYISO are also subject to reconciliation, with shortfalls or amounts in excess of specified rate allowances recoverable from or refundable to customers. These include proceeds from the sale through the NYISO of transmission rights on Con Edison of New York's transmission system (Transmission Congestion Contracts or TCCs). See "Regulatory Assets and Liabilities" in Note B.

Sulfur Dioxide Allowances

In accordance with the federal Clean Air Act, Con Edison of New York has been allocated sulfur dioxide (SO₂) emission allowances which the company may sell, trade or hold for future use. Generally, Con Edison of New York defers its proceeds from the sale of SO₂ allowances as regulatory liabilities to be applied for customer benefit. See "Regulatory Assets and Liabilities" in Note B. For the competitive energy businesses, sales of SO₂ allowances are reflected in earnings in the periods in which the sales occur. The proceeds received from the sale of SO₂ allowances are included in net cash flows from operating activities in the Companies' consolidated statements of cash flows.

Temporary Cash Investments

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

Investments

Investments consist primarily of the investments of Con Edison's competitive energy businesses, which are accounted for under the equity method (depending on the subsidiaries' percentage ownership) or accounted for as leveraged leases in accordance with SFAS No. 13, "Accounting for Leases." See Note J for a discussion of investments in Lease In/Lease Out transactions. Utilities' investments are recorded at either cost or cash surrender value and include deferred income plans and supplemental

retirement income plans trust owned life insurance assets.

Federal Income Tax

In accordance with SFAS No. 109, Accounting for Income Taxes, the Companies have recorded an accumulated deferred federal income tax liability for temporary differences between the book and tax bases of assets and liabilities at current tax rates. In accordance with rate agreements, the Utilities have recovered amounts from customers for a portion of the tax liability they will pay in the future as a result of the reversal or turn-around of these temporary differences. As to the remaining tax liability, in accordance with SFAS No. 71, the Utilities have established regulatory assets for the net revenue requirements to be recovered from customers for the related future tax expense. See Notes B and L. In 1993, the PSC issued a Policy Statement approving accounting procedures consistent with SFAS No. 109 and providing assurances that these future increases in taxes will be recoverable in rates. In January 2007, the Companies adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). This interpretation clarifies the accounting for uncertain tax positions in accordance with FASB Statement No. 109. See Note L.

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

Table of Contents**Notes to the Financial Statements Continued**

Con Edison and its subsidiaries file a consolidated federal income tax return. The consolidated income tax liability is allocated to each member of the consolidated group using the separate return method. Each member pays or receives an amount based on its own taxable income or loss in accordance with tax sharing agreements between the members of the consolidated group.

State Income Tax

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

Research and Development Costs

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

(Millions of Dollars)	For the Years Ended December 31,		
	2007	2006	2005
Con Edison	\$ 15	\$ 14	\$ 14
Con Edison of New York	\$ 14	\$ 13	\$ 14

Reclassification

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

Earnings Per Common Share

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

Potentially dilutive securities for Con Edison consist of restricted stock units, deferred stock units and stock options for which the average market price of the common shares for the period was greater than the exercise price. See Note M.

Basic and diluted EPS for Con Edison are calculated as follows:

(Millions of Dollars, except per share amounts/Shares in Millions)	For the Years Ended		
	2007	2006	2005
Income from continuing operations	\$ 925	\$ 740	\$ 745
Gain/(Loss) from discontinued operations, net of tax	4	(3)	(26)

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Net income	\$ 929	\$ 737	\$ 719
Weighted average common shares outstanding Basic	266.3	249.3	243.9
Add: Incremental shares attributable to effect of potentially dilutive securities	1.0	1.0	0.8
Adjusted weighted average common shares outstanding Diluted	267.3	250.3	244.7
Earnings per Common Share Basic			
Continuing operations	\$ 3.48	\$ 2.97	\$ 3.05
Discontinued operations	0.01	(0.01)	(0.10)
Net income	\$ 3.49	\$ 2.96	\$ 2.95
Earnings per Common Share Diluted			
Continuing operations	\$ 3.46	\$ 2.96	\$ 3.04
Discontinued operations	0.01	(0.01)	(0.10)
Net income	\$ 3.47	\$ 2.95	\$ 2.94

The computation of diluted earnings per share does not exclude any Con Edison common shares for the year ended December 31, 2007 because the exercise prices on the options did not exceed the average closing market price during this period. The computation of diluted earnings per share excludes 0.1 million and 0.9 million Con Edison common shares for the years ended December 31, 2006 and 2005, respectively, because the exercise prices on the options exceeded the average closing market price during these periods.

Estimates

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

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Notes to the Financial Statements **Continued**

Note B Regulatory Matters

Rate Agreements

Con Edison of New York Electric

In March 2005, the PSC approved a Joint Proposal by Con Edison of New York, the staff of the PSC and other parties with respect to the rates the company can charge its customers for electric delivery service (the 2005 Electric Rate Agreement). The 2005 Electric Rate Agreement covers the three-year period April 2005 through March 2008, pursuant to which Con Edison of New York's electric base rates were increased \$104.6 million, effective April 1, 2005, and were increased an additional \$220.4 million (of which \$60 million was accrued over the period beginning April 1, 2006 to March 31, 2007), effective April 1, 2007. In addition, the company retains the first \$60 million of auction proceeds from the sale of transmission rights on the company's transmission system in each of the three years. The rate increases also include the amortization of certain regulatory assets and liabilities. The net effect of this amortization is a non-cash increase in electric revenues of \$128 million, \$173 million and \$249 million in the first, second and third rate years, respectively.

The 2005 Electric Rate Agreement provides for annual reconciliations of the differences between the actual amount of transmission and distribution utility plant, net of depreciation (Net T&D) and the actual amount of certain operating costs experienced over the term of the agreement, as compared in each case to the amounts reflected in electric rates.

If the actual Net T&D is greater than the Net T&D reflected in rates, the company will accrue a regulatory asset and increase its revenues by the revenue requirement impact of such difference (i.e., a return on investment, depreciation and income taxes). If the actual Net T&D is less than the Net T&D reflected in rates, the company will accrue a regulatory liability and decrease its revenues by the revenue requirement impact of such difference. For the period from April 1, 2005 through December 31, 2007, actual Net T&D has exceeded the Net T&D reflected in rates by \$1.4 billion. The company accrued revenues of \$187 million, \$115 million and \$38 million in 2007, 2006 and 2005, respectively, to reflect the revenue requirement impact of the Net T&D difference. In accordance with the 2005 Electric Rate Agreement, the accrued revenues were offset at the end of each rate year with a like amount of regulatory liabilities.

Under the 2005 Electric Rate Agreement, if the actual amount of pension or other postretirement benefit costs, environmental remediation costs and, if the variation exceeds 2.5 percent, property taxes or the cost of moving facilities to avoid interfering with government projects is greater than the respective amount for each such cost reflected in rates, the company will accrue a regulatory asset for the difference and defer recognition in income of the difference. If the actual amount is less than the amount reflected in electric rates, the company will accrue a regulatory liability for the difference and defer recognition in income of the difference. As a result of the cost reconciliations, in 2007, 2006 and 2005, the company deferred expenses of \$35 million, \$30 million and \$17 million, respectively.

Under the 2005 Electric Rate Agreement, for each rate year, any earnings attributable to the company's electric business, excluding the effect of the incentives and revenue reductions discussed below, (Adjusted Earnings) between an 11.4 percent and a 13 percent return on equity (based on the company's actual capitalization, subject to a maximum ratio of 50 percent) are to be used to offset 50 percent of any regulatory asset to be recorded in that year resulting from the cost reconciliations. See Regulatory Assets and Liabilities, below in this Note B. The company can retain 50 percent of any remaining above-target Adjusted Earnings, with the balance being deferred for the benefit of customers. If Adjusted Earnings exceed a 13 percent return, no regulatory asset resulting from the cost reconciliations is to be accrued, but the company can retain 25 percent of the above-target Adjusted Earnings, with the balance being deferred for the benefit of customers.

In accordance with the 2005 Electric Rate Agreement, at December 31, 2005, Con Edison of New York estimated that its Adjusted Earnings for the rate year ending March 31, 2006 would exceed an 11.4 percent return on equity by \$59 million, of which \$47 million was accounted for as an offset to regulatory assets arising from the cost reconciliations and \$6 million was reserved for customer benefit. Actual Adjusted Earnings for the rate year exceeded this target by \$38 million. Accordingly, in the first quarter of 2006, the company reduced the regulatory asset offset by \$9 million and eliminated the \$6 million reserve for customer benefit (which had the effect of increasing revenues for 2006 by \$15 million). At December 31, 2007 and 2006, Con Edison of New York

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estimated that its Adjusted Earnings for the rate years ending March 31, 2007 and March 31, 2008 would not exceed an 11.4 percent return on equity.

The 2005 Electric Rate Agreement also provides for the continuation of the rate provisions pursuant to which the company recovers its potential strandable costs and its purchased power and fuel costs from customers.

The 2005 Electric Rate Agreement includes potential positive earnings adjustments (incentives) if the company meets certain standards for its retail access and demand side management programs, and potential negative earnings adjustments (revenue reductions), which could be substantial, if it does not meet certain standards for (i) frequency and duration of service interruptions; (ii) major outages; (iii) repair, removal or

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replacement of damaged poles, temporary shunts, street lights, traffic signals and circuit breakers; and (iv) customer service. In 2007, the company recorded an incentive for demand side management initiatives of \$11 million. In 2007 and 2006, the company recorded incentives of \$4 million and \$6 million, respectively, associated with its efforts to promote retail access in its service territory. In 2007 and 2006, the company recorded revenue reductions of \$9 million and \$18 million, respectively, for not meeting certain standards for frequency and duration of service interruptions and in 2005, \$8 million was recorded for duration of service interruptions. See Power Outage Proceedings below in Note B.

In accordance with the 2005 Electric Rate Agreement, the company recognized a \$100 million pre-tax charge in 2004 to resolve certain issues raised in the proceeding, relating primarily to prior period pension credits.

In May 2007, Con Edison of New York filed a request with the PSC for an electric rate increase of \$1,225 million effective April 1, 2008. The PSC is expected to rule on the company's request in March 2008.

In January 2008, PSC administrative law judges (ALJs) issued a decision recommending that the PSC grant the company an electric rate increase, effective April 1, 2008, of approximately \$600 million. The ALJs also recommended that the PSC consider making up to \$330 million of the rate increase, which relates to the company's construction expenditures, temporary and subject to refund to customers pending the results of a management and operations audit to be performed by an auditor to be selected by the PSC. Additionally, the ALJs recommended that a total of \$200 million of regulatory assets relating to the Net T&D reconciliation that were offset against regulatory liabilities in 2006 and 2007 also be subject to refund pending the results of the audit. The ALJs recommended decision reflected the following major items:

a return on common equity of 9.0 percent instead of the return on common equity of 11.5 percent requested by the company;

increasing to \$150 million from \$60 million the level of revenues that, for purposes of setting rates, is assumed the company will receive and retain from the sale of transmission rights on the company's transmission system;

a higher sales forecast, certain rate base reductions, decreases in advertising and certain other programs and longer amortization periods for certain regulatory assets;

a one-year rate period, which would discontinue the provisions of the 2005 Electric Rate Agreement under which property taxes, environmental remediation expenses and costs to move facilities to avoid interfering with government projects are reconciled to amounts reflected in rates;

that the potential negative earnings adjustment (revenue reductions) provisions of the 2005 Electric Rate Agreement be continued and expanded at amounts at or above current levels, to be determined by the PSC; and

a revenue decoupling mechanism.

In general, revenue decoupling mechanisms are intended to promote energy efficiency by breaking the linkage between energy sales and utility revenues and/or profits and, thereby, eliminate the disincentive a utility would have to promote energy efficiency. Under a revenue decoupling mechanism, the utility's actual energy delivery revenues would be compared, on a periodic basis, with the authorized delivery revenues or revenues per customer, with the difference accrued, with interest, for refund to, or recovery from, customers, as applicable.

O&R Electric

In October 2003, the PSC approved an agreement among O&R, the staff of the PSC and other parties with respect to the rates O&R can charge to its New York customers for electric service. The electric agreement, which covered the period from July 2003 through October 2006, provided for no changes to electric base rates and provided for the amortization and offset of regulatory assets and liabilities, the net effect of which was to reduce electric operating income by a total of \$11 million (pre tax) over the period covered by the agreement. The agreement provided for recovery of energy costs from customers on a current basis. It also provided for O&R to share equally with customers earnings above a 12.75 percent return on common equity during the three-year period from July 2003 through June 2006. Beginning July 2006, O&R was not subject to earnings sharing. Pursuant to these provisions, \$3.6 million and \$6.7 million was deferred for future customer benefit in 2006 and 2005, respectively.

In October 2007, the PSC issued an order that continues O&R's rates for electric service rendered in New York at current levels. The order, which is based on an allowed annual rate of return on common equity of 9.1 percent increased, effective July 1, 2007, by \$13.1 million annually the amount recognized for pension and other postretirement benefit costs. Because O&R, in accordance with applicable New York regulatory provisions, defers the difference between the actual amount of such costs and the amounts for such costs reflected in rates, the effect of the increase was to decrease the company's deferrals of such costs and increase other operations and maintenance expense by a like amount. As required by the order, the company also reduced other operating revenues and recorded a regulatory liability of \$3 million for earnings attributable to its New York electric business in excess of a 9.1 percent annual rate of return on

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common equity applicable to the period March through June 2007. In June 2007, O&R commenced an action in New York State Supreme Court seeking to annul the March 2007 PSC order that initiated the proceeding in which the October 2007 order was issued.

In August 2007, O&R filed a request with the PSC for an increase in the rates it charges for electric service rendered in New York, effective July 2008, of \$47.8 million. The filing reflects a return on common equity of 11.5 percent and a common equity ratio of 48.6 percent. The filing proposes continuation of the current provisions with respect to recovery from customers of the cost of purchased power, and the reconciliation of actual expenses allocable to the electric business to the amounts for such costs reflected in electric rates for pension and other postretirement benefit costs, environmental and research and development costs. In October 2007, O&R submitted to the PSC a revenue decoupling proposal applicable to the company's electric service in New York. In November 2007, O&R updated its rate request to reflect the impact of applying all available credits, including \$3.3 million of earnings above the 9.1 percent allowed ROE during March through June 2007, as directed by the PSC in its October 2007 Order. The impact of this and other changes reduced the requested rate increase to \$43.7 million. In December 2007, PSC Staff submitted direct testimony and exhibits supporting a \$17.5 million rate increase, based on a return on equity of 8.9 percent and an equity ratio of 48 percent. A decision in this case is expected in June 2008.

In July 2003, the New Jersey Board of Public Utilities (NJBPU) ruled on the petitions of Rockland Electric Company (RECO), O&R's New Jersey regulated utility subsidiary, for an increase in electric rates and recovery of deferred purchased power costs. The NJBPU ordered a \$7 million decrease in RECO's electric base rates, effective August 2003, authorized RECO's recovery of approximately \$83 million of previously deferred purchased power costs and associated interest and disallowed recovery of approximately \$19 million of such costs and associated interest.

In July 2004, the NJBPU approved RECO's Phase II petition to increase base rates annually by \$2.7 million, effective August 1, 2004. The Phase II decision provides for the recovery of carrying costs for two substation projects and specified additional reliability programs. Also in July 2004, a special purpose entity formed by RECO (which is included in the consolidated financial statements of Con Edison) issued \$46 million of 5.22% Transition Bonds and used the proceeds thereof to purchase from RECO the right to be paid a Transition Bond Charge (TBC) and associated tax charges by its customers relating to the balance of previously deferred purchased power costs, discussed above.

In March 2007, the NJBPU approved a new three-year electric base rate plan for RECO that went into effect on April 1, 2007. The plan provides for a \$6.4 million rate increase during the first year, with no further increase during the final two years. The plan reflects a return on common equity of 9.75 percent and a common equity ratio of 46.5 percent of capitalization.

Con Edison of New York Gas

In September 2004, the PSC approved a Joint Proposal by Con Edison of New York, the staff of the PSC and other parties with respect to the rates the company could charge its customers for gas and steam services. The approved gas rate plan covered the three-year period October 2004 through September 2007, and provided for an increase in gas base rates of \$46.8 million, effective October 1, 2004, with deferral accounting to be used to allocate the income statement effect of the increase over the term of the agreement. The rate increase was net of a \$17.5 million pre-tax charge to gas operating revenues, which the company recognized in 2004, to resolve certain issues raised in the proceeding, relating primarily to the treatment of prior period pension credits. In addition to this rate increase, the company retained the first \$35 million of net revenues from non-firm customer transactions in each year of the plan. The rate increase also included the amortization of certain regulatory assets and liabilities. The net effect of this amortization was a non-cash increase in gas revenues of \$41 million over the period of the three-year rate plan.

Additional provisions of the gas rate plan included: equal sharing with customers of earnings above an 11.75 percent return on common equity (earnings for the rate years ended September 2005, 2006 and 2007 were below this level); reconciliation of pension and other post-employment benefit costs allocable to the gas business to the amounts for such costs reflected in rates, with the difference deferred as a regulatory asset or liability, as the case may be, for future recovery from or refund to customers; opportunities to retain for shareholders a percentage of annual gas net revenues from non-firm customer transactions (20 percent of revenues between \$35 million and \$50 million, 25 percent between \$50 million and \$70 million and 10 percent over \$70 million), and to earn an incentive of up to \$8.5 million over the period of the rate plan depending upon the number of customers that migrate

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to retail access; continuation of provisions for the recovery from customers on a current basis of the cost of purchased gas and for the recovery of environmental remediation expenses; continuation of provisions pursuant to which the effects of weather on gas income are moderated; and continuation of the deferral as a regulatory asset or liability, subject to certain limitations, of differences between actual costs and amounts reflected in rates for property taxes and interference costs.

In September 2007, the PSC approved the Joint Proposal that Con Edison of New York had entered into in June 2007 with the staff of

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the PSC and other parties with respect to the rates the company can charge its customers for gas service. The Joint Proposal had provided for rate increases of \$84.6 million, \$32.7 million and \$42.7 million, effective October 1, 2007, 2008 and 2009, respectively, along with annual funding for new energy efficiency programs of \$14 million. The PSC modified the Joint Proposal to provide for levelized annual rate increases of \$67.5 million in each year of the three year rate plan, by accruing, over the first rate year as gas service is provided, \$31.1 million of revenues and a related regulatory asset, which, together with interest, will be billed to customers in the second and third rate years.

The Joint Proposal continues the previous gas rate plan provisions with respect to recovery from customers of the cost of purchased gas and environmental remediation expenses; continuation of provisions pursuant to which the effects of weather on gas income are moderated; and the reconciliation of actual expenses allocable to the gas business to the amounts for such costs reflected in gas rates for pension and other postretirement benefit costs, property taxes and interference costs. Additional provisions of the gas rate plan include: a revenue decoupling mechanism and equal sharing with customers of earnings above a 10.7 percent return on common equity (earnings for the year ended December 31, 2007 include a \$10 million regulatory liability for earnings above the 10.7 percent threshold for the rate year ending September 30, 2008).

O&R Gas

In October 2003, the PSC approved a gas rate agreement among O&R, the PSC staff and other parties. This agreement, which covered the period November 2003 through October 2006, provided for annual increases in gas base rates of \$9 million effective November 2003, \$9 million effective November 2004 and \$5 million effective November 2005. The agreement provided for O&R to share equally with customers earnings in excess of an 11 percent return on common equity. Earnings for the rate years ended October 2004, 2005 and 2006 were below this level. The rate agreement also included the amortization of certain regulatory assets and liabilities. The net effect of this amortization was a non-cash increase in gas revenues of \$2 million over the period of the three-year rate plan.

In October 2006, the PSC approved the June 2006 settlement agreement among O&R, the staff of the PSC and other parties. The settlement agreement establishes a rate plan that covers the three-year period November 1, 2006 through October 31, 2009. The rate plan provides for rate increases in base rates of \$12 million in the first year, \$0.7 million in the second year and \$1.1 million in the third year. To phase-in the effect of the increase for customers, the rate plan provides for O&R to accrue revenues for, but defer billing to customers of, \$5.5 million of the first rate year rate increase by establishing a regulatory asset which, together with interest, will be billed to customers in the second and third years. As a result, O&R's billings to customers will increase \$6.5 million in each of the first two years and \$6.3 million in the third. The first year rate increase includes \$2.3 million relating to a change in the way customers are provided the benefit of non-firm revenue from sales of pipeline transportation capacity. Under the prior rate plan, base rates were reduced to reflect the assumption that the company would realize these revenues. Under the new rate plan, such revenues will be used to offset the cost of gas to be recovered from customers. The rate plan continues the provisions pursuant to which the company recovers its cost of purchasing gas and the provisions pursuant to which the effects of weather on gas income are moderated.

The rate plan provides that if the actual amount of pension or other postretirement benefit costs, environmental remediation costs, property taxes and certain other costs vary from the respective amount for each such cost reflected in gas rates (cost reconciliations), the company will defer recognition of the variation in income and, as the case may be, establish a regulatory asset or liability for recovery from, or refund to, customers of the variation (86 percent of the variation, in the case of property tax differences due to assessment changes).

Earnings attributable to its gas business excluding any revenue reductions (O&R Adjusted Earnings) up to an 11 percent annual return on common equity (based upon the actual average common equity ratio, subject to a maximum 50 percent of capitalization) are retained by the company. O&R Adjusted Earnings above an 11 percent return are to be used to offset up to one-half of any regulatory asset to be recorded in that year resulting from the cost reconciliations (discussed in the preceding paragraph). One-half of any remaining O&R Adjusted Earnings between 11 and 12 percent return are retained by the company, with the balance being deferred for the benefit of customers. Thirty-five percent of any remaining O&R Adjusted Earnings between a 12 and 14 percent return are retained by the company, with the balance deferred for the benefit of customers. Any remaining O&R Adjusted Earnings above a 14 percent return are to be deferred for the benefit of customers. For purposes of these earnings sharing provisions, if in any rate year O&R Adjusted Earnings is less than 11 percent, the shortfall will be deducted from O&R Adjusted Earnings for the

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other rate years. The earnings sharing thresholds will each be reduced by 20 basis points if certain objectives relating to the company's retail choice program are not met. In 2007, O&R recorded a \$1.3 million regulatory liability for earnings in excess of the 11 percent target return on equity for the rate year ended October 31, 2007.

The rate plan also includes up to \$1 million of potential revenue reductions in the first year of the agreement, increasing up to

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\$1.2 million, if the company does not comply with certain requirements regarding safety and customer service. In 2007, O&R recorded a \$0.2 million regulatory liability for not complying with certain requirements regarding safety and customer service for the rate year ended October 31, 2007.

Con Edison of New York Steam

In September 2004, the PSC approved a steam rate plan covering the two-year period October 2004 through September 2006. The plan provided for increases in steam base rates of \$49.6 million, effective October 1, 2004, and \$27.4 million, effective October 1, 2005. The increases were net of a \$6.2 million pre-tax charge to steam operating revenues, which the company recognized in 2004 to resolve certain issues raised in the proceeding, relating primarily to the treatment of prior period pension credits. The rate increases also include the amortization of certain regulatory assets and liabilities. The net effect of this amortization was to decrease steam revenues by \$3 million over the period of the two-year rate plan.

Additional provisions of the steam rate plan included: equal sharing with customers of earnings in excess of an 11.75 percent return on common equity (earnings for the rate years ended September 2005 and 2006 were below this level); reconciliation of pension and other post-employment benefit costs allocable to the steam business to the amounts for such costs reflected in rates, with the difference deferred as a regulatory asset or liability, as the case may be, for future recovery from or refund to customers; continuation of provisions for the recovery from customers on a current basis of the cost of fuel and purchased steam and for the recovery of environmental remediation expenses; and continuation of the deferral as a regulatory asset or liability, subject to certain limitations, of differences between actual costs and amounts reflected in rates for property taxes and interference costs.

In September 2006, the PSC approved the June 2006 settlement agreement among Con Edison of New York, the staff of the PSC and other parties. The settlement agreement establishes a rate plan that covers the two-year period October 1, 2006 through September 30, 2008. The rate plan provides for no changes in base rates or in the rate provisions pursuant to which the company recovers its fuel and purchased steam costs (the fuel adjustment clause), except for changes in the manner in which certain costs are recovered.

The rate plan provides that if the actual amount of pension or other postretirement benefit costs, environmental remediation costs, property taxes or interference costs is greater than the respective amount for each such cost reflected in steam rates, the company will recognize a regulatory asset for the difference (90 percent of the difference, in the case of property taxes and interference costs) and defer recognition in expense of the difference. If the actual amount of such costs is less than the amount reflected in steam rates, the company will recognize a regulatory liability for the difference and decrease its revenues by the amount of such difference (90 percent of the difference, in the case of property taxes and interference costs).

Earnings attributable to the steam business, excluding the net revenue effect of steam sales related to colder-than-normal weather and certain other items, (Steam Adjusted Earnings) for a rate year up to 11 percent return on common equity (based upon the actual average common equity ratio, subject to a maximum of 50 percent of capitalization) are retained by the company. Steam Adjusted Earnings between 11 and 12 percent are to be used first to offset up to one-half of any regulatory asset recorded in the year resulting from the cost reconciliations (discussed in the preceding paragraph) for the rate year. The company then retains one-half of any remaining such Steam Adjusted Earnings, with the balance being deferred for the benefit of customers. Any Steam Adjusted Earnings in excess of a 12 percent return on common equity are to be used first to offset any regulatory asset resulting from the cost reconciliations, with the company retaining one-quarter of any remaining Steam Adjusted Earnings and the balance being deferred for the benefit of customers. The earnings sharing thresholds would each be reduced by 20 basis points if certain requirements are not met. Earnings for the rate year ended September 30, 2007 were below the 11 percent return on common equity.

The rate plan also includes up to approximately \$4 million of potential revenue reductions if the company does not comply with certain requirements regarding steam business development and certain other matters. There were no revenue reductions recorded for the rate year ending September 30, 2007.

In November 2007, the company filed with the PSC for an increase in steam base rates of \$127 million, or 19 percent overall, effective October 1, 2008. The filing reflects a return on common equity of 11.5 percent and a common equity ratio of 48.4 percent.

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The filing also includes a proposal for a three-year rate plan, with additional increases of \$22 million and \$15 million effective October 1, 2009 and 2010, respectively. The company also proposed to implement a steam revenue adjustment mechanism, new energy efficiency and demand reduction programs, and to continue business development programs.

In February 2008, the PSC initiated a proceeding to determine the prudence of the company's actions and practices relating to the July 2007 steam main rupture and, if the company was not prudent, whether and to what extent the expenses and capital expenditures the company has incurred, or in the future will incur, as result of the July 2007 steam main rupture should be borne by the company's ratepayers or whether additional remedies would be appropriate. See "Manhattan Steam Main Rupture" in Note H.

Table of Contents**Notes to the Financial Statements Continued****Regulatory Assets and Liabilities**

Regulatory assets and liabilities at December 31, 2007 and 2006 were comprised of the following items:

(Millions of Dollars)	Con Edison		Con Edison of New York	
	2007	2006	2007	2006
Regulatory assets				
Unrecognized pension and other postretirement costs	\$ 2,106	\$ 1,929	\$ 1,956	\$ 1,776
Future federal income tax	1,112	995	1,057	941
Environmental remediation costs	378	318	312	255
Pension and other postretirement benefits deferrals	152	157	96	98
World Trade Center restoration costs	154	147	154	147
Net T&D reconciliation	142	94	142	94
Revenue taxes	77	68	75	67
O&R transition bond charges	63	67	-	-
Recoverable energy costs	50	55	50	55
Unbilled gas revenue	44	44	44	44
Workers compensation	41	42	41	42
Other retirement program costs	16	20	16	20
Electric rate increase accrual	14	44	14	44
Asbestos-related costs	10	10	10	10
Deferred derivative losses long-term	5	18	4	15
Other	167	171	152	156
Regulatory assets	4,531	4,179	4,123	3,764
Deferred derivative losses current	45	237	44	213
Recoverable energy costs current	213	235	190	213
Total Regulatory Assets	\$ 4,789	\$ 4,651	\$ 4,357	\$ 4,190
Regulatory liabilities				
Allowance for cost of removal less salvage	\$ 422	\$ 492	\$ 362	\$ 432
Gain on sale of First Avenue properties	124	144	124	144
Prior year deferred tax amortization	51	81	51	81
NYS tax law changes	42	38	41	28
Interest on federal income tax refund	41	41	41	41
Property tax reconciliation	41	39	41	39
Transmission congestion contracts	40	96	40	96
Net electric deferrals	33	164	33	164
O&R refundable energy costs	29	40	-	-
Net steam deferrals	21	48	21	48
Deferred derivative gains long-term	21	2	8	1
EPA SO ₂ allowance proceeds electric and steam	18	106	18	106
2004 electric, gas and steam one-time rate agreement charges	16	85	16	85
Gain on sale of W. 24 th St. property	10	46	10	46
DC service incentive	10	13	10	13
Gas interruptible sales credits	10	8	10	8
Gas excess earnings	10	-	10	-
Other	158	214	140	192
Regulatory liabilities	1,097	1,657	976	1,524
Deferred derivative gains current	10	6	5	5
Total Regulatory Liabilities	\$ 1,107	\$ 1,663	\$ 981	\$ 1,529

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During 2007 and 2006, in accordance with the 2005 Electric Rate Agreement, Con Edison of New York offset \$265 million and \$141 million, respectively, of regulatory liabilities against an equal amount of regulatory assets.

For 2007, the regulatory liabilities settled related primarily to proceeds from the sale of SO₂ allowances, prior year's transmission congestion contracts auction proceeds, gains from the sale of properties, revenue reductions related to customer outages, and the cost reconciliations for property taxes and interference costs.

The regulatory assets recovered related primarily to the Net T&D reconciliation and cost reconciliations for pension and other postretirement benefit costs.

For 2006, the regulatory liabilities settled related primarily to Adjusted Earnings in excess of an 11.4 percent return on equity, refunds received from the NYISO, and the cost reconciliations for property taxes and interference costs. The regulatory assets recovered related primarily to the Net T&D reconciliation and cost reconciliations for pension and other postretirement benefit costs and environmental remediation costs.

At December 31, 2007 and 2006, net regulatory assets relating to the Net T&D reconciliation amounted to \$142 million and \$94 million, respectively. Consistent with the 2005 Electric Rate Agreement, the company expects to recover the regulatory assets related to the Net T&D reconciliation, in March 2008, by offsetting it against an equal amount of regulatory liabilities.

Unrecognized pension and other postretirement costs represents the net regulatory asset associated with Con Edison's adoption of FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* an amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS No. 158) in December 2006. See Notes E and F.

World Trade Center restoration costs represents the non-capital costs (net of federal reimbursement and insurance recoveries) incurred by Con Edison of New York for emergency response to the September 11, 2001 attack on the World Trade Center, and for restoration of electric, gas and steam transmission and distribution facilities damaged in the attack. Non-capital costs include primarily the costs of moving facilities to avoid interfering with governmental projects (interference costs) and interest on capital and non-capital costs previously deferred. Con Edison of New York expects the PSC to permit recovery from customers of all costs relating to the World Trade Center attack (net of any federal reimbursement, insurance payments and tax savings). The company's current rate agreements provide for recovery from customers of \$25.8 million annually of these World Trade Center restoration costs.

Revenue taxes represents the difference between taxes collected and the actual tax expense resulting from the repeal or reduction of certain revenue-based taxes and the imposition of a net income-based tax under the New York State tax law applicable to utilities that took effect in January 2000. For Con Edison of New York, effective October 2004, state income tax is being recovered through base rates for its gas and steam businesses and effective April 2005, for its electric business. For O&R, state income tax is being recovered through base rates for its electric and gas businesses effective November 2003. Base rates have been adjusted to reflect state income tax. An additional 1.53 percent income tax surcharge is used to fund mass transportation. For the Utilities, the surcharge is reconciled and differences between actual and billed amounts are charged or refunded to customers over a subsequent 12-month period.

Net electric deferrals represents the remaining unamortized balance of certain regulatory assets and liabilities of Con Edison of New York that were combined effective April 1, 2005 and are being amortized to income over the period April 2005 through March 2008, in accordance with Con Edison of New York's 2005 Electric Rate Agreement.

In May 2005, Con Edison of New York completed the sale of certain properties located on First Avenue in Manhattan. Net proceeds from the sale received at closing totaled \$534 million, resulting in a pre-tax gain on the sale of \$256 million. In accordance with the PSC order approving the sale of the properties, the company has deferred the net gain for the benefit of customers. The net after-tax gain on the sale, including additional expenses incurred in 2006, is \$195 million. The net after-tax gain has been further reduced by \$51 million to mitigate the steam revenue requirement in accordance with the current steam rate agreement. There may

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be additional proceeds in the event of certain zoning changes or other developments.

The \$81 million prior year deferred tax amortization at December 31, 2006 represents the revenue equivalent of \$48 million for the amortization of deferred taxes in the years 2000 to 2004 that was not recorded during that period. The correction was recognized in 2005 with this balance deferred as a regulatory liability pending disposition by the PSC. In September 2007, the PSC granted Con Edison of New York's petition associated with this regulatory liability by directing the company to credit customers \$51 million to reflect the impact on electric and steam rates of correcting the amortization of these deferred taxes. Accordingly, the company reduced this regulatory liability to \$51 million. The impact of this accounting was a \$17 million benefit to net income in 2007.

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Power Outage Proceedings

During a July 2006 heat wave, electric service was interrupted to a number of Con Edison of New York's customers, predominantly in the company's Long Island City distribution network in Queens, New York. Also, a number of the company's customers in Westchester County, New York, experienced weather-related outages in 2006.

In April 2007, the PSC expanded its ongoing proceeding investigating the Queens outage to also consider the prudence of the company's conduct with respect to the outage. In February 2008, a PSC administrative law judge expanded the proceeding to also include an examination of whether the company was grossly negligent or acted in wanton disregard of the consequences with respect to the outage. The investigation has been reviewing the circumstances surrounding the outage, the company's response, communication and restoration efforts, the need for changes to the company's practices and procedures and the costs incurred by the company related to the outage. The PSC indicated that the prudence examination should consider and address, among other things: (i) the reasonableness of the company's response to the outage, its monitoring of its distribution system, its use of available information, its procedures for determining whether to shut down the Long Island City network (and the prudence of its decision not to do so) and its operation and maintenance of equipment in the Long Island City network; and (ii) whether and to what extent, the expenses and capital expenditures associated with the outage that the company has incurred, or may incur, should be borne by the company's customers. In February 2007, the PSC staff issued a report on the outage which, among other things, includes the PSC staff's (i) finding that the overriding cause of the outage was the company's failure to adequately operate, maintain and oversee the Long Island City network, (ii) conclusion that the company should have, but failed to, shut down the Long Island City network to minimize the impact of the outage to customers, and (iii) recommendation that the PSC initiate a proceeding to consider the prudence of the company's actions or inactions during the outage.

The PSC is also reviewing the Westchester outages, and has ordered the company to show cause why it should not be liable for certain food spoilage claims in connection with the September 2006 outage in Westchester resulting from Tropical Storm Ernesto.

The PSC engaged an independent third party consultant to audit the company's performance in response to outage emergencies and planning for restoration of service. In October 2007, the consultant issued its report which identified opportunities for improvement in emergency response, policy, organization, performance and communication. The consultant, among other things, recommended that (i) the company prepare a multi-year strategic plan focusing on system reliability, emergency preparedness, and major outage prevention and event restoration; (ii) the company restructure its emergency organizational function in accordance with the strategic plan; and (iii) a comprehensive study be done to determine if the company is providing adequate resources to support its infrastructure.

From July 2006 through December 31, 2007, Con Edison of New York had paid \$14 million, \$5 million of which was reimbursed by insurers, to compensate customers for spoilage of food and other perishables resulting from the Queens outage, incurred estimated operating costs of \$40 million, \$1 million of which was reimbursed by insurers, invested \$50 million in capital assets and retirements in the Long Island City network after the Queens outage, and reduced revenues under its 2005 Electric Rate Agreement by \$18 million relating to customer outages. Twenty lawsuits have been filed against the company in connection with the Queens outage seeking generally unspecified compensatory and, in some cases, punitive damages, for personal injury, property damage and business interruption.

The tariff provisions under which Con Edison of New York provides electric service limits the company's liability to pay for damages resulting from service interruptions to circumstances in which the company was grossly negligent and provides reimbursement to electric consumers for spoilage losses resulting from service interruptions in certain circumstances. In general, under the tariff provisions approved by the PSC in November 2007, the company is obligated to reimburse affected residential and commercial customers for food spoilage of up to \$450 and \$9,000, respectively and reimburse affected residential customers for prescription medicine spoilage losses without limitation on amount per claim. Reimbursement of such spoilage losses is limited to a maximum aggregate of \$15 million for an outage. The company is not required to provide reimbursement for outages attributable to generation or transmission system facilities or events beyond its control, such as storms, provided the company makes reasonable efforts to restore service as soon as practicable.

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The Companies believe that their financial statements appropriately reflect in all material respects the outage and related proceedings based upon available information but are unable to predict whether the outages and any related proceedings will have any further material adverse effect on their results of operations or have a material adverse effect on their financial position or liquidity.

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Notes to the Financial Statements **Continued**

Note C **Capitalization**

Common Stock

At December 31, 2007 and 2006, Con Edison owned all of the issued and outstanding shares of common stock of the Utilities and the competitive energy businesses. Con Edison of New York owns 21,976,200 shares of Con Edison stock, which it purchased prior to 2001 in connection with Con Edison's stock repurchase plan. Con Edison of New York presents in the financial statements the cost of the Con Edison stock it owns as a reduction of common shareholder's equity.

Capitalization of Con Edison

The outstanding capitalization for each of the Companies is shown on its Consolidated Statement of Capitalization, and for Con Edison includes the Utilities' outstanding preferred stock and debt.

Preferred Stock of Con Edison of New York

As of December 31, 2007, 1,915,319 shares of Con Edison of New York's \$5 Cumulative Preferred Stock (the "\$5 Preferred") and 375,626 shares of its Cumulative Preferred Stock (\$100 par value) were outstanding.

Dividends on the \$5 Preferred Stock are \$5 per share per annum, payable quarterly, and dividends on the Cumulative Preferred Stock are \$4.65 per share per annum, payable quarterly. The preferred dividends must be declared by Con Edison of New York's Board of Trustees to become payable. See "Dividends" below.

With respect to any corporate action to be taken by a vote of shareholders of Con Edison of New York, Con Edison (which owns all of the 235,488,094 shares of Con Edison of New York's common stock that are outstanding) and the holders of the \$5 Preferred are each entitled to one vote for each share held. Except as otherwise required by law, holders of the Cumulative Preferred Stock have no right to vote; provided, however, that if the \$5 Preferred is no longer outstanding, the holders of the Cumulative Preferred Stock are entitled to one vote for each share with respect to any corporate action to be taken by a vote of the shareholders of Con Edison of New York. In addition, if dividends are in arrears for certain periods, the holders are entitled to certain rights with respect to the election of Con Edison of New York's Trustees. Without the consent of the holders of the Cumulative Preferred Stock, Con Edison of New York may not create or authorize any kind of stock ranking prior to the Cumulative Preferred Stock or, if such actions would affect the holders of the Cumulative Preferred Stock adversely, be a party to any consolidation or merger, create or amend the terms of the Cumulative Preferred Stock or reclassify the Cumulative Preferred Stock. Con Edison of New York may redeem the \$5 Preferred at a redemption price of \$105 per share and the Cumulative Preferred Stock at a redemption price of \$101 per share (in each case, plus accrued and unpaid dividends). In the event of the dissolution, liquidation or winding up of the affairs of Con Edison of New York, before any distribution of capital assets could be made to the holders of the company's common stock, the holders of the \$5 Preferred and the Cumulative Preferred Stock would each be entitled to receive \$100 per share, in the case of an involuntary liquidation, or an amount equal to the redemption price per share, in the case of a voluntary liquidation, in each case together with all accrued and unpaid dividends.

Dividends

In accordance with PSC requirements, the dividends that the Utilities generally pay are limited to not more than 100 percent of their respective income available for dividends calculated on a two-year rolling average basis. Excluded from the calculation of income available for dividends are non-cash charges to income resulting from accounting changes or charges to income resulting from significant unanticipated events. The restriction also does not apply to dividends paid in order to transfer to Con Edison proceeds from major transactions, such as asset sales, or to dividends reducing each utility subsidiary's equity ratio to a level appropriate to its business risk.

In addition, no dividends may be paid, or funds set apart for payment, on Con Edison of New York's common stock until all dividends accrued on the \$5 Preferred Stock and Cumulative Preferred Stock have been paid, or declared and set apart for

payment.

Long-term Debt

Long-term debt maturing in the period 2008-2012 is as follows:

(Millions of Dollars)	Con Edison	Con Edison of New York
2008	\$ 809	\$ 280
2009	478	475
2010	684	625
2011	3	-
2012	304	300

The Utilities have issued \$324 million of tax-exempt debt through the New York State Energy Research and Development Authority (NYSERDA) that currently bear interest at a rate determined weekly and is subject to tender by bondholders for purchase by the Utilities.

Long-term debt is stated at cost, which in total, as of December 31, 2007, approximates fair value (estimated based on current rates for debt of the same remaining maturities), except for \$225 million of Con Edison of New York's tax-exempt financing. See Interest Rate Hedging in Note O.

At December 31, 2007 and 2006, long-term debt of Con Edison included \$40 million and \$42 million, respectively, of Transition Bonds issued by O&R's New Jersey utility subsidiary through a special purpose entity (See Note B). At December 31, 2007 and 2006, long-term debt of Con Edison included: \$80 million (included in current and non-current liabilities held for sale) and

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Notes to the Financial Statements Continued

\$98 million, respectively, of non-recourse debt of a Con Edison Development subsidiary collateralized by a pledge of the Lakewood power plant, a related power purchase agreement and project assets; and \$326 million (which was classified as long-term debt due within one year) and \$330 million, respectively, of debt secured by the Newington power plant and related assets. See Note P. At December 31, 2007 and 2006, restricted cash relating to the operations of the Lakewood plant was \$13 million (included in current assets held for sale) and \$16 million, respectively. See Note U.

Significant Debt Covenants

There are no significant debt covenants under the financing arrangements for the debentures of Con Edison or Con Edison of New York, other than obligations to pay principal and interest when due and covenants not to consolidate with or merge into any other corporation unless certain conditions are met, and no cross default provisions. The tax-exempt financing arrangements of the Utilities are subject to these covenants and the covenants discussed below. The Companies believe that they were in compliance with their significant debt covenants at December 31, 2007.

The tax-exempt financing arrangements involved the issuance of uncollateralized promissory notes of the Utilities to NYSERDA in exchange for the net proceeds of a like amount of tax-exempt bonds with substantially the same terms sold to the public by NYSERDA. The tax-exempt financing arrangements include covenants with respect to the tax-exempt status of the financing, including covenants with respect to the use of the facilities financed. The failure to comply with these covenants would, except as otherwise provided, constitute an event of default with respect to the debt to which such provisions applied. The arrangements include provisions for the maintenance of liquidity and credit facilities, the failure to comply with which would, except as otherwise provided, constitute an event of default with respect to the debt to which such provisions applied. If an event of default were to occur, the principal and accrued interest on the debt to which such event of default applied might and, in certain circumstances would, become due and payable immediately.

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

Note D Short-Term Borrowing

In June 2006, Con Edison and the Utilities entered into an Amended and Restated Credit Agreement (Credit Agreement) under which banks are committed to provide loans and letters of credit, on a revolving credit basis. In June 2007, the Credit Agreement, which was to expire in June 2011, was extended for an additional year. Under the Credit Agreement, there is a maximum of \$2.25 billion (\$2.2 billion in the additional year) of credit available, with the full amount available to Con Edison of New York and \$1 billion available to Con Edison. The Credit Agreement supports the Companies' commercial paper programs. The Companies have not borrowed under the Credit Agreement.

At December 31, 2007, Con Edison had \$840 million of commercial paper outstanding of which \$555 million was outstanding under Con Edison of New York's program. The weighted average interest rate was 5.5 percent and 5.6 percent for Con Edison and Con Edison of New York, respectively. At December 31, 2006, Con Edison had \$117 million of commercial paper outstanding at a weighted average interest rate of 5.4 percent, none of which was outstanding under Con Edison of New York's program.

The banks' commitments under the Credit Agreement are subject to certain conditions, including that there be no event of default. The commitments are not subject to maintenance of credit rating levels or the absence of a material adverse change. Upon a change of control of, or upon an event of default by one of the Companies, the banks may terminate their commitments with respect to that company and declare any amounts owed by that company under the Credit Agreement immediately due and payable. Events of default include the exceeding at any time of a ratio of consolidated debt to consolidated total capital of 0.65 to 1 (at December 31, 2007, this ratio was 0.50 to 1 for Con Edison and 0.49 to 1 for Con Edison of New York); having liens on its assets in an aggregate amount exceeding 5 percent of its consolidated total capital, subject to certain exceptions; and the failure by the company, following any applicable notice period, to meet certain other customary covenants. The fees charged for the revolving credit facilities and any loans made or letters of credit issued under the Credit Agreement reflect the Companies' respective credit

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ratings. At December 31, 2007 and 2006, \$58.7 million and \$15.8 million of letters of credit were outstanding under the Credit Agreement, respectively.

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

Note E Pension Benefits

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

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gains and losses are fully recognized in expense over a 15-year period and other actuarial gains and losses are fully recognized in expense over a 10-year period, subject to the deferral provisions discussed in the next paragraph. This amortization is in accordance with the Statement of Policy issued by the PSC and is permitted under SFAS No. 87, Employers Accounting for Pensions, which provides a corridor method for moderating the effect of investment gains and losses on pension expense, or alternatively, allows for any systematic method of amortization of unrecognized gains and losses that is faster than the corridor method and is applied consistently to both gains and losses.

In accordance with its current electric, gas and steam rate agreements, Con Edison of New York is deferring the difference between expenses recognized under SFAS No. 87 and the rate allowance. Generally, O&R has also been deferring such difference pursuant to its rate agreements. See Note B.

Net Periodic Benefit Cost

The components of the Companies net periodic benefit costs for 2007, 2006 and 2005 were as follows:

(Millions of Dollars)	Con Edison			Con Edison of New York		
	2007	2006	2005	2007	2006	2005
Service cost including administrative expenses	\$ 131	\$ 133	\$ 118	\$ 122	\$ 123	\$ 108
Interest cost on projected benefit obligation	491	460	430	459	430	402
Expected return on plan assets	(646)	(620)	(642)	(618)	(595)	(618)
Amortization of net actuarial (gain)/loss	160	126	81	139	105	64
Amortization of prior service costs	11	13	13	9	11	12
Net periodic benefit cost	\$ 147	\$ 112	\$ -	\$ 111	\$ 74	\$ (32)
Amortization of regulatory asset*	4	4	4	4	4	4
Total periodic benefit cost	\$ 151	\$ 116	\$ 4	\$ 115	\$ 78	\$ (28)
Cost capitalized	(50)	(34)	2	(41)	(26)	9
Cost deferred	(86)	(108)	(44)	(87)	(95)	(33)
Cost charged (credited) to operating expenses	\$ 15	\$ (26)	\$ (38)	\$ (13)	\$ (43)	\$ (52)

* Relates to increases in Con Edison of New York's pension obligations of \$33 million from a 1993 special retirement program and \$45 million from a 1999 special retirement program.

Funded Status

The funded status at December 31, 2007, 2006 and 2005 was as follows:

(Millions of Dollars)	Con Edison			Con Edison of New York		
	2007	2006	2005	2007	2006	2005
Change in Projected Benefit Obligation						
Projected benefit obligation at beginning of year	\$ 8,300	\$ 8,083	\$ 7,315	\$ 7,767	\$ 7,557	\$ 6,840
Service cost excluding administrative expenses	130	131	116	121	122	107
Interest cost on projected benefit obligation	491	460	430	459	430	402
Plan amendments	-	1	-	-	1	-
Net actuarial loss	179	5	577	165	11	538
Benefits paid	(404)	(380)	(355)	(375)	(354)	(330)

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Projected Benefit Obligation at end of Year	\$ 8,696	\$ 8,300	\$ 8,083	\$ 8,137	\$ 7,767	\$ 7,557
Change in Plan Assets						
Fair value of plan assets at beginning of year	\$ 8,124	\$ 7,511	\$ 7,254	\$ 7,780	\$ 7,214	\$ 6,985
Actual return on plan assets	570	930	609	545	892	586
Employer contributions	140	103	34	104	66	2
Benefits paid	(404)	(380)	(355)	(375)	(354)	(330)
Administrative expenses	(30)	(40)	(31)	(29)	(38)	(29)
Fair Value of Plan Assets at end of Year	\$ 8,400	\$ 8,124	\$ 7,511	\$ 8,025	\$ 7,780	\$ 7,214
Funded status	\$ (296)	\$ (176)	\$ (572)	\$ (112)	\$ 13	\$ (343)
Unrecognized net loss	1,640	1,516	1,908	1,524	1,397	1,750
Unrecognized prior service costs	52	63	75	42	51	62
Net Prepaid Benefit Cost	\$ -	\$ -	\$ 1,411	\$ -	\$ -	\$ 1,469
Accumulated Benefit Obligation	\$ 7,927	\$ 7,534	\$ 7,297	\$ 7,392	\$ 7,025	\$ 6,796

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In December 2006, Con Edison adopted SFAS No. 158. This Statement requires an employer to recognize an asset or liability for the overfunded or underfunded status of its pension and other postretirement benefit plans. For a pension plan, the asset or liability is the difference between the fair value of the plan's assets and the projected benefit obligation. For any other postretirement benefit plan, the asset or liability is the difference between the fair value of the plan's assets and the accumulated postretirement benefit obligation. The Statement required employers to recognize all unrecognized prior service costs and credits and unrecognized actuarial gains and losses in accumulated other comprehensive income (OCI), net of tax. Such amounts will be adjusted as they are subsequently recognized as components of net periodic benefit cost or income pursuant to the current recognition and amortization provisions. For the Utilities, generally regulatory accounting treatment is applied in accordance with SFAS No. 71. Unrecognized prior service costs or credits and unrecognized gains and losses are recorded to regulatory assets or liabilities, rather than OCI.

Upon adoption of SFAS No. 158, Con Edison recognized an additional pension liability of \$85 million and eliminated the prepaid pension asset of \$1.5 billion. A regulatory asset of \$1.5 billion was recorded for the unrecognized net losses and unrecognized prior service costs associated with the Utilities consistent with SFAS No. 71. An OCI charge of \$8 million (net of taxes) was recorded for the unrecognized net losses and unrecognized prior service costs associated with the competitive energy businesses and O&R's New Jersey and Pennsylvania utility subsidiaries. Con Edison of New York recognized a pension asset of \$13 million, eliminated a pension liability of \$28 million and eliminated the prepaid pension asset of \$1.5 billion. A regulatory asset of \$1.4 billion was recorded for the unrecognized net losses and unrecognized prior service costs in accordance with SFAS No. 71. A credit to OCI of \$8 million (net of taxes) was recorded which represents the reversal of OCI charges associated with the supplemental retirement plans partially offset by the unrecognized net losses and unrecognized prior service costs associated with former employees of the Utilities employed by the competitive energy businesses. In the first quarter of 2007, in accordance with SFAS No. 158 and based on the final actuarial valuation as of December 31, 2006, Con Edison adjusted the estimated amounts recorded upon adoption of SFAS No. 158 by increasing its pension liability by \$83 million and the related regulatory asset by \$81 million and recognizing a charge of \$1 million (net of taxes) to other comprehensive income (OCI). Con Edison of New York reversed the pension asset of \$13 million it recorded upon adoption of SFAS No. 158 and recorded a pension liability of \$64 million and an additional regulatory asset of \$77 million.

The estimated net loss and prior service cost for the pension plan that will be amortized from accumulated OCI and the regulatory asset into net periodic benefit cost over the next year for Con Edison are \$182 million and \$8 million, respectively. Included in these amounts are \$160 million and \$7 million, respectively, for Con Edison of New York.

At December 31, 2007 and 2006, Con Edison's investments include \$71 million and \$59 million, respectively, held in external trust accounts for benefit payments pursuant to the supplemental retirement plans. Included in these amounts for Con Edison of New York were \$59 million and \$47 million, respectively. The accumulated benefit obligations for the supplemental retirement plans for Con Edison and Con Edison of New York were \$155 million and \$122 million as of December 31, 2007 and \$138 million and \$105 million as of December 31, 2006, respectively.

Assumptions

The actuarial assumptions were as follows:

	2007	2006	2005
Weighted-average assumptions used to determine benefit obligations at December 31:			
Discount rate	6.00%	6.00%	5.70%
Rate of compensation increase			
Con Edison of New York	4.00%	4.00%	4.00%
O&R	4.00%	4.00%	4.00%

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Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31:

Discount rate	6.00%	5.70%	5.90%
Expected return on plan assets	8.50%	8.50%	8.80%
Rate of compensation increase			
Con Edison of New York	4.00%	4.00%	4.00%
O&R	4.00%	4.00%	4.00%

The expected return assumption reflects anticipated returns on the plan's current and future assets. The Companies' expected return was based on an evaluation of the current environment, market and economic outlook, relationships between the economy and asset class performance patterns, and recent and long-term trends in asset class performance. The projections were based on the plan's target asset allocation and were adjusted for historical and expected experience of active portfolio management results compared to benchmark returns.

Discount Rate Assumption

To determine the assumed discount rate, the Companies use a model that produces a yield curve based on yields on selected

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highly rated (Aaa or Aa, by Moody's Investors Service) corporate bonds. Bonds with insufficient liquidity, bonds with questionable pricing information and bonds that are not representative of the overall market are excluded from consideration. For example, the bonds used in the model cannot be callable, they must have a price between 50 and 200, the yield must lie between 1 percent and 20 percent, and the amount of the issue must be in excess of \$100 million. The spot rates defined by the yield curve and the plan's projected benefit payments are used to develop a weighted average discount rate.

Expected Benefit Payments

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

(Millions of Dollars)	2008	2009	2010	2011	2012	2013-2017
Con Edison	\$ 439	\$ 461	\$ 485	\$ 508	\$ 532	\$ 2,981
Con Edison of New York	409	430	453	474	496	2,784

Expected Contributions

Based on estimates as of December 31, 2007, the Companies are not required under funding regulations and laws to make any contributions to the pension plan during 2008. The Companies' policy is to fund their accounting cost to the extent tax deductible, therefore, Con Edison and Con Edison of New York expect to make discretionary contributions of \$131 million and \$98 million, respectively, to the pension plan during 2008.

Plan Assets

The asset allocations for the pension plan at the end of 2007, 2006 and 2005, and the target allocation for 2008 are as follows:

Asset Category	Plan Assets			
	Target Allocation 2008	2007	at December 31 2006	2005
Equity Securities	65%	65%	66%	67%
Debt Securities	27%	28%	28%	28%
Real Estate	8%	7%	6%	5%
Total	100%	100%	100%	100%

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

Pursuant to resolutions adopted by Con Edison's Board of Directors, the Management Development and Compensation Committee of the Board of Directors (the Committee) has general oversight responsibility for Con Edison's pension and other employee benefit plans. The pension plan's Named Fiduciaries have been granted the authority to control and manage the operation and administration of the plans, including overall responsibility for the investment of assets in the trust and the power to appoint and terminate investment managers. The Named Fiduciaries consist of Con Edison's chief executive, financial and accounting officers and others the Board of Trustees may appoint in addition to or in place of the designated Named Fiduciaries.

The investment objective for the pension trust is to maximize the long-term total return on the trust assets within a prudent level of risk. The investment strategy is to diversify its funds across asset classes, investment styles and fund managers. The target asset allocation is reviewed periodically based on asset/liability studies and may be modified as appropriate. The target asset allocation

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for 2008 reflects the results of such a study conducted in 2007.

Individual fund managers operate under written guidelines provided by Con Edison, which cover such areas as investment objectives, performance measurement, permissible investments, investment restrictions, trading and execution, and communication and reporting requirements. Manager performance, total fund performance, and compliance with asset allocation guidelines are monitored on an ongoing basis, and reviewed by the Named Fiduciaries and reported to the Committee on a regular basis. Changes in fund managers and rebalancing of the portfolio are undertaken as appropriate. The Named Fiduciaries approve such changes, which are also reported to the Committee.

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

(Millions of Dollars)	For the Years Ended		
	2007	December 31	2005
Con Edison	\$ 21	\$ 20	\$ 19
Con Edison of New York	19	18	17

Note F Other Postretirement Benefits

The Utilities currently have contributory comprehensive hospital, medical and prescription drug programs for all retirees, their dependents and surviving spouses.

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

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Edison's competitive energy businesses are eligible to receive benefits under these programs.

Investment plan gains and losses are fully recognized in expense over a 15-year period for the Companies and other actuarial gains and losses are fully recognized in expense over a 10-year period, provided, however, that the Utilities generally defer any difference between expenses recognized under SFAS No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, and the current rate allowances for their electric, gas and steam operations.

Net Periodic Benefit Cost

The components of the Companies' net periodic postretirement benefit costs for 2007, 2006 and 2005 were as follows:

(Millions of Dollars)	Con Edison			Con Edison of New York		
	2007	2006	2005	2007	2006	2005
Service cost	\$ 18	\$ 17	\$ 14	\$ 14	\$ 13	\$ 10
Interest cost on accumulated other postretirement benefit obligation	93	87	84	82	77	74
Expected return on plan assets	(81)	(78)	(79)	(74)	(72)	(73)
Amortization of net actuarial loss	67	58	72	58	49	63
Amortization of prior service cost	(14)	(15)	(15)	(14)	(15)	(15)
Amortization of transition obligation	4	4	4	4	4	4
Net Periodic Postretirement Benefit Cost	\$ 87	\$ 73	\$ 80	\$ 70	\$ 56	\$ 63
Cost capitalized	(30)	(23)	(25)	(25)	(19)	(21)
Cost deferred	(33)	(33)	(24)	(30)	(27)	(18)
Cost charged to operating expenses	\$ 24	\$ 17	\$ 31	\$ 15	\$ 10	\$ 24

Funded Status

The funded status of the programs at December 31, 2007, 2006 and 2005 was as follows:

(Millions of Dollars)	Con Edison			Con Edison of New York		
	2007	2006	2005	2007	2006	2005
Change in Benefit Obligation						
Benefit obligation at beginning of year	\$ 1,566	\$ 1,568	\$ 1,315	\$ 1,376	\$ 1,383	\$ 1,157
Service cost	18	17	14	14	13	10
Interest cost on accumulated postretirement benefit obligation	93	87	84	82	77	74
Net actuarial loss/(gain)	29	(17)	244	40	(9)	221
Benefits paid and administrative expenses	(125)	(121)	(108)	(114)	(110)	(97)
Participant contributions	19	20	19	19	19	18
Medicare prescription benefit	9	4	-	9	3	-
Plan amendments	21	8	-	7	-	-
Benefit Obligation at End of Year	\$ 1,630	\$ 1,566	\$ 1,568	\$ 1,433	\$ 1,376	\$ 1,383
Change in Plan Assets						
Fair value of plan assets at beginning of year	\$ 1,005	\$ 926	\$ 882	\$ 927	\$ 861	\$ 826
Actual return on plan assets	10	114	59	11	105	56
Employer contributions	76	65	71	64	52	58
Participant contributions	19	19	18	19	19	18
Benefits paid	(122)	(119)	(104)	(114)	(110)	(97)

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Fair Value of Plan Assets at End of Year	\$ 988	\$ 1,005	\$ 926	\$ 907	\$ 927	\$ 861
Funded Status	\$ (642)	\$ (561)	\$ (642)	\$ (526)	\$ (449)	\$ (522)
Unrecognized net loss	500	466	576	450	405	496
Unrecognized prior service costs	(47)	(81)	(104)	(68)	(89)	(103)
Unrecognized net transition liability at January 1, 1993*	18	22	26	18	22	26
Accrued Postretirement Benefit Cost	\$ -	\$ -	\$ (144)	\$ -	\$ -	\$ (103)

* Being amortized over a period of 20 years and reduced by an additional amount in 2002 due to plan amendments.

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For discussion of SFAS No. 158 and the application of SFAS No. 71 in recording unrecognized prior service costs or credits and unrecognized gains and losses, see Note E. Upon adoption of SFAS No. 158, Con Edison recognized an additional liability for other postretirement benefits of \$408 million. A regulatory asset of \$390 million was recorded for the unrecognized net losses, unrecognized prior service costs and unrecognized transition liability associated with the Utilities consistent with SFAS No. 71. An OCI charge of \$11 million (net of taxes) was recorded for the unrecognized net losses, unrecognized prior service costs and unrecognized transition liability associated with the competitive energy businesses and O&R's New Jersey and Pennsylvania utility subsidiaries. Con Edison of New York recognized an additional liability for other postretirement benefits of \$338 million. A regulatory asset of \$338 million was recorded for the unrecognized net losses, unrecognized prior service costs and unrecognized transition liability in accordance with SFAS No. 71. A charge to OCI of \$1 million (net of taxes) was recorded for the unrecognized net losses, unrecognized prior service costs and unrecognized transition liability associated with operations that do not fall under SFAS No. 71. In the first quarter of 2007, in accordance with SFAS No. 158 and based on the final actuarial valuation as of December 31, 2006, Con Edison adjusted the estimated amounts recorded upon adoption of SFAS No. 158 by increasing its liability for other postretirement benefits by \$27 million and the related regulatory asset by \$29 million and recognizing a credit of \$1 million (net of taxes) to OCI. Con Edison of New York recorded an additional liability for other postretirement benefits of \$37 million and an additional regulatory asset of \$37 million.

The estimated net loss, prior service costs and transition obligation for the other postretirement benefits that will be amortized from accumulated OCI and the regulatory asset into net periodic benefit cost over the next year for Con Edison are \$67 million, \$(12) million and \$4 million, respectively. Included in these amounts are \$58 million, \$(14) million and \$4 million, respectively, for Con Edison of New York.

Assumptions

The actuarial assumptions were as follows:

	2007	2006	2005
Weighted-average assumptions used to determine benefit obligations at December 31:			
Discount Rate	6.00%	6.00%	5.70%
Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31:			
Discount Rate	6.00%	5.70%	5.90%
Expected Return on Plan Assets			
Tax-Exempt	8.50%	8.50%	8.80%
Taxable			
Con Edison of New York	7.50%	7.50%	7.80%
O&R	8.00%	8.00%	8.30%

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

The health care cost trend rate used to determine net periodic benefit cost for the year ended December 31, 2007 was 9 percent, which is assumed to decrease gradually to 4.5 percent by 2012 and remain at that level thereafter. The health care cost trend rate used to determine benefit obligations as at December 31, 2007 was 8 percent, which is assumed to decrease gradually to 4.5 percent by 2012 and remain at that level thereafter.

A one-percentage point change in the assumed health care cost trend rate would have the following effects at December 31, 2007:

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(Millions of Dollars)	Con Edison				Con Edison of New York	
	Increase	Decrease	1-Percentage-Point		Decrease	
			Increase	Decrease		
Effect on accumulated other postretirement benefit obligation	\$ 17	\$ (2)	\$ (2)		\$ 15	
Effect on service cost and interest cost components for 2007	1	(1)	(1)		1	
Expected Benefit Payments						

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

(Millions of Dollars)	2008	2009	2010	2011	2012	2013-2017
Gross Benefit Payments						
Con Edison	\$ 112	\$ 117	\$ 123	\$ 128	\$ 131	\$ 686
Con Edison of New York	100	105	109	113	116	607
Medicare prescription benefit receipts						
Con Edison	\$ 10	\$ 11	\$ 12	\$ 13	\$ 14	\$ 84
Con Edison of New York	9	10	11	12	12	75
Expected Contributions						

Based on estimates as of December 31, 2007, Con Edison and Con Edison of New York expect to make contributions of \$75 million and \$61 million, respectively, to the other postretirement benefit plans in 2008.

Table of Contents**Notes to the Financial Statements Continued****Plan Assets**

The asset allocations for Con Edison of New York's other postretirement benefit plans at the end of 2007, 2006 and 2005, and the target allocation for 2008 are as follows:

Asset Category	Target Allocation		Plan Assets at December 31	
	2008	2007	2006	2005
Equity Securities	65%	65%	65%	66%
Debt Securities	35%	35%	35%	34%
Total	100%	100%	100%	100%

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

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

Effect of Medicare Prescription Benefit

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 created a benefit for certain employers who provide postretirement drug programs. FASB Staff Position (FSP) No. FAS 106-2, issued by the FASB in May 2004, provides accounting and disclosure requirements relating to the Act. The Companies' actuaries have determined that each of their prescription drug plans provides a benefit that is at least actuarially equivalent to the Medicare prescription drug plan and projections indicate that this will be the case for 20 years; therefore, the Companies are eligible to receive the benefit that the Act makes available. When the plans' benefits are no longer actuarially equivalent to the Medicare plan, 25 percent of the retirees in each plan are assumed to begin to decline participation in the Companies' prescription programs.

Note G Environmental Matters**Superfund Sites**

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

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

For Superfund Sites where there are other potentially responsible parties and the Utilities are not managing the site investigation and remediation, the accrued liability represents an estimate in 2007 dollars of the amount the Utilities will need to pay to discharge their related obligations. For Superfund Sites (including the manufactured gas plant sites) for which one of the Utilities is managing the investigation and remediation, the accrued liability represents an estimate in 2007 dollars of the company's share of undiscounted cost to investigate the sites and, for sites that have been investigated in whole or in part, the cost to remediate the sites. Remediation costs are estimated in light of the information available, applicable remediation standards, and experience with similar sites.

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The accrued liabilities and regulatory assets related to Superfund Sites at December 31, 2007 and 2006 were as follows:

(Millions of Dollars)	Con Edison		Con Edison of New York	
	2007	2006	2007	2006
Accrued Liabilities:				
Manufactured gas plant sites	\$ 267	\$ 228	\$ 212	\$ 180
Other Superfund Sites	60	64	59	63
Total	\$ 327	\$ 292	\$ 271	\$ 243
Regulatory assets	\$ 378	\$ 318	\$ 312	\$ 255

Most of the accrued Superfund Site liability relates to sites that have been investigated, in whole or in part. As investigations progress on these and other sites, the Utilities expect that additional liability will be accrued, the amount of which is not presently determinable but may be material. Under their current rate agreements, the Utilities are permitted to recover or defer as regulatory assets (for subsequent recovery through rates) certain site investigation and remediation costs.

Environmental remediation costs incurred and insurance recoveries received related to Superfund Sites at December 31, 2007 and 2006, were as follows:

(Millions of Dollars)	Con Edison		Con Edison of New York	
	2007	2006	2007	2006
Remediation costs incurred	\$ 50	\$ 53	\$ 42	\$ 45
Insurance recoveries received*	1	3	1	3

* Reduced amount deferred for recovery from customers

Table of Contents**Notes to the Financial Statements Continued**

In 2006, Con Edison of New York estimated that for its manufactured gas plant sites, its aggregate undiscounted potential liability for the investigation and remediation of coal tar and/or other manufactured gas plant-related environmental contaminants could range up to \$1.1 billion. In 2007, O&R estimated that for its manufactured gas plant sites, each of which has been investigated, the aggregate undiscounted potential liability for the remediation of such contaminants could range up to \$115 million. These estimates were based on the assumption that there is contamination at the sites that have not yet been investigated and additional assumptions about these and the other sites regarding the extent of contamination and the type and extent of remediation that may be required. Actual experience may be materially different.

Asbestos Proceedings

Suits have been brought in New York State and federal courts against the Utilities and many other defendants, wherein a large number of plaintiffs sought large amounts of compensatory and punitive damages for deaths and injuries allegedly caused by exposure to asbestos at various premises of the Utilities. The suits that have been resolved, which are many, have been resolved without any payment by the Utilities, or for amounts that were not, in the aggregate, material to them. The amounts specified in all the remaining thousands of suits total billions of dollars; however, the Utilities believe that these amounts are greatly exaggerated, based on the disposition of previous claims. In 2006, Con Edison of New York estimated that its aggregate undiscounted potential liability for these suits and additional suits that may be brought over the next 15 years is \$10 million. The estimate was based upon a combination of modeling, historical data analysis and risk factor assessment. Actual experience may be materially different. In addition, certain current and former employees have claimed or are claiming workers' compensation benefits based on alleged disability from exposure to asbestos. Under its current rate agreements, Con Edison of New York is permitted to defer as regulatory assets (for subsequent recovery through rates) costs incurred for its asbestos lawsuits and workers' compensation claims. The accrued liability for asbestos suits and workers' compensation proceedings (including those related to asbestos exposure) and the amounts deferred as regulatory assets for the Companies at December 31, 2007 and 2006 were as follows:

(Millions of Dollars)	Con Edison		Con Edison of New York	
	2007	2006	2007	2006
Accrued liability - asbestos suits	\$ 10	\$ 10	\$ 10	\$ 10
Regulatory assets - asbestos suits	\$ 10	\$ 10	\$ 10	\$ 10
Accrued liability - workers' compensation	\$ 116	\$ 117	\$ 111	\$ 112
Regulatory assets - workers' compensation	\$ 41	\$ 42	\$ 41	\$ 42

Note H Other Material Contingencies**Manhattan Steam Main Rupture**

In July 2007, a Con Edison of New York steam main located in midtown Manhattan ruptured. It has been reported that one person died and others were injured as a result of the incident. Several buildings in the area were damaged. Debris from the incident included dirt and mud containing asbestos. The response to the incident required the closing of several buildings and streets for various periods. As of December 31, 2007, with respect to the incident, the company incurred estimated operating costs of \$23 million for property damage, clean up and other response costs, recorded \$10 million in actual and expected insurance recoveries and invested \$17 million in capital, retirement and other costs. Over 30 plaintiffs have sued the company seeking generally unspecified compensatory and, in some cases, punitive damages, for personal injury, property damage and business interruption. The company has notified its insurers of the incident and believes that the policies currently in force will cover most of the company's costs, which the company is unable to estimate, but which could be substantial, to satisfy its liability to others in connection with the incident. See also Rate Agreements - Con Edison of New York - Steam in Note B.

Northeast Utilities Litigation

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Con Edison and Northeast Utilities are pursuing claims against each other for damages as a result of the alleged breach of their agreement and plan of merger, dated as of October 13, 1999, as amended and restated as of January 11, 2000. The litigation, entitled Consolidated Edison, Inc. v. Northeast Utilities, was commenced in March 2001 and is pending in the United States District Court for the Southern District of New York. The parties are seeking to recover from each other fees and expenses each incurred in connection with the merger agreement and preparing for the merger. In addition, Con Edison is seeking to recover from Northeast Utilities compensation for synergies that were lost when the merger did not occur, together with the attorney's fees it has incurred in connection with the litigation. In January 2008, the court denied Northeast Utilities' motion to dismiss Con Edison's claim for lost synergies. The Company expects a trial in this case to begin in 2008. Con Edison does not expect that the lawsuit will have a material adverse effect on its financial position, results of operations or liquidity.

Other Contingencies

See "Power Outage Proceedings" in Note B and "Lease In/Lease Out Transactions" in Note J.

Guarantees

Con Edison and its subsidiaries enter into various agreements providing financial or performance assurance primarily to third parties on behalf of their subsidiaries. In addition, a Con Edison

Table of Contents**Notes to the Financial Statements Continued**

Development subsidiary has issued a guarantee on behalf of an entity in which it has an equity interest. Maximum amounts guaranteed by Con Edison totaled \$1.4 billion and \$1.2 billion at December 31, 2007 and 2006, respectively.

A summary, by type and term, of Con Edison's total guarantees at December 31, 2007 is as follows:

Guarantee Type	0 3	4 10	> 10	
(Millions of Dollars)	years	years	years	Total
Commodity transactions	\$ 879	\$ 30	\$ 205	\$ 1,114
Affordable housing program	-	17	-	17
Intra-company guarantees	25	-	1	26
Other guarantees	226	40	-	266
Total	\$ 1,130	\$ 87	\$ 206	\$ 1,423

Commodity Transactions Con Edison guarantees payments on behalf of its competitive energy businesses in order to facilitate physical and financial transactions in gas, pipeline capacity, transportation, oil, electricity and related commodity services. In addition, a Con Edison Development subsidiary has guaranteed payment for fuel oil purchases by a 42 MW foreign generating project in which it has an equity interest. To the extent that liabilities exist under the contracts subject to these guarantees, such liabilities are included in Con Edison's consolidated balance sheet.

Affordable Housing Program Con Edison Development guarantees the repurchase and remarketing obligations of one of its subsidiaries for debt relating to moderate-income rental apartment properties eligible for tax credits under Section 42 of the Internal Revenue Code. In accordance with Emerging Issues Task Force (EITF) No. 94-01, Accounting for Tax Benefits Resulting from Investments in Affordable Housing Projects, neither the rental apartment properties nor the related indebtedness is included on Con Edison's consolidated balance sheet.

Intra-company Guarantees Con Edison guarantees electricity sales made by Con Edison Energy and Con Edison Solutions to O&R and Con Edison of New York.

Other Guarantees Con Edison, Con Edison Development and its subsidiaries also guarantee the following:

\$41 million relates to guarantees issued by Con Edison covering RCN Corporation's lease payment to use Con Edison of New York's conduit system in accordance with a tariff approved by the PSC and rent payment obligations under various lease agreements for office buildings (see Note T). RCN Corporation is obligated to reimburse Con Edison for any payments made under these guarantees. In the case of the guarantee to Con Edison of New York, this obligation is partially secured by a letter of credit of \$19 million, and, in the case of the lease guarantees, this reimbursement is fully secured by letters of credit;

\$25 million for a parental guarantee provided by Con Edison on Con Edison Solutions' indemnity agreement for surety bonds;

\$18 million for guarantees and standby financial letters of credit in connection with investments in energy infrastructure, power and cogeneration projects;

\$182 million relates to guarantees issued by Con Edison covering certain representations and obligations of Con Edison Development and its subsidiary in connection with their December 2007 agreements to sell substantially all of their ownership interests in their generating projects to North American Energy Alliance, LLC. See Note U. The company is

unable to estimate the maximum limit of loss under these guarantees.

Table of Contents**Notes to the Financial Statements Continued****Note I Non-Utility Generators and Other Power Purchase Agreements**

Con Edison of New York has long-term power purchase agreements (PPAs) with non-utility generators (NUGs) and others for generating capacity. The company recovers its purchase power costs in accordance with provisions approved by the PSC. See "Recoverable Energy Costs" in Note A.

At December 31, 2007, the significant terms of the PPAs were as follows:

Facility	Equity Owner	Plant Output (MW)	Contracted	Contract	
			Output (MW)	Start Date	Contract Term (Years)
Indian Point	Entergy Nuclear Indian Point 2, LLC	1,000	1,000*	April 2004	8
Independence	Sithe/Independence Partners, LP	1,000	740	November 1994	20
Linden Cogeneration	East Coast Power, LLC	715	645	May 1992	25
Astoria Energy	Astoria Energy, LLC	500	500	May 2006	10
Selkirk	Selkirk Cogen Partners, LP	345	265	September 1994	20
Brooklyn Navy Yard	Brooklyn Navy Yard Cogeneration Partners, LP	325	295	November 1996	40
Indeck Corinth	Indeck Energy Services of Corinth, Inc.	140	131	July 1995	20
Wheelabrator	Wheelabrator Westchester, LP	51	51	April 1984	25

* Contracted output will decrease to 650 MW in 2010 and 350 MW in 2011.

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

For the years 2008 through 2012, the capacity and other fixed payments under the contracts are estimated to be as follows:

(Millions of Dollars)	2008	2009	2010	2011	2012
Con Edison of New York	\$ 474	\$ 489	\$ 485	\$ 483	\$ 479

For energy delivered under most of the PPAs, Con Edison of New York is obligated to pay variable prices. The company's payments under the PPAs for capacity, energy and other fixed payments in 2007, 2006 and 2005 were as follows:

(Millions of Dollars)	For the Years Ended December 31,		
	2007	2006	2005
Indian Point	\$ 468	\$ 400	\$ 373
Linden Cogeneration	525	539	594
Selkirk	193	187	206
Astoria Energy	281	164	-

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Brooklyn Navy Yard	142	150	139
Independence	105	105	106
Indeck Corinth	87	81	109
Wheelabrator	29	25	32

Note J Leases

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

Capital leases: For ratemaking purposes capital leases are treated as operating leases; therefore, in accordance with SFAS No. 71, the amortization of the leased asset is based on the rental payments recovered from customers. The following assets under capital leases are included in the Companies' consolidated balance sheets at December 31, 2007 and 2006:

(Millions of Dollars)	Con Edison		Con Edison of New York	
	2007	2006	2007	2006
Utility Plant				
Transmission	\$ 6	\$ 12	\$ 6	\$ 7
Common	22	23	20	23
Total	\$ 28	\$ 35	\$ 26	\$ 30

The accumulated amortization of the capital leases for Con Edison and Con Edison of New York was \$45 million and \$44 million, respectively, at December 31, 2007, and \$41 million and \$40 million, respectively, at December 31, 2006.

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

(Millions of Dollars)	Con Edison	Con Edison of New York
2008	\$ 10	\$ 8
2009	8	8
2010	7	7
2011	7	7
2012	5	5
All years thereafter	-	-
Total	37	35
Less: amount representing interest	9	9
Present value of net minimum lease payment	\$ 28	\$ 26

Con Edison of New York subleases one of its capital leases. The minimum rental to be received in the future under the non-cancelable sublease is \$18 million.

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

(Millions of Dollars)	Con Edison	Con Edison of New York
2008	\$ 43	\$ 40
2009	43	40
2010	42	40
2011	42	40
2012	42	41
All years thereafter	99	97
Total	\$ 311	\$ 298

Lease In/Lease Out Transactions

In each of 1997 and 1999, Con Edison Development entered into a transaction in which it leased property and then immediately subleased it back to the lessor (termed Lease In/Lease Out, or LILO transaction). The transactions respectively involve gas distribution and electric generating facilities in the Netherlands, with a total investment of \$259 million. The transactions were financed with \$93 million of equity and \$166 million of non-recourse, long-term debt secured by the underlying assets. In accordance with SFAS No. 13, Con Edison is accounting for the two LILO transactions as leveraged leases. Accordingly, the company's investment in these leases, net of non-recourse debt, is carried as a single amount in Con Edison's consolidated balance sheet and income is recognized pursuant to a method that incorporates a level rate of return for those years when net investment in the lease is positive, based upon the after-tax cash flows projected at the inception of the leveraged leases. At December 31, 2007 and December 31, 2006, the company's investment in these leveraged leases was \$9 million and \$24 million, respectively, comprised of a \$235 million gross investment less \$226 million of deferred tax liabilities in 2007 and a \$232 million gross investment less \$208 million of deferred tax liabilities in 2006.

On audit of Con Edison's tax return for 1997, the Internal Revenue Service (IRS) disallowed the tax losses in connection with the 1997 LILO transaction. In December 2005, Con Edison paid a \$0.3 million income tax deficiency asserted by the IRS for the tax year 1997 with respect to the 1997 LILO transaction. In April 2006, the company paid interest of \$0.2 million associated with the deficiency and commenced an action in the United States Court of Federal Claims, entitled Consolidated Edison Company of New York, Inc. v. United States, to obtain a refund of this tax payment and interest. A trial was completed in November 2007 and the parties are in the process of filing post trial briefs. A decision is expected later this year.

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In connection with its audit of Con Edison's federal income tax returns for the tax years 1998, 1999, 2000, 2001 and 2006, the IRS disallowed \$195 million of net tax deductions taken with respect to both of the LILO transactions for the tax years. For the tax years 1998 through 2001, Con Edison filed appeals of these audit level disallowances with the Appeals Office of the IRS, where consideration of this matter is pending. Con Edison is preparing a similar appeal with respect to the tax year 2006. In connection with its audit of Con Edison's federal income tax returns for the tax years 2002, 2003, 2004 and 2005, the IRS indicated that it intends to disallow \$180 million of net tax deductions taken with respect to both of the LILO transactions for the tax years. If and when these audit level disallowances become appealable, Con Edison intends to file appeals of the disallowances with the Appeals Office of the IRS.

Con Edison believes that its LILO transactions have been correctly reported, and has not recorded any reserve with respect to the disallowance of tax losses, or related interest, in connection with its LILO transactions. Con Edison's estimated tax savings, reflected in its financial statements, from the two LILO transactions through December 31, 2007, in the aggregate, was \$171 million. If Con Edison were required to repay all or a portion of these amounts, it would also be required to pay interest of up to \$63 million at December 31, 2007.

In July 2006, the FASB issued FSP No. FAS 13-2, Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction, which became effective for fiscal years beginning after December 15, 2006. This FSP requires the expected timing of income tax cash flows generated by Con Edison's LILO transactions to be reviewed at least annually. If the expected timing of the cash flows is revised, the rate of return and the allocation of income would be recalculated from the inception of the LILO transactions, and the company would be required to recalculate the accounting effect of the LILO transactions, which

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would result in a charge to earnings that could have a material adverse effect on the company's results of operations.

Note K Goodwill and Intangible Assets

In 2007 and 2006, Con Edison completed impairment tests for its goodwill of \$406 million related to the O&R merger, and determined that it was not impaired. For the impairment test, \$245 million and \$161 million of the goodwill were allocated to Con Edison of New York and O&R, respectively.

Con Edison's intangible assets consist of the following:

(Millions of Dollars)	December 31, 2007 Accumulated			December 31, 2006 Accumulated		
	Gross	Amortization	Net	Gross	Amortization	Net
Con Edison Development Power purchase agreement	\$ -	\$ -	\$ -	\$ 112	\$ 33	\$ 79
Other	3	1	2	2	1	1
Total	\$ 3	\$ 1	\$ 2	\$ 114	\$ 34	\$ 80

As a result of the pending sale of Con Edison Development assets, the intangible asset related to the power purchase agreement has been reclassified to Noncurrent Assets Held for Sale. In addition, the related amortization expense of \$9 million for the year ended December 31, 2007, and \$10 million for the years ended December 31, 2006 and 2005 was reclassified to Income/(Loss) from Discontinued Operations (Net of Income Taxes) in the accompanying Con Edison consolidated statements of income. Amortization ceased at the time that the Con Edison Development assets were reclassified as held for sale. See Note U.

Future amortization expense from the remaining intangible assets will be immaterial.

Note L Income Tax

The components of income tax are as follows:

(Millions of Dollars)	2007	Con Edison		Con Edison of New York		
		2006	2005	2007	2006	2005
Charge/(benefit) to operations:						
State						
Current	\$ 30	\$ 4	\$ 66	\$ 20	\$ -	\$ 65
Deferred net	72	86	9	70	78	1
Federal						
Current	72	73	394	46	55	385
Deferred net	284	250	(95)	262	228	(115)
Amortization of investment tax credits	(6)	(6)	(7)	(6)	(6)	(7)
Total Charge to Operations	452	407	367	392	355	329
Charge/(benefit) to other income:						
State						

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Current	8	(8)	(7)	-	(6)	-
Deferred net	(8)	1	1	-	5	2
Federal						
Current	(9)	(13)	(23)	5	(12)	(8)
Deferred net	(6)	2	10	(5)	7	7
Total Charge/(Benefit) to Other Income	(15)	(18)	(19)	-	(6)	1
Total	\$ 437	\$ 389	\$ 348	\$ 392	\$ 349	\$ 330

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

(Millions of Dollars)	Con Edison		Con Edison of New York	
	2007	2006	2007	2006
Deferred tax liabilities:				
Depreciation	\$ 2,075	\$ 2,029	\$ 1,873	\$ 1,841
Regulatory liability future income tax	1,240	1,118	1,165	1,048
Unrecognized pension and other postretirement costs SFAS No. 158	855	788	794	726
State income tax	474	454	394	380
Capitalized overheads	432	475	399	442
Other	544	439	378	272
Total deferred tax liabilities	5,620	5,303	5,003	4,709
Deferred tax assets:				
Unrecognized pension and other postretirement costs SFAS No. 158	855	788	794	726
Regulatory asset future income tax	125	123	109	107
State income tax	47	55	18	34
Other	207	327	139	241
Total deferred tax assets	1,234	1,293	1,060	1,108
Net Liabilities	4,386	4,010	3,943	3,601
Investment Tax Credits	79	85	75	81
Deferred Income Taxes and Investment Tax Credits	\$ 4,465	\$ 4,095	\$ 4,018	\$ 3,682
Deferred Income Taxes Recoverable Energy Costs	86	96	77	87
Total Deferred Income Taxes and Investment Tax Credits	\$ 4,551	\$ 4,191	\$ 4,095	\$ 3,769

In April 2007, the New York state statutory income tax rate decreased from 7.5% to 7.1%, retroactive to January 1, 2007. The rate decrease resulted in a reduction of \$20 million and \$19 million to the net accumulated deferred tax liabilities for Con Edison and Con Edison of New York, respectively, of which \$19 million and \$18 million were deferred for customers benefit for Con Edison and Con Edison of New York, respectively.

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

(% of Pre-tax income)	Con Edison			Con Edison of New York		
	2007	2006	2005	2007	2006	2005
Statutory Tax Rate						
Federal	35%	35%	35%	35%	35%	35%
Changes in computed taxes resulting from:						
State income tax	5	5	4	4	5	4
Depreciation related differences	1	1	2	1	1	2
Cost of removal	(6)	(6)	(6)	(6)	(6)	(6)
Other	(3)	(1)	(4)	(3)	(2)	(3)
Effective Tax Rate	32%	34%	31%	31%	33%	32%

Uncertain Tax Positions

In January 2007, the Companies adopted FIN 48. This interpretation clarifies the accounting for uncertain tax positions in accordance with FASB Statement No. 109. Under the interpretation, an enterprise is not allowed to recognize, in its financial statements, the benefit of a tax position unless that position is more likely than not to be sustained upon examination by taxing authorities, including resolution of any related appeals and litigation processes, based solely on the technical merits of the position.

Table of Contents**Notes to the Financial Statements Continued**

The IRS has essentially completed its field audits of the Companies' federal income tax returns through 2006. The Companies' federal income tax returns for 2002 through 2006 reflect certain tax positions with which the IRS does not or may not agree, including tax positions with respect to the deduction of certain construction-related costs for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. The field audits of the Companies' New York state income tax returns have been completed through 2002. Any adjustments to federal income tax returns will result in the Companies filing the federal audit changes with New York state to incorporate in the applicable state income tax returns.

The Companies' uncertain tax positions include the simplified service cost method (SSCM) used to determine the extent to which construction-related costs could be deducted in 2002 through 2005. The Companies expect that they will be required to repay, with interest, a portion of their past SSCM tax benefits (\$316 million, of which \$288 million is attributable to Con Edison of New York) and to capitalize and depreciate over a period of years costs they previously deducted under SSCM. Interest on all past SSCM tax benefits for Con Edison and Con Edison of New York would be approximately \$103 million and \$94 million, respectively. Repayment of the SSCM tax benefits would not otherwise affect the Companies' results of operations because deferred taxes have been previously provided for the related temporary differences between the SSCM deductions taken for federal income tax purposes and the corresponding amounts charged to expense for financial reporting purposes.

In June 2007, Con Edison paid \$160 million to the Internal Revenue Service, \$147 million of which is attributable to Con Edison of New York, as a deposit for the repayment, including related interest, that the Companies expect will be required with respect to the past SSCM benefits. As a result, for federal income tax purposes, interest will continue to accrue only on the portion of the liability, if any, that exceeds the deposit. Con Edison and Con Edison of New York have recorded the deposit as a noncurrent asset on their consolidated balance sheet.

Upon adoption of FIN 48, Con Edison and Con Edison of New York reclassified previously recorded tax liabilities of \$151 million and \$139 million, respectively, which primarily related to SSCM, to a liability for uncertain tax positions. At December 31, 2007, the liabilities for uncertain tax positions for Con Edison and Con Edison of New York were \$155 million and \$142 million, respectively, and accrued interest on the liabilities amounted to \$35 million and \$31 million, respectively. The Companies recognize interest accrued related to the liability for uncertain tax positions in interest expense and penalties, if any, in operating expenses in the Companies' consolidated income statements. In 2007, Con Edison recognized interest expense for uncertain tax positions of \$11 million, of which \$9 million is attributable to Con Edison of New York.

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

(Millions of Dollars)	Con Edison	Con Edison of New York
Balance at January 1, 2007	\$ 151	\$ 139
Additions based on tax positions related to the current year	-	-
Additions based on tax positions of prior years	19	17
Reductions for tax positions of prior years	(15)	(14)
Balance at December 31, 2007	\$ 155	\$ 142

The Companies do not expect the total amounts of uncertain tax positions or unrecognized tax benefits to significantly increase or decrease within the next 12 months.

Note M Stock-Based Compensation

The Companies may compensate employees and directors with, among other things, stock options, restricted stock units and contributions to a discount stock purchase plan. The Stock Option Plan (the 1996 Plan) provided for awards of stock options to officers and employees for up to 10 million shares of Con Edison common stock. The Long Term Incentive Plan (LTIP) among

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other things, provides for awards of restricted stock units, stock options and, to Con Edison's non-officer directors, deferred stock units for up to 10 million shares of common stock (of which not more than four million shares may be restricted stock or stock units).

Shares of Con Edison common stock used to satisfy the Companies' obligations with respect to stock-based compensation may be new (authorized, but unissued) shares, treasury shares or shares purchased in the open market. The shares used during the period ended December 31, 2007 have been new shares.

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In January 2006, Con Edison adopted SFAS No. 123(R), Share-Based Payment, applying the modified prospective approach. Pursuant to SFAS No. 123(R), the Companies have recognized the cost of stock-based compensation as an expense using a fair value measurement method. The following table summarizes stock-based compensation expense recognized by the Companies in the period ended December 31, 2007, 2006 and 2005:

(Millions of Dollars)	Con Edison			Con Edison of New York		
	2007	2006	2005	2007	2006	2005
Stock options	\$ 1	\$ 7	\$ -	\$ 1	\$ 6	\$ -
Restricted stock units	2	1	5	1	1	4
Performance-based restricted stock	5	11	4	4	10	3
Non-officer director deferred stock compensation	1	1	1	1	1	1
Total	\$ 9	\$ 20	\$ 10	\$ 7	\$ 18	\$ 8

If the Companies had applied the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure An Amendment of FASB Statement No. 123, for the purposes of recognizing expense for stock-based compensation arrangements, the following table illustrates the effect on net income and earnings per share for the period ended December 31, 2005:

(Millions of Dollars, except per share amounts/Shares in Millions)	Con Edison 2005	Con Edison of New York 2005
Net income, as reported	\$ 719	\$ 705
Add: Stock-based compensation expense included in reported net income, net of related tax effects	6	5
Deduct: Total stock-based compensation expense determined under fair value method for all awards, net of related tax effects	10	8
Pro forma net income	\$ 715	\$ 702
Earnings per common share:		
Basic as reported	\$ 2.95	
Basic pro forma	\$ 2.93	
Diluted as reported	\$ 2.94	
Diluted pro forma	\$ 2.92	

Stock Options

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

The outstanding options are equity awards because shares of Con Edison common stock are delivered upon exercise of the options. As equity awards, the fair value of the options is measured at the grant date. There were no options granted in 2007. The weighted-average fair values of options granted in 2006 and 2005 are \$3.81 and \$4.51 per share, respectively. These values were estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2006	2005
Risk-free interest rate	4.62%	3.95%
Expected life	4.6 years	4.6 years
Expected stock volatility	13.41%	19.00%
Expected dividend yield	5.06%	5.37%

The weighted average risk-free rate is calculated using the five-year U.S. Treasury securities rate on the grant date of each stock option and then weighted for the number of shares awarded. The expected life of the options is based on historical employee exercise behavior and post-vesting cancellations. The expected stock volatility is calculated using the quarterly closing prices of Con Edison stock over a period of five years, which approximates the expected term of the options. The expected dividend yield is calculated using the annualized dividend divided by the stock price on the date of grant.

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A summary of changes in the status of stock options awarded as of December 31, 2007, 2006 and 2005 is as follows:

	Con Edison		Con Edison of New York	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at 12/31/04	7,808,184	\$ 41.302	6,759,251	\$ 41.381
Granted	1,300,950	42.723	1,037,750	42.713
Exercised	(1,149,533)	38.529	(1,023,650)	38.457
Forfeited	(92,450)	43.943	(75,950)	44.668
Outstanding at 12/31/05	7,867,151	41.913	6,697,401	42.000
Granted	1,663,900	45.133	1,410,700	45.175
Exercised	(854,550)	39.584	(729,700)	39.805
Forfeited	(58,900)	44.283	(31,800)	45.006
Outstanding at 12/31/06	8,617,601	42.773	7,346,601	42.842
Exercised	(1,971,450)	41.770	(1,793,500)	41.780
Forfeited	(49,301)	42.865	(21,251)	42.899
Outstanding at 12/31/07	6,596,850	\$ 43.072	5,531,850	\$ 43.187

The change in the fair value of all outstanding options from their grant dates to December 31, 2007 and 2006 (aggregate intrinsic value) for Con Edison were \$38 million and \$46 million, respectively. The change in the fair value of all outstanding options from their grant dates to December 31, 2007 and 2006 (aggregate intrinsic value) for Con Edison of New York was \$31 million and \$38 million, respectively. The aggregate intrinsic value of options exercised in 2007 and 2006 was \$16 million and \$7 million, respectively, and the cash received by Con Edison for payment of the exercise price was \$82 million and \$34 million, respectively. The weighted average remaining contractual life of options outstanding is four years as of December 31, 2007.

The following table summarizes stock options outstanding at December 31, 2007 for each plan year for the Companies:

Plan Year	Remaining Contractual Life	Con Edison			Con Edison of New York		
		Options Outstanding	Weighted Average Exercise Price	Options Exercisable	Options Outstanding	Weighted Average Exercise Price	Options Exercisable
2006	9	1,635,800	\$ 45.161		1,399,700	\$ 45.188	
2005	8	1,252,000	42.745		1,020,750	42.722	
2004	7	929,900	43.768	929,900	742,350	43.763	742,350
2003	6	798,100	39.939	798,100	627,900	39.964	627,900
2002	5	853,050	42.510	853,050	715,550	42.510	715,550
2001	4	368,800	37.750	368,800	320,800	37.750	320,800
2000	3	130,150	32.500	130,150	94,650	32.500	94,650
1999	2	555,000	47.938	555,000	537,600	47.938	537,600
1998	1	74,050	42.563	74,050	72,550	42.563	72,550
Total		6,596,850	\$ 43.072	3,709,050	5,531,850	\$ 43.187	3,111,400

Table of Contents**Notes to the Financial Statements Continued**

The exercise prices of options awarded in 2006 and 2005 range from \$43.50 to \$46.88 and \$42.18 to \$43.72, respectively. The total expense to be recognized in future periods for unvested stock options outstanding as of December 31, 2007 is \$1 million for Con Edison and Con Edison of New York.

Restricted Stock Units

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

In accordance with SFAS No. 123(R), for outstanding restricted stock awards other than Performance RSUs or awards under the directors' deferred compensation plan, the Companies have accrued a liability based on the market value of a common share on the grant date and are recognizing compensation expense over the vesting period. The weighted average vesting period for outstanding awards is three years and is based on the employee's continuous service to Con Edison. Prior to vesting, the awards are subject to forfeiture in whole or in part under certain circumstances. The awards are liability awards because each restricted stock unit represents the right to receive, upon vesting, one share of Con Edison common stock, the cash value of a share or a combination thereof. As such, prior to vesting, changes in the fair value of the units are reflected in net income. At December 31, 2007 and 2006, there were 114,505 and 92,500 units outstanding, respectively, for Con Edison, of which 62,505 and 41,700 units outstanding, respectively, for Con Edison of New York. The weighted average fair value as of the grant date of the outstanding units other than Performance RSUs or awards under the directors' deferred compensation plan for December 31, 2007 and 2006 was \$42.834 and \$40.877 per unit, respectively, for Con Edison. The weighted average fair value as of the grant date of the outstanding units for December 31, 2007 and 2006 was \$45.838 and \$43.233 per unit, respectively, for Con Edison of New York. At December 31, 2006, 130,000 vested restricted stock units were distributed to a retired officer. The total expense to be recognized by the Companies in future periods for unvested awards outstanding as of December 31, 2007 for Con Edison and Con Edison of New York was \$1 million.

The number of units in each annual Performance RSU award is subject to adjustment as follows: (i) 50 percent of the units awarded will be multiplied by a factor that may range from 0 to 150 percent based on Con Edison's total shareholder return relative to a specified peer group during a specified performance period (the TSR portion); and (ii) 50 percent of the units awarded will be multiplied by a factor that may range from 0 to 132 percent based on determinations made in connection with Con Edison of New York's Executive Incentive Plan, or, for certain officers, the O&R Annual Team Incentive Plan or goals relating to Con Edison's competitive energy businesses (the EIP portion). Units generally vest when the performance period ends.

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

	2007
Risk-free interest rate	2.91% -4.00%
Expected term	3 years
Expected volatility	13.92%
Expected quarterly dividends	\$0.58 - \$0.595

The risk-free rate is based on the U.S. Treasury zero-coupon yield curve on the date of grant. The expected term of the Performance RSUs is three years, which equals the vesting period. The Companies do not expect significant forfeitures to occur.

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The expected volatility is calculated using daily closing stock prices over a period of three years, which approximates the expected term of the awards. Expected annual escalation of dividends is based on historical trends.

A summary of changes in the status of the Performance RSUs TSR portion during the period ended December 31, 2007 is as follows:

	Con Edison		Con Edison of New York	
	Weighted Average		Weighted Average	
	Units	Fair Value*	Units	Fair Value*
Non-vested at 12/31/06	126,425	\$ 13.992	94,025	\$ 14.420
Granted	146,880	45.601	108,833	45.776
Vested and Exercised	(46,762)	39.311	(32,607)	38.988
Forfeited	(30,563)	-	(24,218)	-
Non-vested at 12/31/07	195,980	\$ 33.398	146,033	\$ 33.048

* Fair value is determined using the Monte Carlo simulation described above.

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A summary of changes in the status of the Performance RSUs EIP portion during the period ended December 31, 2007 is as follows:

	Con Edison		Con Edison of New York	
	Units	Weighted Average Price	Units	Weighted Average Price
Non-vested at 12/31/06	126,425	\$ 48.070	94,025	\$ 48.070
Granted	146,880	48.550	108,833	48.735
Vested and Exercised	(69,804)	48.256	(49,304)	48.275
Forfeited	(7,521)	-	(7,521)	-
Non-vested at 12/31/07	195,980	\$ 48.850	146,033	\$ 48.850

The total expense to be recognized by Con Edison in future periods for unvested Performance RSUs outstanding as of December 31, 2007 is \$10 million, including \$8 million for Con Edison of New York.

Con Edison has a deferred stock compensation plan for non-officer directors. Awards under the deferred compensation stock plan are covered by the LTIP. Each director receives 1,500 stock units annually for service as a director. These stock units are deferred until the director's termination of service. Directors may elect to receive dividend equivalents earned on stock units in cash payments. Restricted stock units issued under the directors' deferred compensation plan are considered equity awards, because they may only be settled in shares. Directors immediately vest in units issued to them. The fair value of the units is determined using the closing price of Con Edison's common stock on the business day immediately preceding the date of issue. In the period ended December 31, 2007, approximately 22,386 units were issued.

Stock Purchase Plan

The Stock Purchase Plan provides for the Companies to contribute \$1 for each \$9 invested by their directors, officers or employees to purchase Con Edison common stock under the plan. Eligible participants may invest up to \$25,000 during any calendar year (subject to an additional limitation for officers and employees of not more than 20% of their pay). Dividends paid on shares held under the plan are reinvested in additional shares unless otherwise directed by the participant.

Participants in the plan immediately vest in shares purchased by them under the plan. The fair value of the shares of Con Edison common stock purchased under the plan was calculated using the average of the high and low composite sale prices at which shares were traded at the New York Stock Exchange on the trading day immediately preceding such purchase dates. During 2007, 2006 and 2005, 633,647, 624,751 and 590,413 shares were purchased under the Stock Purchase Plan at a weighted average price of \$47.70, \$45.33 and \$45.05 per share, respectively.

Note N Financial Information by Business Segment

The business segments of each of the Companies were determined based on management's reporting and decision-making requirements in accordance with SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information.

Con Edison's principal business segments are Con Edison of New York's regulated electric, gas and steam utility activities, O&R's regulated electric and gas utility activities and Con Edison's competitive businesses. See Note U. Con Edison of New York's principal business segments are its regulated electric, gas and steam utility activities.

All revenues of these business segments, excluding revenues earned by Con Edison Development on certain energy infrastructure projects, which are deemed to be immaterial, are from customers located in the United States of America. Also, all assets of the business segments, excluding certain investments in energy infrastructure projects by Con Edison Development (\$245 million at December 31, 2007), are located in the United States of America. The accounting policies of the segments are the same as those

described in Note A.

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

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The financial data for the business segments are as follows:

**As of and for the Year Ended
December 31, 2007**

(Millions of Dollars)	Operating revenues	Inter-segment revenues	Depreciation and amortization	Income tax expense	Operating income	Interest charges	Total assets*	Construction expenditures
Con Edison of New York								
Electric	\$ 7,439	\$ 11	\$ 448	\$ 271	\$ 967	\$ 347	\$ 18,661	\$ 1,567
Gas	1,760	5	85	94	218	71	3,864	217
Steam	686	77	60	27	92	40	2,034	95
Consolidation adjustments	-	(93)	-	-	-	-	-	-
Total Con Edison of New York	\$ 9,885	\$ -	\$ 593	\$ 392	\$ 1,277	\$ 458	\$ 24,559	\$ 1,879
O&R								
Electric	\$ 671	\$ -	\$ 27	\$ 19	\$ 57	\$ 21	\$ 1,271	\$ 80
Gas	265	-	11	5	22	11	530	32
Other*	-	-	-	-	-	2	61	-
Total O&R	\$ 936	\$ -	\$ 38	\$ 24	\$ 79	\$ 34	\$ 1,862	\$ 112
Competitive energy businesses****	\$ 2,303	\$ 12	\$ 14	\$ 36	\$ 42	\$ (4)	\$ 1,655	\$ 7
Other**	(4)	(12)	-	-	(3)	29	267	-
Total Con Edison	\$ 13,120	\$ -	\$ 645	\$ 452	\$ 1,395	\$ 517	\$ 28,343	\$ 1,998

**As of and for the Year Ended
December 31, 2006**

(Millions of Dollars)	Operating revenues	Inter-segment revenues	Depreciation and amortization	Income tax expense	Operating income	Interest charges	Total assets*	Construction expenditures***
Con Edison of New York								
Electric	\$ 7,052	\$ 10	\$ 414	\$ 235	\$ 837	\$ 331	\$ 17,100	\$ 1,462
Gas	1,613	4	81	81	186	73	3,795	219
Steam	623	75	50	39	87	42	1,921	101
Consolidation adjustments	-	(89)	-	-	-	-	-	-
Total Con Edison of New York	\$ 9,288	\$ -	\$ 545	\$ 355	\$ 1,110	\$ 446	\$ 22,816	\$ 1,782
O&R								
Electric	\$ 582	\$ -	\$ 25	\$ 20	\$ 53	\$ 18	\$ 1,230	\$ 84
Gas	236	-	10	5	16	7	495	26
Other*	-	-	-	-	-	3	43	-
Total O&R	\$ 818	\$ -	\$ 35	\$ 25	\$ 69	\$ 28	\$ 1,768	\$ 110
Competitive businesses	\$ 1,919	\$ 39	\$ 15	\$ 27	\$ 41	\$ -	\$ 1,726	\$ 6
Other**	(63)	(39)	-	-	1	36	389	-
Total Con Edison	\$ 11,962	\$ -	\$ 595	\$ 407	\$ 1,221	\$ 510	\$ 26,699	\$ 1,898

**As of and for the Year Ended
December 31, 2005**

(Millions of Dollars)	Operating revenues	Inter-segment revenues	Depreciation and amortization	Income tax expense	Operating income	Interest charges	Total assets*	Construction expenditures***
Con Edison of New York								
Electric	\$ 6,948	\$ 10	\$ 394	\$ 224	\$ 784	\$ 270	\$ 15,609	\$ 1,186
Gas	1,630	3	76	75	170	59	3,550	201
Steam	649	55	39	30	87	35	1,985	154
Consolidation adjustments	-	(68)	-	-	-	-	-	-
Total Con Edison of New York	\$ 9,227	\$ -	\$ 509	\$ 329	\$ 1,041	\$ 364	\$ 21,144	\$ 1,541
O&R								
Electric	\$ 596	\$ -	\$ 25	\$ 25	\$ 57	\$ 15	\$ 1,082	\$ 61

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Gas	228	-	9	6	16	7	459	26
Other*	-	-	-	-	-	2	47	-
Total O&R	\$ 824	\$ -	\$ 34	\$ 31	\$ 73	\$ 24	\$ 1,588	\$ 87
Competitive businesses	\$ 1,290	\$ 9	\$ 15	\$ 8	\$ 13	\$ -	\$ 1,647	\$ 19
Other**	2	(9)	-	(1)	(1)	34	469	-
Total Con Edison	\$ 11,343	\$ -	\$ 558	\$ 367	\$ 1,126	\$ 422	\$ 24,848	\$ 1,647

* Includes amounts related to the RECO securitization.

** Parent company expenses, primarily interest, and consolidation adjustments. Other does not represent a business segment.

*** Construction expenditures for competitive businesses include amounts related to discontinued operations of Con Edison Development and Con Edison Communications.

**** Total assets for the competitive energy businesses includes \$906 million of assets held for sale.

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Table of Contents**Notes to the Financial Statements Continued****Note O Derivative Instruments and Hedging Activities**

Derivative instruments and hedging activities are accounted for in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended (SFAS No. 133). Under SFAS No. 133, derivatives are recognized on the balance sheet at fair value, unless an exception is available under the standard. Certain qualifying derivative contracts have been designated as normal purchases or normal sales contracts. These contracts are not reported at fair value under SFAS No. 133.

Energy Price Hedging

Con Edison's subsidiaries hedge market price fluctuations associated with physical purchases and sales of electricity, natural gas, and steam by using derivative instruments including futures, forwards, basis swaps, options, transmission congestion contracts and financial transmission rights contracts. The fair values of these hedges at December 31, 2007 and 2006 were as follows:

(Millions of Dollars)	Con Edison		Con Edison of New York	
	2007	2006	2007	2006
Fair value of net assets	\$ (90)	\$ (319)	\$ (69)	\$ (206)

Generally, the collateral requirements associated with, and settlement of, derivative transactions are included in net cash flows from operating activities in the Companies' consolidated statement of cash flows.

Credit Exposure

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

Con Edison and Con Edison of New York had \$158 million and \$39 million of credit exposure in connection with energy supply and hedging activities, net of collateral and reserves, at December 31, 2007, respectively. Con Edison's net credit exposure consisted of \$99 million with investment-grade counterparties (a portion of which is insured through credit insurance and hedged with credit default swaps), and \$59 million primarily with commodity exchange brokers. Con Edison of New York's net credit exposure was primarily with commodity exchange brokers.

Cash Flow Hedges

Con Edison's subsidiaries, primarily the competitive energy businesses prior to July 1, 2007, designated a portion of derivative instruments as cash flow hedges under SFAS No. 133. Under cash flow hedge accounting, to the extent a hedge is determined to be effective, the unrealized gain or loss on the hedge is recorded in OCI and reclassified to earnings at the time the underlying transaction is completed. A gain or loss relating to any portion of the hedge determined to be ineffective is recognized in earnings in the period in which such determination is made.

Con Edison's competitive energy businesses elected to discontinue the use of hedge accounting for their commodity derivatives effective July 1, 2007. As of such date, net unrealized derivative losses relative to cash flow hedges, reported in OCI, amounted to \$28 million, which are being reclassified to earnings at the time the underlying transaction is completed. At December 31, 2007, there are no net unrealized derivative gains associated with the discontinued cash flow hedges remaining in accumulated OCI.

Economic Hedges

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The Companies enter into certain derivative instruments that do not qualify or are not designated as hedges under SFAS No. 133. However, management believes these instruments represent economic hedges that mitigate exposure to fluctuations in commodity prices. The Utilities are permitted by their respective regulators to reflect in rates all reasonably incurred gains and losses on these instruments. See Recoverable Energy Costs in Note A. Con Edison's competitive energy businesses record unrealized gains and losses on these derivative contracts in earnings in the reporting period in which they occur. For the years ended December 31, 2007 and 2006, Con Edison recorded in non-utility operating revenues unrealized pre-tax losses of \$8 million and \$26 million, respectively.

Interest Rate Hedging

Con Edison's subsidiaries use interest rate swaps to manage interest rate exposure associated with debt. The fair values of these interest rate swaps at December 31, 2007 and 2006 were as follows:

(Millions of Dollars)	Con Edison		Con Edison of New York	
	2007	2006	2007	2006
Fair value of interest rate swaps	\$ (11)	\$ (15)	\$ -	\$ (3)

Fair Value Hedges

Con Edison of New York's swap (related to its \$225 million of Series 2001A tax-exempt debt) was designated as a fair value hedge. The counterparty terminated the swap on January 2, 2008.

Table of Contents**Notes to the Financial Statements** Continued**Cash Flow Hedges**

Con Edison Development's and O&R's swaps are designated as cash flow hedges under SFAS No. 133. Any gain or loss on the hedges is recorded in OCI and reclassified to interest expense and included in earnings during the periods in which the hedged interest payments occur. The contractual components of the interest rate swaps accounted for as cash flow hedges are as follows:

Debt O&R	Maturity Date	Notional Amount (Millions of Dollars)	Fixed Rate Paid	Variable Rate Received
Pollution Control				
Refunding Revenue				Current bond rate
Bond, 1994 Series A Con Edison Development Amortizing variable rate	2014	\$ 55	6.09%	
loans Lakewood	2008	\$ 44	6.68%	LIBOR

Con Edison Development's swap was reclassified at December 31, 2007 to Current Liabilities Held for Sale as a result of the pending sale of Con Edison Development generating assets. See Note U.

In late 2004 and early 2005, Con Edison of New York entered into forward starting swap agreements to hedge the interest payments associated with the anticipated issuance of \$300 million of its debentures later in 2005. The swaps were designated as cash flow hedges. At the inception of each hedge, the company locked in a swap rate that had a high correlation with the company's total borrowing costs. The swap agreements were settled in 2005 at the issuance of the debentures. A net loss of \$4 million with respect to the swap agreements was recorded in OCI in 2005, which will be reclassified to interest expense over the term of the related debentures.

The following table presents selected information related to these cash flow hedges included in the accumulated OCI at December 31, 2007:

(Millions of Dollars)	Accumulated Other Comprehensive Income/(Loss) Net of Tax Con Edison		Portion Expected to be Reclassified to Earnings during the Next 12 Months	
	Con Edison	of New York	Con Edison	Con Edison of New York
Interest Rate Swaps	\$ (9)	\$ (2)	\$ (1)	\$ -

The actual amounts that will be reclassified to earnings may vary from the expected amounts presented above as a result of changes in interest rates. For the Utilities, these costs are generally recovered in rates and the reclassification will have no material impact on results of operations.

Note P Variable Interest Entities

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FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities, (FIN 46R) addresses the consolidation of a variable interest entity (VIE) by a business enterprise that is the primary beneficiary. A VIE is an entity that does not have sufficient equity investment at risk to permit it to finance its activities without additional subordinated financial support, or whose equity investors lack the characteristics of a controlling financial interest. The primary beneficiary is the business enterprise that absorbs a majority of the VIEs expected losses, receives a majority of its expected residual returns, or both.

Con Edison enters into arrangements including leases, partnerships and PPAs, with various entities. As a result of these arrangements, Con Edison retains or may retain a variable interest in these entities.

VIE assets include non-utility plant of \$315 million and \$323 million in 2007 and 2006, respectively, related to a lease arrangement entered into by a Con Edison Development subsidiary in 2000, to finance the construction of a 525 MW gas-fired electric generating facility in Newington, New Hampshire (the facility). These VIE assets were reclassified at December 31, 2007 to Non-utility property held for sale as a result of the pending sale of the assets. Debt related to the facility was \$326 million and \$330 million at December 31, 2007 and 2006, respectively. Such debt was reclassified to long term debt due within one year at December 31, 2007 as a result of the pending sale. At the expiration of the initial lease term in June 2010, the subsidiary has the option to extend the lease or purchase the facility for the then outstanding amounts expended by the lessor for the facility. See Note U.

If the VIE assets are not sold and in the event the subsidiary chooses not to extend the lease or acquire the facility in June 2010, Con Edison has guaranteed a residual value for an amount not to exceed \$240 million. The subsidiary also has contingent payment obligations to the lessor if an event of default should occur during the lease period. If the subsidiary were to default, its obligation would equal up to 100% of the lessor's investment in the facility plus all other amounts then due under the lease, which could exceed the aforementioned residual value guarantee. The subsidiary's payment and performance obligations are fully and unconditionally guaranteed by Con Edison.

Con Edison has a variable interest in a non-consolidated VIE related to Con Edison Development's sole limited interest in an

Table of Contents**Notes to the Financial Statements Continued**

affordable housing partnership that began in 2000. Con Edison Development's maximum exposure to loss as a result of its involvement with the VIE is \$5 million at December 31, 2007 and 2006. In addition, Con Edison has guaranteed the debt undertaken by the partnership. See Note H.

Con Edison of New York did not apply FIN 46R to the following five potential VIEs with which it has long-term PPAs: Sithe/Independence Partners, LP, East Coast Power, LLC, Selkirk Cogen Partners, LP, Brooklyn Navy Yard Cogeneration Partners, LP, and Indeck Energy Services of Corinth, Inc. In each quarter of 2007, requests were made of the counterparties for information necessary to determine whether the entity was a VIE and whether Con Edison of New York is the primary beneficiary; however, the information was not made available. See Note I for information on these PPAs.

Note Q Asset Retirement Obligations

Con Edison and Con Edison of New York account for retirement obligations on their assets in accordance with SFAS No. 143, Accounting for Asset Retirement Obligations (SFAS No. 143). This accounting standard requires recognition of a liability for legal obligations associated with the retirement of long-lived assets. When the liability is initially recorded, asset retirement costs are capitalized by increasing the carrying amount of the related asset. The liability is accreted to its present value each period and the capitalized cost is depreciated over the useful life of the related asset.

The Utilities include in depreciation the estimated removal costs, less salvage, for utility plant assets. In accordance with SFAS No. 143, future removal costs that do not represent legal asset retirement obligations are recorded as regulatory liabilities pursuant to SFAS No. 71. The related regulatory liabilities recorded for Con Edison and Con Edison of New York were \$422 million and \$362 million at December 31, 2007 and \$492 million and \$432 million at December 31, 2006, respectively.

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

At December 31, 2007, the liabilities of Con Edison and Con Edison of New York for the fair value of their legal asset retirement obligations were \$110 million, as compared with \$97 million and \$96 million, respectively, at December 31, 2006. In addition, Con Edison and Con Edison of New York increased utility plant, net of accumulated depreciation, for asset retirement costs at December 31, 2007 by \$34 million, as compared with \$19 million and \$18 million, respectively, at December 31, 2006. Pursuant to SFAS No. 71, Con Edison of New York also recorded a reduction of \$76 million and \$78 million at December 31, 2007 and 2006, respectively, to the regulatory liability associated with cost of removal to reflect accumulated depreciation and interest accretion costs.

Note R Related Party Transactions

The Utilities and Con Edison's competitive businesses provide administrative and other services to each other pursuant to cost allocation procedures approved by the PSC. The costs of administrative and other services provided by Con Edison of New York to, and received by it from, Con Edison and its other subsidiaries for the years ended December 31, 2007, 2006 and 2005 were as follows:

(Millions of Dollars)	Con Edison of New York		
	2007	2006	2005
Cost of services provided	\$ 64	\$ 64	\$ 64
Cost of services received	\$ 45	\$ 47	\$ 48

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In addition, Con Edison of New York and O&R have joint gas supply arrangements, in connection with which Con Edison of New York sold to O&R \$161 million, \$149 million and \$185 million of natural gas for the years ended December 31, 2007, 2006 and 2005, respectively. These amounts are net of the effect of related hedging transactions.

Con Edison of New York entered into financial contracts on behalf of O&R with various brokers and counterparties to hedge purchases of electricity. For the years ended December 31, 2007, 2006, and 2005, the realized gains or losses recorded as part of purchase power expense is \$5 million, \$9 million, and \$(3) million, respectively.

As a result of an auction held in October 2005, Con Edison of New York entered into financial contracts with Con Edison Energy to hedge purchases of electricity in 2006. Con Edison of New York's realized losses associated with these contracts in 2006 totaled \$62 million. These losses were recovered under Con Edison of New York's recoverable energy cost rate provision. See Recoverable Energy Costs in Note A. Con Edison Energy's gain on this transaction was offset by a corresponding loss on a hedge position.

In December 2005, the FERC authorized Con Edison of New York to lend funds to O&R, for periods of not more than 12

Table of Contents**Notes to the Financial Statements Continued**

months, in amounts not to exceed \$200 million outstanding at any time, at prevailing market rates. In December 2007, Con Edison of New York loaned O&R \$55 million, which was repaid in January 2008.

Note S New Financial Accounting Standards

In December 2007, the FASB issued Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 (SFAS No. 160), which is effective for financial statements issued for fiscal years beginning after December 15, 2008. This Statement requires ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent's equity. It also requires the amount of consolidated net income attributable to the parent and to the non-controlling interest be clearly identified and presented on the face of the consolidated statement of income. The adoption of SFAS No. 160 is not expected to have a material impact on the Companies' financial position, results of operations or liquidity.

In December 2007, the FASB issued Statement No. 141R, Business Combinations (SFAS No. 141R), which is effective for financial statements issued for fiscal years beginning after December 15, 2008. This Statement requires an acquiring entity to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. The adoption of SFAS No. 141R is not expected to have a material impact on the Companies' financial position, results of operations or liquidity.

In November 2007, the FASB issued FSP No. SFAS 142-f, Determination of the Useful Life of Intangible Assets. The guidance in this FSP would amend the factors used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets. The guidance in this FSP becomes effective for fiscal years beginning after June 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The Companies are currently evaluating the impact of this FSP on their financial position, results of operations and liquidity.

In June 2007, the FASB issued EITF Issue No. 07-3, Accounting for Nonrefundable Advance Payments for Goods or Services to be used in Future Research and Development Activities. The EITF concluded that nonrefundable advance payments for future research and development activities should be deferred and capitalized. Such amounts should be recognized as an expense as the related goods are delivered or the related services are performed. If an entity does not expect the goods to be delivered or services to be rendered, the capitalized advance payment should be charged to expense. The guidance in this EITF becomes effective for fiscal years beginning after December 15, 2007. The Companies do not expect this EITF to have a material effect on their financial position, results of operations or liquidity.

In June 2007, the FASB ratified the consensus reached by the EITF in Issue No. 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards, which is effective for fiscal years beginning after December 15, 2007. The EITF concluded that a realized income tax benefit from dividends or dividend equivalents that are charged to retained earnings and are paid to employees for equity classified as nonvested equity shares, nonvested equity share units, and outstanding equity share options should be recognized as an increase to additional paid-in capital. The amount recognized in additional paid-in capital for the realized income tax benefit from dividends on those awards should be included in the pool of excess tax benefits available to absorb tax deficiencies on share-based payment awards. The adoption of EITF No. 06-11 is not expected to have a material impact on the Companies' financial position, results of operations or liquidity.

In May 2007, the FASB issued FSP No. FIN 48-1, Definition of *Settlement* in FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes. The guidance in this FSP clarifies how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. The guidance in this FSP became effective upon adoption of the FASB Interpretation No. 48, which the Companies adopted in January 2007. See Note L. The application of this FSP did not have a material impact on the Companies' financial position, results of operations or liquidity.

In April 2007, the FASB issued FSP No. 39-1, Amendment of FASB Interpretation No. 39. This FSP permits a reporting entity to offset fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) against fair value amounts recognized for derivative instruments that have been offset provided that the receivable or payable arises from the same master netting arrangement with the same counterparty as the derivative instruments. The guidance

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in this FSP becomes effective for fiscal years beginning after November 15, 2007. The adoption of this FSP is not expected to have a material impact on the Companies' financial position, results of operations or liquidity.

In February 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities including an Amendment of FASB Statement No. 115. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The guidance in this Statement becomes effective for fiscal periods beginning

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Notes to the Financial Statements Continued

after November 15, 2007. The Companies have not elected the fair value option.

In September 2006, the FASB issued EITF Issue 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements*. This EITF requires employers to record a liability for future benefits for endorsement split-dollar life insurance arrangements that provide a postretirement benefit to an employee. The guidance in this EITF becomes effective for fiscal periods beginning after December 15, 2007. The Companies do not expect this EITF to have a material impact on their financial statements, results of operations or liquidity.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* (SFAS No. 157). This Statement defines fair value, establishes a framework for measuring fair value and expands the disclosures about fair value measurements. It applies to other accounting pronouncements that require fair value measurements and, accordingly, does not require any new fair value measurements. The guidance in this Statement becomes effective for financial statements issued for fiscal years beginning after November 15, 2007. The Companies have evaluated the impact of this Statement on their financial position, results of operations and liquidity. Upon adoption of this Statement, SFAS No. 157 provides for limited retrospective application for day one gains and losses previously deferred under EITF 02-03, *Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities*. To the extent that an entity has deferred day one gains and losses on their commodity contracts due to the inability to recognize them under EITF 02-03, it should record an adjustment to opening retained earnings for the difference between the fair value and carrying value of those derivative instruments on that day. Con Edison Energy has deferred day one gains under EITF 02-03. The adoption of SFAS No. 157 is expected to result in Con Edison Energy recording a transition adjustment for its day one gains in the amount of \$17 million, net of taxes, to beginning retained earnings for 2008. The application of SFAS No. 157 will not impact the financial statements of other CEI subsidiaries. It will, however, require additional disclosures for items that are measured at fair value.

Note T Con Edison Communications (CEC)

In March 2006, Con Edison completed the sale of CEC to RCN Corporation for approximately \$39 million in cash. The sale resulted in a loss from discontinued operations of approximately \$1 million for the period ended December 31, 2006.

Subsequent to the sale, Con Edison of New York will receive lease payments from RCN Corporation for the right to use its electric conduit system in accordance with the tariff approved by the PSC. The continuing cash flows related to the lease payments are not considered significant in relation to the revenues expected to be generated by the CEC business.

In accordance with SFAS No. 144, the loss on the sale of CEC is reported as *Discontinued operations* on Con Edison's consolidated income statement.

Note U Con Edison Development

In December 2007, Con Edison Development and its subsidiary, CED/SCS Newington, LLC, agreed to sell their ownership interests in power generating projects (Rock Springs, Ocean Peaking Power, CEEMI, Newington and Lakewood) with an aggregate capacity of approximately 1,706 megawatts to North American Energy Alliance, LLC for approximately \$1.5 billion in cash, subject to closing adjustments. The sale is subject to review or approval by various federal, state and local regulators. The sale is scheduled to be completed in two stages during the first half of 2008. Con Edison estimates that the cash proceeds from the sale, net of repayment of project debt, taxes and transaction expenses would be approximately \$654 million and that the sale would result in an after-tax gain, net of transaction expenses, of approximately \$335 million. Con Edison is considering alternatives with respect to the repayment of the project debt that might result in higher cash proceeds in 2008 and an increased net after-tax gain.

In February 2008, Allco Finance Group Limited, which through subsidiaries, is one of the owners of the North American Energy Alliance, LLC requested that the Australian Securities Exchange suspend trading in the shares of Allco Finance Group Limited. Con Edison is unable to predict whether the completion of the sale may be adversely affected by developments related to Allco Finance Group Limited.

Table of Contents**Notes to the Financial Statements** **Continued**

In accordance with SFAS No. 144, in 2007, the assets and liabilities of the generating projects were classified as held for sale on Con Edison's consolidated balance sheet. Effective November 15, 2007, Con Edison ceased recording depreciation and amortization expense on these assets. Had the company continued to record depreciation and amortization, an additional charge of \$5 million would have been recognized during 2007. In accordance with EITF Issue No. 87-24, Allocation of Interest to Discontinued Operations, which permits, but does not require the allocation of other consolidated interest to discontinued operations, Con Edison has chosen not to allocate interest associated with corporate level debt to discontinued operations. The assets and liabilities presented separately under the captions held for sale in Con Edison's consolidated balance sheet at December 31, 2007, consist of the following:

(Millions of Dollars)	2007
Non-utility property	\$ 929
Accumulated depreciation	(151)
Non-utility property held for sale	\$ 778
Cash	\$ 9
Restricted cash	5
Accounts receivable	5
Inventory	16
Other current assets	5
Current assets held for sale	\$ 40
Intangible assets	\$ 70
Other noncurrent assets	18
Noncurrent assets held for sale	88
Current portion of long-term debt	\$ 20
Accounts payable	3
Other current liabilities	5
Current liabilities held for sale	\$ 28
Long term debt	\$ 60
Other noncurrent liabilities	1
Noncurrent liabilities held for sale	\$ 61

Con Edison currently expects that one of its competitive energy businesses will provide energy management services, such as plant scheduling and fuel procurement, for the Rock Springs, Ocean Peaking Power and CEEMI projects. Such services are expected to give rise to a significant level of continuing direct cash flows between Con Edison and the disposed projects, and to provide Con Edison with significant continuing involvement with the operations of the disposed projects. As a result, under the guidance of EITF Issue No. 03-13, Applying the Conditions in Paragraph 42 of FASB Statement No. 144 in Determining Whether to Report Discontinued Operations (EITF No. 03-13), Con Edison has concluded that the Rock Springs, Ocean Peaking Power and CEEMI projects do not qualify for discontinued operations. Accordingly, the results of operations of these projects have been reported within continuing operations in the accompanying Con Edison consolidated statements of income.

Con Edison also expects that one of its competitive energy businesses will engage in certain services for the Newington and Lakewood projects after the sale. However, such services are expected to be much more limited than those provided to the Rock Springs, Ocean Peaking Power and CEEMI projects, and are not expected to give rise to significant level of continuing direct cash flows between Con Edison and the disposed projects, or to provide Con Edison with significant continuing involvement in the operating or financial policies of the disposed projects. As a result, Con Edison believes that the criteria within SFAS No. 144 and EITF No. 03-13 for discontinued operations treatment have been met for the Newington and Lakewood projects. Accordingly, the results of operations of these projects has been reflected in Income/(Loss) from Discontinued Operations (Net of Income Taxes) in the accompanying Con Edison consolidated statements of income. The Newington and Lakewood projects had revenues of \$268 million, \$194 million and \$298 million and pre-tax profit (loss) of \$5 million, \$-, and \$(20) million for 2007, 2006 and 2005, respectively.

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SCHEDULE I

Condensed Financial Information of Consolidated Edison, Inc.

Condensed Balance Sheet

(Parent Company Only)

(Millions of Dollars)	At December 31,	
	2007	2006
Assets		
Current Assets		
Cash and temporary cash investments	\$ 32	\$ 23
Accounts receivable from affiliated companies	52	122
Prepayments	26	57
Other current assets	1	4
Total Current Assets	111	206
Investments in subsidiaries and others	10,137	9,107
Goodwill	406	406
Federal income tax due from taxing authority	8	8
Deferred income tax	29	20
Other assets	159	14
Total Assets	\$ 10,850	\$ 9,761
Capitalization and Liabilities		
Common Shareholders' Equity		
Common stock	\$ 4,023	\$ 3,297
Retained earnings	6,056	5,747
Total Common Shareholders' Equity	10,079	9,044
Long-term debt	-	525
Total Capitalization	10,079	9,569
Noncurrent Liabilities	173	9
Current Liabilities		
Long-term debt due within a year	200	-
Notes payable	240	83
Accounts payable	117	9
Other current liabilities	41	91
Total Current Liabilities	598	183
Total Liabilities	771	192
Total Capitalization and Liabilities	\$ 10,850	\$ 9,761

Table of Contents**Condensed Financial Information of Consolidated Edison, Inc.****Condensed Income Statement****(Parent Company Only)**

(Millions of Dollars, except per share amounts)	2007	2006	2005
Equity in earnings of subsidiaries	\$ 946	\$ 772	\$ 757
Other income/(deductions), net of taxes	8	3	21
Interest expense	(29)	(35)	(33)
Income From Continuing Operations	925	740	745
Income/(Loss) from Discontinued Operations (Net of Income Tax Expense/(Benefit) of \$1, \$(13) and \$(11) in 2007, 2006 and 2005, respectively) (Notes T and U)	4	(3)	(26)
Net Income	\$ 929	\$ 737	\$ 719
Earnings Per Common Share Basic			
Continuing operations	\$ 3.48	\$ 2.97	\$ 3.05
Discontinued operations	0.01	(0.01)	(0.10)
Net Income	\$ 3.49	\$ 2.96	\$ 2.95
Earnings Per Common Share Diluted			
Continuing operations	\$ 3.46	\$ 2.96	\$ 3.04
Discontinued operations	0.01	(0.01)	(0.10)
Net Income	\$ 3.47	\$ 2.95	\$ 2.94
Dividends Declared Per Share Of Common Stock	\$ 2.32	\$ 2.30	\$ 2.28
Average Number Of Shares Outstanding Basic (In Millions)	266.3	249.3	243.9
Average Number Of Shares Outstanding Diluted (In Millions)	267.2	250.3	244.7

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Table of Contents**Condensed Financial Information of Consolidated Edison, Inc.****Condensed Statement of Cash Flows****(Parent Company Only)**

(Millions of Dollars)	2007	2006	2005
Net Income	\$ 929	\$ 737	\$ 719
Equity in earnings of subsidiaries	(950)	(769)	(731)
Dividends received from:			
Consolidated Edison Company of New York, Inc.	548	440	369
Orange and Rockland Utilities, Inc.	31	28	71
Competitive energy businesses	43	-	35
Other net	174	41	(94)
Net Cash Flows from Operating Activities	775	477	369
Investing Activities			
Contributions to subsidiaries	(701)	(447)	-
Proceeds from sale of Con Edison Communications	-	39	-
Net Cash Flows Used in Investing Activities	(701)	(408)	-
Financing Activities			
Net proceeds from/(payments of) short-term debt	157	(51)	78
Retirement of long-term debt	(325)	-	-
Common shares issued	685	527	77
Common stock dividends	(582)	(533)	(515)
Net Cash Flows Used in Financing Activities	(65)	(57)	(360)
Net Change for the Period	9	12	9
Balance at Beginning of Period	23	11	2
Balance at End of Period	\$ 32	\$ 23	\$ 11

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SCHEDULE II

Valuation and Qualifying Accounts

For the Years Ended December 31, 2007, 2006 and 2005

Company	COLUMN A Description	COLUMN B Balance at Beginning of Period (Millions of Dollars)	COLUMN C Additions		COLUMN D Deductions**	COLUMN E Balance At End of Period
			(1) Charged To Costs And Expenses	(2) Charged To Other Accounts		
Con Edison	Allowance for uncollectible accounts*:					
	2007	\$ 45	\$ 66	-	\$ 64	\$ 47
	2006	\$ 39	\$ 65	-	\$ 59	\$ 45
	2005	\$ 33	\$ 51	-	\$ 45	\$ 39
Con Edison of New York	Allowance for uncollectible accounts*:					
	2007	\$ 40	\$ 63	-	\$ 60	\$ 43
	2006	\$ 35	\$ 63	-	\$ 58	\$ 40
	2005	\$ 29	\$ 48	-	\$ 42	\$ 35

* This is a valuation account deducted in the balance sheet from the assets (Accounts receivable-customers) to which they apply.

** Accounts written off less cash collections, miscellaneous adjustments and amounts reinstated as receivables previously written off.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE
Con Edison

None.

Con Edison of New York

None.

ITEM 9A. CONTROLS AND PROCEDURES

The Companies maintain disclosure controls and procedures designed to provide reasonable assurance that the information required to be disclosed in the reports that they submit to the Securities and Exchange Commission (SEC) is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. For each of the Companies, its management, with the participation of its principal executive officer and principal financial officer, has evaluated its disclosure controls and procedures as of the end of the period covered by this report and, based on such evaluation, has concluded that the controls and procedures are effective to provide such reasonable assurance. Reasonable assurance is not absolute assurance, however, and there can be no assurance that any design of controls or procedures would be effective under all potential future conditions, regardless of how remote.

For the Companies' Reports of Management On Internal Control Over Financial Reporting and the related opinions of PricewaterhouseCoopers LLP (presented in the Reports of Independent Registered Public Accounting Firm), see Item 8 of this report (which information is incorporated herein by reference).

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

ITEM 9A(T). CONTROLS AND PROCEDURES

The information required for Con Edison of New York pursuant to this Item 9A(T) has been included in Item 9A (which information is incorporated herein by reference).

ITEM 9B. OTHER INFORMATION
Con Edison

None.

Con Edison of New York

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

ITEM 11. EXECUTIVE COMPENSATION

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES
Con Edison

Information required by Part III as to Con Edison, other than the information required in Item 12 of this report by Item 201 (d) of Regulation S-K, is incorporated by reference from Con Edison's definitive proxy statement for its Annual Meeting of Stockholders to be held on May 19, 2008. The proxy statement is to be filed pursuant to Regulation 14A not later than 120 days after December 31, 2007, the close of the fiscal year covered by this report.

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The information required pursuant to Item 201 (d) of Regulation S-K as at December 31, 2007 is as follows:

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders			
Stock options	6,596,850	\$ 43.072	2,829,751
Restricted stock	114,505	N/A	3,425,495
Total equity compensation plans approved by security holders	6,711,355		6,255,246
Total equity compensation plans not approved by security holders	40,000	N/A	N/A
Total	6,751,355	N/A	6,255,246

For additional information about Con Edison's stock-based compensation, see Note M to the financial statements in Item 8 of this report (which information is incorporated herein by reference).

In accordance with General Instruction G(3) to Form 10-K, other information regarding Con Edison's Executive Officers may be found in Part I of this report under the caption Executive Officers of the Registrant.

Con Edison of New York

Information required by Part III as to Con Edison of New York is incorporated by reference from Con Edison of New York's definitive information statement for its Annual Meeting of Stockholders to be held on May 19, 2008. The information statement is to be filed pursuant to Regulation 14C not later than 120 days after December 31, 2007, the close of the fiscal year covered by this report.

In accordance with General Instruction G(3) to Form 10-K, other information regarding Con Edison of New York's Executive Officers may be found in Part I of this report under the caption Executive Officers of the Registrant.

Table of Contents**PART IV****ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES****(a) Documents filed as part of this report:**

- 1. List of Financial Statements** See financial statements listed in Item 8.
- 2. List of Financial Statement Schedules** See schedules listed in Item 8.
- 3. List of Exhibits**

Exhibits listed below which have been filed previously with the Securities and Exchange Commission pursuant to the Securities Act of 1933 and the Securities Exchange Act of 1934, and which were designated as noted below, are hereby incorporated by reference and made a part of this report with the same effect as if filed with the report. Exhibits listed below that were not previously filed are filed herewith.

Con Edison

- 2.1 Amended and Restated Agreement and Plan of Merger, dated as of October 13, 1999, as amended and restated as of January 11, 2000, among Con Edison, Northeast Utilities, Consolidated Edison, Inc. (a Delaware corporation, originally incorporated as CWB Holdings, Inc.) and N Acquisition LLC. (Designated in Con Edison's Current Report on Form 8-K, dated January 11, 2000 (File No. 1-14514) as Exhibit 2.)
- 3.1.1 Restated Certificate of Incorporation of Consolidated Edison, Inc. (Con Edison) (Designated in the Registration Statement on Form S-4 of Con Edison (No. 333-39165) as Exhibit 3.1.)
- 3.1.2 By-laws of Con Edison, effective as of May 16, 2005. (Designated in Con Edison's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2005 (File No. 1-14514) as Exhibit 3.1.)
- 4.1.1 Indenture, dated as of April 1, 2002, between Con Edison and JP Morgan Chase Bank (formerly known as The Chase Manhattan Bank), as Trustee. (Designated in the Registration Statement on Form S-3 of Con Edison (No. 333-102005) as Exhibit 4.1.)
- 4.1.2 The form of Con Edison's 3.625% Debentures, Series 2003 A. (Designated in Con Edison's Current Report on Form 8-K, dated July 22, 2003. (File No. 1-14514) as Exhibit 4.)
- 4.1.3.1 Amended and Restated Credit Agreement, dated as of June 22, 2006 among Con Edison of New York, Con Edison, O&R, the banks party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent. (Designated in Con Edison's Current Report on Form 8-K, dated June 22, 2006, (File No. 1-14514) as Exhibit 4.)
- 4.1.3.2 Memo to Lenders, dated June 19, 2007, from JPMorgan Chase Bank, N.A.
- 10.1.1 Con Edison 1996 Stock Option Plan, as amended and restated effective February 24, 1998. (Designated in Con Edison's Annual Report on Form 10-K for the year ended December 31, 1997 (File No. 1-14514) as Exhibit 10.20.)
- 10.1.2 The following employment agreements, and amendments thereto, between Con Edison and the executive officer listed below, dated as of the effective dates listed below, which are designated as follows:

Securities Exchange Act

Executive Officer	Effective Date	Form	File No. 1-14514	
			Date	Exhibit
Kevin Burke	Agreement: 9/1/00	10-K	12/31/00	10.1.6
	Amendment: 5/31/02	10-Q	6/30/02	10.1.3

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Agreement: 7/22/05

8-K

7/21/05

10.1.1

- 10.1.3 Letter, dated July 27, 2005, to Stephen B. Bram. (Designated in Con Edison's Current Report on Form 8-K, dated July 21, 2005, (File No. 1-14514) as Exhibit 10.4.)
- 10.1.4 Severance Program for Officers of Consolidated Edison, Inc. and its Subsidiaries, effective as of September 1, 2000. (Designated in Con Edison's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2000 (File No. 1-14514) as Exhibit 10.1.3.)

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10.1.5.1	The Consolidated Edison, Inc. Stock Purchase Plan. (Designated in Con Edison's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2000 (File No. 1-14514) as Exhibit 10.)
10.1.5.2	Amendment, dated April 8, 2002, to The Consolidated Edison, Inc. Stock Purchase Plan. (Designated in Con Edison's Registration Statement on Form S-8 (No. 333-86820) as Exhibit 10.2.)
10.1.5.3	Amendment, dated February 19, 2004 to The Consolidated Edison, Inc. Stock Purchase Plan. (Designated in Con Edison's Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 1-14514) as Exhibit 10.1.5.3.)
10.1.5.4	Amendment, dated October 25, 2004 to the Consolidated Edison, Inc. Stock Purchase Plan. (Designated in Con Edison's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004 (File No. 1-14514) as Exhibit 10.1.)
10.1.6	Consolidated Edison, Inc. Deferred Stock Compensation Plan for Non-Officer Directors, effective July 1, 2002. (Designated in Con Edison's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2002 (File No. 1-14514) as Exhibit 10.1.1.)
10.1.7	The Con Edison Retirement Plan as amended and restated, entered into November 16, 2004. (Designated in Con Edison's Current Report on Form 8-K dated November 9, 2004 (File No. 1-14514) as Exhibit 10.)
10.1.8.1	The Consolidated Edison Thrift Plan, as amended effective August 2003. (Designated in Con Edison's Annual Report on Form 10-K for the year ended December 31, 2004 (File No. 1-14514) as Exhibit 10.1.8.1.)
10.1.8.2	Amendment, executed April 5, 2005, to The Consolidated Edison Thrift Plan (Designated in Con Edison's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2005 (File No. 1-14514) as Exhibit 10.1.1.)
10.1.9.1	Guaranty, dated as of November 14, 2000, from Consolidated Edison, Inc. in favor of Hawkeye Funding, Limited Partnership. (Designated in Con Edison's Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 1-14514) as Exhibit 10.1.9.1.)
10.1.9.2	Lease Agreement, dated as of November 14, 2000, between Hawkeye Funding, Limited Partnership, as Lessor, and Newington Energy, L.L.C., as Lessee (the Newington Project Lease). (Designated in Con Edison's Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 1-14514) as Exhibit 10.1.9.2.)
10.1.9.3	Amendment No. 1, dated as of April 1, 2002, to the Newington Project Lease. (Designated in Con Edison's Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 1-14514) as Exhibit 10.1.9.3.)
10.1.10.1	Consolidated Edison, Inc. Long-Term Incentive Plan. (Designated in Con Edison's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003 (File No. 1-14514) as Exhibit 10.1.1.)
10.1.10.2	Form of Restricted Stock Unit Award under the Con Edison Long Term Incentive Plan. (Designated in Con Edison's Current Report on Form 8-K, dated January 24, 2005, (File No. 1-14514) as Exhibit 10.2.)
10.1.10.3	Form of Stock Option Agreement under the Con Edison Long Term Incentive Plan. (Designated in Con Edison's Current Report on Form 8-K, dated January 24, 2005, (File No. 1-14514) as Exhibit 10.3.)
10.1.11	Description of Directors' Compensation. (Designated in Con Edison's Current Report on Form 8-K, dated May 16, 2005, (File No. 1-14514) as Exhibit 10.)
10.1.12	Letter, dated February 23, 2004, to Robert Hoglund. (Designated in Con Edison's Current Report on Form 8-K, dated July 21, 2005, (File No. 1-14514) as Exhibit 10.5.)
10.1.13	Restricted Stock Award Agreement, dated as of April 1, 2004, between Con Edison and Robert Hoglund. (Designated in Con Edison's Current Report on Form 8-K, dated July 21, 2005, (File No. 1-14514) as Exhibit 10.6.)
10.1.14	Purchase and Sale Agreement, dated as of December 10, 2007, by and between Consolidated Edison Development, Inc. and North American Energy Alliance, LLC. (Designated in Con Edison's Current Report on Form 8-K, dated December 14, 2007, (File No. 1-14514) as Exhibit 10.1.)
10.1.15	Purchase and Sale Agreement, dated as of December 10, 2007, by and between CED/SCS Newington, LLC and North American Energy Alliance, LLC. (Designated in Con Edison's Current Report on Form 8-K, dated December 14, 2007, (File No. 1-14514) as Exhibit 10.2.)
12.1	Statement of computation of Con Edison's ratio of earnings to fixed charges for the years 2003-2007.

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- 21.1 Subsidiaries of Con Edison. (Designated in Con Edison s Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 1-14514) as Exhibit 21.1.)
- 23.1 Consent of PricewaterhouseCoopers LLP.
- 24.1 Powers of Attorney of each of the persons signing this report by attorney-in-fact.
- 31.1.1 Rule 13a-14(a)/15d-14(a) Certifications Chief Executive Officer.
- 31.1.2 Rule 13a-14(a)/15d-14(a) Certifications Chief Financial Officer.
- 32.1.1 Section 1350 Certifications Chief Executive Officer.
- 32.1.2 Section 1350 Certifications Chief Financial Officer.

Con Edison of New York

- 3.2.1.1 Restated Certificate of Incorporation of Con Edison of New York filed with the Department of State of the State of New York on December 31, 1984. (Designated in the Annual Report on Form 10-K of Con Edison of New York for the year ended December 31, 1989 (File No. 1-1217) as Exhibit 3(a).)
- 3.2.1.2 The following certificates of amendment of Restated Certificate of Incorporation of Con Edison of New York filed with the Department of State of the State of New York, which are designated as follows:

Securities Exchange Act

Date Filed With Department of State	Form	File No. 1-1217 Date	Exhibit
5/16/88	10-K	12/31/89	3(b)
6/2/89	10-K	12/31/89	3(c)
4/28/92	8-K	4/24/92	4(d)
8/21/92	8-K	8/20/92	4(e)
2/18/98	10-K	12/31/97	3.1.2.3

- 3.2.2 By-laws of Con Edison of New York, effective February 1, 2008. (Designated in Con Edison of New York s Current Report on Form 8-K, dated January 17, 2008 (File No. 1-1217) as Exhibit 3.2.)
- 4.2.1.1 Participation Agreement, dated as of December 1, 1992, between New York State Energy Research and Development Authority (NYSERDA) and Con Edison of New York (Designated in Con Edison of New York s Annual Report on Form 10-K for the year ended December 31, 1992 (File No. 1-1217) as Exhibit 4(f).)
- 4.2.1.2 Supplemental Participation Agreement, dated as of July 1, 1995, to Participation Agreement, dated as of December 1, 1992 between NYSERDA and Con Edison of New York. (Designated in Con Edison of New York s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1995 (File 1-1217) as Exhibit 4.2.)
- 4.2.2 Participation Agreement, dated as of July 1, 1999, between NYSERDA and Con Edison of New York. (Designated in Con Edison of New York s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999 (File No. 1-1217) as Exhibit 4.1.)
- 4.2.3.1 Participation Agreement, dated as of June 1, 2001, between NYSERDA and Con Edison of New York. (Designated in Con Edison of New York s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2001 (File No. 1-1217) as Exhibit 10.2.1.)
- 4.2.3.2 Supplemental Participation Agreement, dated as of October 1, 2002, to Participation Agreement, dated as of June 1, 2001 between NYSERDA and Con Edison of New York. (Designated in Con Edison of New York s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2002 (File 1-1217) as Exhibit 4.2.2.)
- 4.2.4 Participation Agreement, dated as of November 1, 2001, between NYSERDA and Con Edison of New York. (Designated in Con Edison of New York s Quarterly Report on Form 10-Q for the quarterly period ended September

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- 4.2.5 Participation Agreement, dated as of January 1, 2004, between NYSEERDA and Con Edison of New York. (Designated in Con Edison of New York's Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 1-1217) as Exhibit 4.2.6.)
- 4.2.6 Participation Agreement, dated as of January 1, 2004, between NYSEERDA and Con Edison of New York. (Designated in Con Edison of New York's Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 1-1217) as Exhibit 4.2.7.)
- 4.2.7 Participation Agreement, dated as of November 1, 2004, between NYSEERDA and Con Edison of New York. (Designated in Con Edison of New York's Current Report on Form 8-K, dated November 9, 2004, (File No. 1-1217) as Exhibit 4.1.)
- 4.2.8 Participation Agreement, dated as of May 1, 2005, between NYSEERDA and Con Edison of New York. (Designated in Con Edison of New York's Current Report on Form 8-K, dated May 25, 2005, (File No. 1-1217) as Exhibit 4.1.)
- 4.2.9.1 Indenture of Trust, dated as of December 1, 1992, between NYSEERDA and Morgan Guaranty Trust Company of New York, as trustee (Morgan Guaranty) (Designated in Con Edison of New York's Annual Report on Form 10-K for the year ended December 31, 1992 (File No. 1-1217) as Exhibit 4(i).)
- 4.2.9.2 Supplemental Indenture of Trust, dated as of July 1, 1995 to Indenture of Trust, dated as of December 1, 1992, between NYSEERDA and Marine Midland Bank. (Designated in Con Edison of New York's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1995 (File No. 1-1217) as Exhibit 4.3.)
- 4.2.10.1 Indenture of Trust, dated as of July 1, 1999 between NYSEERDA and HSBC Bank USA, as trustee. (Designated in Con Edison of New York's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999 (File No. 1-1217) as Exhibit 4.2.)
- 4.2.10.2 Supplemental Indenture of Trust, dated as of July 1, 2001, to Indenture of Trust, dated July 1, 1999 between NYSEERDA and HSBC Bank USA, as trustee. (Designated in Con Edison of New York's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2001 (File No. 1-1217) as Exhibit 10.2.2.)
- 4.2.11.1 Indenture of Trust, dated as of June 1, 2001 between NYSEERDA and The Bank of New York, as trustee. (Designated in Con Edison of New York's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2001 (File No. 1-1217) as Exhibit 10.2.3.)
- 4.2.11.2 Supplemental Indenture of Trust, dated as of October 1, 2002, to Indenture of Trust, dated as of June 1, 2002, between NYSEERDA and The Bank of New York, as trustee. (Designated in Con Edison of New York's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2002 (File 1-1217) as Exhibit 4.2.1.)
- 4.2.12 Indenture of Trust, dated as of November 1, 2001, between NYSEERDA and The Bank of New York, as trustee. (Designated in Con Edison of New York's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2001 (File No. 1-1217) as Exhibit 10.2.2.)
- 4.2.13 Indenture of Trust, dated as of January 1, 2004, between NYSEERDA and The Bank of New York. (Designated in Con Edison of New York's Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 1-1217) as Exhibit 4.2.12.)
- 4.2.14 Indenture of Trust, dated as of January 1, 2004, between NYSEERDA and The Bank of New York. (Designated in Con Edison of New York's Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 1-1217) as Exhibit 4.2.13.)
- 4.2.15 Indenture of Trust, dated as of November 1, 2004, between NYSEERDA and The Bank of New York. (Designated in Con Edison of New York's Current Report on Form 8-K, dated November 9, 2004, (File No. 1-1217) as Exhibit 4.2.)
- 4.2.16 Indenture of Trust, dated as of May 1, 2005, between NYSEERDA and The Bank of New York. (Designated in Con Edison of New York's Current Report on Form 8-K, dated May 25, 2005, (File No. 1-1217) as Exhibit 4.2.)
- 4.2.17.1 Indenture, dated as of December 1, 1990, between Con Edison of New York and The Chase Manhattan Bank (National Association), as Trustee (the Debenture Indenture). (Designated in Con Edison of New York's Annual Report on Form 10-K for the year ended December 31, 1990 (File No. 1-1217) as Exhibit 4(h).)

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- 4.2.17.2 First Supplemental Indenture (to the Debenture Indenture), dated as of March 6, 1996, between Con Edison of New York and The Chase Manhattan Bank (National Association), as Trustee. (Designated in Con Edison of New York's Annual Report on Form 10-K for the year ended December 31, 1995 (File No. 1-1217) as Exhibit 4.13.)
- 4.2.17.3 Second Supplemental Indenture (to the Debenture Indenture), dated as of June 23, 2005, between Con Edison of New York and JPMorgan Chase Bank, N.A. (successor to The Chase Manhattan Bank (National Association)), as Trustee. (Designated in Con Edison of New York's Current Report on Form 8-K, dated November 16, 2005, (File No. 1-1217) as Exhibit 4.1.)
- 4.2.18 The following forms of Con Edison of New York's Debentures:

Debenture	Form	Securities Exchange Act		Exhibit
		Date	File No. 1-1217	
6 1/4%	Series 1998 A	8-K	1/29/98	4.1
7.10%	Series 1998 B	8-K	1/29/98	4.2
6.15%	Series 1998 C	8-K	6/22/98	4
6.90%	Series 1998 D	8-K	9/24/98	4
7.15%	Series 1999 B	8-K	12/1/99	4
8 1/8%	Series 2000 A	8-K	5/3/00	4
7 1/2%	Series 2000 B	8-K	8/23/00	4
5.625%	Series 2002 A	8-K	6/19/02	4
4.875%	Series 2002 B	8-K	12/19/02	4
5.875%	Series 2003 A	8-K	4/7/03	4
3.85%	Series 2003 B	8-K	6/12/03	4.1
5.10%	Series 2003 C	8-K	6/12/03	4.2
4.70%	Series 2004 A	8-K	2/11/04	4.1
5.70%	Series 2004 B	8-K	2/11/04	4.2
4.70%	Series 2004 C	8-K	2/11/04	4.3
5.30%	Series 2005 A	8-K	3/7/05	4
5.250%	Series 2005 B	8-K	6/20/05	4
5.375%	Series 2005 C	8-K	11/16/05	4.2
5.85%	Series 2006 A	8-K	3/9/06	4
6.20%	Series 2006 B	8-K	6/15/06	4
5.50%	Series 2006 C	8-K	9/25/06	4
5.30%	Series 2006 D	8-K	12/1/06	4.1
5.70%	Series 2006 E	8-K	12/1/06	4.2
6.30%	Series 2007 A	8-K	8/28/07	4

- 10.2.1 Amended and Restated Agreement and Settlement, dated September 19, 1997, between Con Edison of New York and the Staff of the New York State Public Service Commission (without Appendices). (Designated in Con Edison of New York's Current Report on Form 8-K, dated September 23, 1997, (File No. 1-1217) as Exhibit 10.)
- 10.2.2 Settlement Agreement, dated October 2, 2000, by and among Con Edison of New York, the Staff of the New York State Public Service Commission and certain other parties. (Designated in Con Edison of New York's Current Report on Form 8-K, dated September 22, 2000, (File No. 1-1217) as Exhibit 10.)
- 10.2.3.1 Planning and Supply Agreement, dated March 10, 1989, between Con Edison of New York and the Power Authority of the State of New York. (Designated in Con Edison of New York's Annual Report on Form 10-K for the year ended December 31, 1992 (File No. 1-1217) as Exhibit 10(gg).)
- 10.2.3.2 Delivery Service Agreement, dated March 10, 1989, between Con Edison of New York and the Power Authority of the State of New York. (Designated in Con Edison of New York's Annual Report on Form 10-K for the year ended December 31, 1992 (File No. 1-1217) as Exhibit 10(hh).)
- 10.2.4 Agreement and Plan of Exchange, entered into on October 28, 1997, between Con Edison and Con Edison of New York. (Designated in the Registration Statement on Form S-4 of Con Edison (No. 333-39165) as Exhibit 2.)

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10.2.5	The Consolidated Edison Company of New York, Inc. Executive Incentive Plan, as amended and restated as of August 1, 2000. (Designated in Con Edison of New York's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2001 (File No. 1-1217) as Exhibit 10.2.1.)
10.2.6	Consolidated Edison Company of New York, Inc. Supplemental Retirement Income Plan, as amended and restated as of April 1, 1999. (Designated in Con Edison of New York's Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 1-1217) as Exhibit 10.10.)
10.2.7	Deferred Compensation Plan for the Benefit of Trustees of Con Edison of New York, dated February 27, 1979, and amendments thereto, dated September 19, 1979 (effective February 27, 1979), February 26, 1980, and November 24, 1992 (effective January 1, 1993). (Designated in Con Edison of New York's Annual Report on Form 10-K for the year ended December 31, 1991 (File No. 1-1217) as Exhibit 10(i).)
10.2.8	Supplemental Medical Plan for the Benefit of Con Edison of New York's officers. (Designated in Con Edison of New York's Annual Report on Form 10-K for the year ended December 31, 1991 (File No. 1-1217) as Exhibit 10(aa).)
10.2.9	The Con Edison of New York Severance Pay Plan for Management Employees. (Designated in Con Edison of New York's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1997 (File No. 1-1217) as Exhibit 10.)
10.2.10.1	The Consolidated Edison Company of New York, Inc. Deferred Income Plan, as amended and restated as of April 1, 1999. (Designated in Con Edison of New York's Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 1-1217) as Exhibit 10.19.)
10.2.10.2	Amendment No. 1 to The Consolidated Edison Company of New York, Inc. Deferred Income Plan, effective as of September 1, 2000. (Designated in Con Edison of New York's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2001 (File No. 1-1217) as Exhibit 10.2.2.)
10.2.11.1	The Consolidated Edison Company of New York, Inc. 2005 Executive Incentive Plan, effective as of January 1, 2005, as amended effective as of January 1, 2007.
10.2.12.1	Trust Agreement, dated as of March 31, 1999, between Con Edison of New York and Mellon Bank, N.A., as Trustee. (Designated in Con Edison of New York's Annual Report on Form 10-K, for the year ended December 31, 2005, (File No. 1-1217) as Exhibit 10.2.13.1.)
10.2.12.2	Amendment Number 1 to the Con Edison of New York Rabbi Trust, executed October 24, 2003, between Con Edison of New York and Mellon Bank, N.A., as Trustee. (Designated in Con Edison of New York's Annual Report on Form 10-K, for the year ended December 31, 2005, (File No. 1-1217) as Exhibit 10.2.13.2.)
10.2.13	Employment Agreement, dated February 18, 1999, between Con Edison of New York and Frances Resheske. (Designated in Con Edison of New York's Annual Report on Form 10-K, for the year ended December 31, 2006, (File No. 1-1217) as Exhibit 10.2.14.)
12.2	Statement of computation of Con Edison of New York's ratio of earnings to fixed charges for the years 2003-2007.
23.2	Consent of PricewaterhouseCoopers LLP.
24.2	Powers of Attorney of each of the persons signing this report by attorney-in-fact. (Included as part of Exhibit 24.1.)
31.2.1	Rule 13a-14(a)/15d-14(a) Certifications Chief Executive Officer.
31.2.2	Rule 13a-14(a)/15d-14(a) Certifications Chief Financial Officer.
32.2.1	Section 1350 Certifications Chief Executive Officer.
32.2.2	Section 1350 Certifications Chief Financial Officer.

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Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, each Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 22, 2008.

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

By /s/ ROBERT HOGLUND
Robert Hoglund

Senior Vice President and

Chief Financial Officer

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant, and in the capacities indicated, on February 22, 2008.

Signature	Registrant	Title
Kevin Burke*	Con Edison	Chairman of the Board, President, Chief Executive Officer and Director (Principal Executive Officer)
	Con Edison of New York	Chairman of the Board, Chief Executive Officer and Trustee (Principal Executive Officer)
Robert Hoglund*	Con Edison	Senior Vice President and Chief Financial Officer (Principal Financial Officer)
	Con Edison of New York	Senior Vice President and Chief Financial Officer (Principal Financial Officer)
Edward J. Rasmussen*	Con Edison	Vice President, Controller and Chief Accounting Officer (Principal Accounting Officer)
	Con Edison of New York	Vice President, Controller and Chief Accounting Officer (Principal Accounting Officer)
Eugene R. McGrath*	Con Edison	Director
	Con Edison of New York	Trustee
Vincent A. Calarco*	Con Edison	Director
	Con Edison of New York	Trustee
George Campbell Jr.*	Con Edison	Director
	Con Edison of New York	Trustee
Gordon J. Davis*	Con Edison	Director
	Con Edison of New York	Trustee
Michael J. Del Guidice*	Con Edison	Director
	Con Edison of New York	Trustee
Ellen V. Futter*	Con Edison	Director
	Con Edison of New York	Trustee
Sally Hernandez *	Con Edison	Director
	Con Edison of New York	Trustee
John F. Killian*	Con Edison	Director
	Con Edison of New York	Trustee
Peter W. Likins*	Con Edison	Director
	Con Edison of New York	Trustee
Michael W. Ranger*	Con Edison	Director
	Con Edison of New York	Trustee
L. Frederick Sutherland*	Con Edison	Director

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Stephen R. Volk*	Con Edison of New York	Trustee
	Con Edison	Director
	Con Edison of New York	Trustee

*By /s/ ROBERT HOGLUND
Robert Hoglund, Attorney-in-fact