Orange and Rockland Utilities, Inc.
2005 Annual Financial Statements and Notes

Financial Statements

Report of Independent Registered Public Accounting Firm

To the Stockholder and Board of Directors of Orange and Rockland Utilities, Inc.:

In our opinion, the accompanying consolidated balance sheet and statement of capitalization and the related consolidated statements of income, of comprehensive income, of common shareholder's equity and of cash flows present fairly, in all material respects, the financial position of Orange and Rockland Utilities, Inc. and its subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
New York, New York
February 16, 2006

Orange and Rockland Utilities, Inc.
CONSOLIDATED BALANCE SHEET

	December 31, 2005	December 31, 2004
	(Millions of Dollars)	
ASSETS		
UTILITY PLANT, AT ORIGINAL COST (Note A)		
Electric	$ 846	$ 812
Gas	361	336
General	123	121
Total	1,330	1,269
Less: Accumulated depreciation	395	382
Net	935	887
Construction work in progress	32	26
NET PLANT	967	913
CURRENT ASSETS		
Cash and temporary cash investments (Note A)	9	12
Restricted cash	2	2
Accounts receivable - customers, less allowance for uncollectible accounts of $2 in 2005 and 2004	61	31
Accrued unbilled revenue (Note A)	29	28
Other receivables, less allowance for uncollectible accounts of $2 in 2005 and 2004	39	24
Accounts receivable from affiliated companies	30	25
Gas in storage, at average cost	62	43
Materials and supplies, at average cost	6	5
Prepayments	11	12
Fair value of derivative assets	50	5
Recoverable energy costs (Notes A and B)	29	18
Other current assets	11	11
TOTAL CURRENT ASSETS	339	216
DEFERRED CHARGES, REGULATORY ASSETS AND NONCURRENT ASSETS		
Regulatory assets (Note B)	244	235
Other deferred charges and noncurrent assets	38	26
TOTAL DEFERRED CHARGES, REGULATORY ASSETS AND NONCURRENT ASSETS	282	261
TOTAL ASSETS	$ 1,588	$ 1,390

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

Orange and Rockland Utilities, Inc.
CONSOLIDATED BALANCE SHEET

	December 31, 2005	December 31, 2004
	(Millions of Dollars)	
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION		
Common shareholder's equity (See Statement of Common Shareholder's Equity)	$ 369	$ 388
Long-term debt (See Statement of Capitalization)	384	345
TOTAL CAPITALIZATION	753	733
NONCURRENT LIABILITIES		
Provision for injuries and damages (Note G)	6	6
Pensions and retiree benefits	101	98
Superfund and other environmental costs (Note G)	53	58
Hedges on variable rate long-term debt (Note N)	14	16
Other noncurrent liabilities	-	3
TOTAL NONCURRENT LIABILITIES	174	181
CURRENT LIABILITIES		
Long-term debt due within one year	2	2
Notes payable	101	-
Accounts payable	81	66
Accounts payable to affiliated companies	33	41
Customer deposits	14	16
Accrued taxes	4	2
Accrued interest	6	6
Deferred derivative gains (Note B)	54	15
Deferred income taxes - recoverable energy costs (Note K)	12	7
Other current liabilities	12	10
TOTAL CURRENT LIABILITIES	319	165
DEFERRED CREDITS AND REGULATORY LIABILITIES		
Deferred income taxes and investment tax credits (Notes A and K)	194	191
Regulatory liabilities (Note B)	138	112
Other deferred credits	10	8
TOTAL DEFERRED CREDITS AND REGULATORY LIABILITIES	342	311
TOTAL CAPITALIZATION AND LIABILITIES	$ 1,588	$ 1,390

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

Orange and Rockland Utilities, Inc.
CONSOLIDATED INCOME STATEMENT

	For the Years Ended December 31, 2005	2004	2003
		(Millions of Dollars)	
OPERATING REVENUES (Note A)			
Electric	$ 596	$ 499	$ 530
Gas	228	204	197
TOTAL OPERATING REVENUES	824	703	727
OPERATING EXPENSES			
Purchased power	319	246	251
Gas purchased for resale	143	120	120
Other operations and maintenance	177	174	170
Depreciation and amortization (Note A)	34	33	34
Taxes, other than income taxes	47	48	50
Income taxes (Notes A and K)	31	17	34
TOTAL OPERATING EXPENSES	751	638	659
OPERATING INCOME	73	65	68
OTHER INCOME (DEDUCTIONS)			
Investment and other income (Note A)	2	1	-
Other deductions	(1)	-	(2)
TOTAL OTHER INCOME (DEDUCTIONS)	1	1	(2)
INTEREST EXPENSE			
Interest on long-term debt	21	19	19
Other interest	3	1	2
NET INTEREST EXPENSE	24	20	21
NET INCOME	$ 50	$ 46	$ 45

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

Orange and Rockland Utilities, Inc.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the Years Ended December 31,		
	2005	2004	2003
	(Millions of Dollars)		
NET INCOME	$ 50	$ 46	$ 45
OTHER COMPREHENSIVE INCOME/(LOSS), NET OF TAXES			
Investment in marketable securities, net of $1 taxes in 2003	-	-	1
Less: Reclassification adjustment for losses included in net income, net of $(1) taxes in 2003	-	-	(2)
Supplemental pension plan minimum liability adjustments, net of $(1) and $0 taxes in 2005 and 2004, respectively	(1)	(1)	-
Unrealized gains on derivatives qualified as cash flow hedges, net of $3, $2 and $2, taxes in 2005, 2004 and 2003, respectively	4	3	3
Less: Reclassification adjustment for gains included in net income, net of $1 taxes in 2005, 2004 and 2003	1	2	1
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAXES	2	-	5
COMPREHENSIVE INCOME	$ 52	$ 46	$ 50

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

Orange and Rockland Utilities, Inc.
CONSOLIDATED STATEMENT OF COMMON SHAREHOLDER'S EQUITY

(Millions of Dollars/Except Share Data)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
BALANCE AS OF DECEMBER 31, 2002	1,000	$-	$ 194	$ 169	$(15)	$ 348
Net Income				45		45
Common stock dividend to parent				(28)		(28)
Other comprehensive income					5	5
BALANCE AS OF DECEMBER 31, 2003	1,000	$-	$ 194	$ 186	(10)	$ 370
Net Income				46		46
Common stock dividend to parent				(28)		(28)
BALANCE AS OF DECEMBER 31, 2004	1,000	$-	$ 194	$ 204	$(10)	$ 388
Net Income				50		50
Common stock dividend to parent				(71)		(71)
Other comprehensive income					2	2
BALANCE AS OF DECEMBER 31, 2005	1,000	$-	$ 194	$ 183	$(8)	$ 369

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

Orange and Rockland Utilities, Inc.
CONSOLIDATED STATEMENT OF CASH FLOWS

	For the Twelve Months Ended December 31, 2005	2004	2003
	(Millions of Dollars)		
OPERATING ACTIVITIES			
Net income	$ 50	$ 46	$ 45
PRINCIPAL NON-CASH CHARGES/(CREDITS) TO INCOME			
Depreciation and amortization	34	33	34
Deferred income taxes	4	7	44
Gain on non-utility property	-	-	(1)
Other non-cash items (net)	-	(2)	(16)
CHANGES IN ASSETS AND LIABILITIES			
Accounts receivable - customers, less allowance for uncollectibles	(30)	11	(3)
Accounts receivable from affiliated companies	(7)	(12)	1
Materials and supplies, including gas in storage	(20)	(13)	(13)
Prepayments, other receivables and other current assets	(15)	(11)	(6)
Recoverable energy costs	-	5	(11)
Accounts payable	15	(5)	11
Accounts payable to affiliated companies	(7)	10	17
Pensions and retiree benefits	3	-	-
Accrued taxes	2	(2)	3
Accrued interest	-	-	(2)
Deferred charges and other regulatory assets	(5)	(24)	19
Deferred credits and regulatory liabilities	2	17	(3)
Superfund and other environmental costs	(5)	18	4
Other assets	(1)	(1)	3
Other liabilities	(1)	4	1
NET CASH FLOWS FROM OPERATING ACTIVITIES	19	81	127
INVESTING ACTIVITIES			
Utility construction expenditures	(87)	(79)	(71)
Cost of removal less salvage	(3)	(2)	(2)
Proceeds from sale of land	-	-	2
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(90)	(81)	(71)
FINANCING ACTIVITIES			
Net proceeds from/(retirement of) short-term debt	101	(15)	14
Issuance of long-term debt	40	46	-
Retirement of long-term debt	(2)	-	(35)
Dividend to parent	(71)	(28)	(28)
NET CASH FLOWS FROM/(USED) IN FINANCING ACTIVITIES	68	3	(49)
CASH AND TEMPORARY CASH INVESTMENTS:			
NET CHANGE FOR THE PERIOD	(3)	3	7
BALANCE AT BEGINNING OF PERIOD	12	9	2
BALANCE AT END OF PERIOD	$ 9	$ 12	$ 9
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the period for:			
Interest	$ 24	$ 18	$ 21
Income Taxes/(Refund)	$ 30	$ 29	$ (17)

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

Orange and Rockland Utilities, Inc.
Consolidated Statement of Capitalization

	Interest Rate	Series	Shares outstanding December 31, 2005	Shares outstanding December 31, 2004	At December 31, 2005	At December 31, 2004
					(Millions of Dollars)	
TOTAL COMMON SHAREHOLDER'S EQUITY LESS ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)			1,000	1,000	$ 377	$ 398
ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)						
Minimum pension liability adjustment, net of $(1) taxes in 2005					(1)	-
Unrealized losses on derivatives qualified as cash flow hedges net of $(3) and $(6) taxes in 2005 and 2004, respectively					(5)	(9)
Less: Reclassification adjustment for gains included in net income net of $1 taxes in 2005 and 2004					2	1
TOTAL ACCUMULATED OTHER COMPREHENSIVE INCOME/ (LOSS), NET OF TAXES					(8)	(10)
TOTAL COMMON SHAREHOLDER'S EQUITY (SEE STATEMENT OF COMMON SHAREHOLDER'S EQUITY AND NOTE C)					369	388
LONG-TERM DEBENTURES (NOTE C) Maturity	Interest Rate	Series				
DEBENTURES:						
2010	7.50%	2000A			55	55
2015	5.30	2005A			40	-
2027	6.50	1997F			80	80
2029	7.00	1999G			45	45
TOTAL DEBENTURES					220	180
FIRST MORTGAGE BONDS:						
2007	7.125%	1997J			20	20
2018	7.07	1998C			3	3
TOTAL FIRST MORTGAGE BONDS					23	23
TRANSITION BONDS:						
2019	5.22%	2004-1			45	46
TOTAL TRANSITION BONDS					45	46
TAX-EXEMPT DEBT - Notes Issued to New York State Energy Research and Development Authority for Facilities Revenue Bonds*:						
2014 (Note N)	3.45%	1994A**			55	55
2015	3.45	1995A**			44	44
TOTAL TAX-EXEMPT BONDS					99	99
Unamortized debt discount					(1)	(1)
TOTAL					386	347
Less: long-term debt due within one year					2	2
TOTAL LONG-TERM DEBT					384	345
TOTAL CAPITALIZATION					$ 753	$ 733

*   Rate reset weekly or by auction held every 35 days; December 31, 2005 rate shown.
** Issued for pollution control financing.

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

Notes to the Financial Statements

General

These notes accompany and form an integral part of the financial statements of Orange and Rockland Utilities, Inc., a New York corporation (O&R) and its subsidiaries (the Company). O&R is a regulated utility, which is wholly owned by Consolidated Edison, Inc. (Con Edison).

O&R has two regulated utility subsidiaries: Rockland Electric Company (RECO) and Pike County Light and Power Company (Pike). 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. RECO owns Rockland Electric Company Transition Funding LLC (Transition Funding), which was formed in 2004 in connection with the securitization of certain purchased power costs.

O&R is subject to regulation by the New York State Public Service Commission (PSC); RECO is subject to regulation by the New Jersey Board of Public Utilities (NJBPU) and Pike is subject to regulation by the Pennsylvania Public Utility Commission (PPUC). The Company is also subject to regulation by the Federal Energy Regulatory Commission (FERC).

Note A – Summary of Significant Accounting Policies

Principles of Consolidation

The Company's consolidated financial statements include the accounts of its subsidiaries, including Transition Funding. All intercompany balances and transactions have been eliminated.

Accounting Policies

The accounting policies of the Company conform to accounting principles generally accepted in the United States of America. These accounting principles include the Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standards (SFAS) No. 71 (SFAS No. 71), "Accounting for the Effects of Certain Types of Regulation," and, in accordance with SFAS No. 71, the accounting requirements of the 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 Company's principal regulatory assets and liabilities are detailed in Note B. The Company is receiving or being credited with a return on all of their regulatory assets for which a cash outflow has been made, and are paying or being charged with a return on all of their regulatory liabilities for which a cash inflow has been received. The Company's regulatory assets and liabilities will be recovered from customers, or applied for customer benefit, in accordance with rate provisions approved by the applicable public utility regulatory commission.

Other significant accounting policies of the Company 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 O.

Rates used for AFDC include the cost of borrowed funds and a reasonable rate of return on the Company's own funds when so used, determined in accordance with regulations of the FERC or the state public utility regulatory authority having jurisdiction. The rate is compounded semiannually, and the amounts applicable to borrowed funds are treated as a reduction of interest charges, while the amounts applicable to the Company's own funds are credited to other income (deductions). The AFDC rates for the Company were 3.9 percent, 3.6 percent and 1.1 percent for 2005, 2004 and 2003.

The Company generally computes annual charges for depreciation using the straight-line method for financial statement purposes, with rates based on average service lives and net salvage factors. The average depreciation rates for the Company were 2.9 percent for 2005 and 2004 and 3.1 percent for 2003, respectively.

The estimated lives for utility plant for the Company range from 5 to 65 years for electric, 7 to 75 years for gas and 5 to 55 years for general plant.

At December 31, 2005 and 2004, the capitalized cost of the Company's utility plant, net of accumulated depreciation, was as follows:

(Millions of Dollars)	2005	2004
Electric		
Transmission	$92	$99
Distribution	490	456
Gas*	272	254
General	80	77
Held for future use	1	1
Construction work in progress	32	26
NET UTILITY PLANT	$967	$913

* Primarily distribution.

Impairments

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

Revenues

The Company recognizes revenues for electric and gas service on a monthly billing cycle basis. The Company generally defers over a 12-month period net interruptible gas revenues, other than those authorized by the PSC to be retained by the Company, for refund to firm gas sales and transportation customers. The Company accrues revenues at the end of each month for estimated energy service not yet billed to customers. Unbilled revenues included in O&R's balance sheet at December 31, 2005 and 2004 were $29 million and $28 million, respectively.

O&R and Pike are required to record gross receipts tax and RECO is required to record transitional energy facilities assessment (TEFA) tax, as revenues and expenses on a gross income statement presentation basis (i.e., included in both revenue and expense). The recovery of these taxes is included in the revenue requirement within each of the respective approved rate plans.

Recoverable Energy Costs

O&R generally recovers all of its 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.

For each billing cycle, O&R bills its energy costs to customers based upon its estimate of the cost to supply energy for that billing cycle. Differences between actual and billed electric supply costs are generally deferred for charge or refund to customers during the next billing cycle (normally within one or two months). For O&R's gas costs, differences between actual and billed gas costs during the 12-month period ending each August are charged or refunded to customers during a subsequent 12-month period.

RECO purchases electric energy under a competitive bidding process supervised by the NJBPU for contracts ranging from one to three years. Basic Generation Service rates are adjusted to conform to contracted prices when new contracts take effect and differences between actual monthly costs and revenues are reconciled and charged or credited to customers on a two-month lag. See Note B for a description of the 2003 NJBPU ruling regarding previously deferred purchased power costs.

Pike bills its customers for the electricity it supplies to them based on a default service rate approved by the PPUC. Pike neither collects nor refunds to customers differences between actual amounts billed for electric supply and electric supply costs it incurs. In January 2006, based upon the results of an auction overseen by the PPUC in which an affiliate of Con Edison was the winning bidder, an increase in default service rate of approximately 70 percent was approved by the PPUC. In February 2006, the PPUC initiated a fact-finding investigation in the competitive electric market in Pike's service territory, which investigation is ongoing.

Independent System Operators

O&R purchases electricity for all its New York and Pennsylvania requirements and a portion of its New Jersey needs through the wholesale electricity market administered by the New York Independent System Operator (NYISO). The difference between purchased power and related costs initially billed to the Company by the NYISO and the actual cost of power subsequently calculated by the NYISO is refunded by the NYISO to the Company, or paid to the NYISO by the Company. 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.

For RECO, approximately 90 percent of the demand is covered by fixed price contracts ranging from one to three years that are competitively bid through the NJBPU auction process and provided through the Pennsylvania-Jersey-Maryland (PJM) Independent System Operator.

Temporary Cash Investments

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

Federal Income Tax

In accordance with SFAS No. 109, "Accounting for Income Taxes," the Company has 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, O&R has recovered amounts from customers for a portion of the tax liability they will pay in the future as a result of the reversal or "turn-around" of these temporary differences. As to the remaining tax liability, in accordance with SFAS No. 71, the Company has established regulatory assets for the net revenue requirements to be recovered from customers for the related future tax expense. See Notes B and K. In 1993, the 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.

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

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

State Income Tax

The New York State tax laws applicable to utility companies were changed effective January 2000. Certain revenue-based taxes were repealed or reduced and replaced by a net income-based tax. In June 2001, the PSC authorized each utility to use deferral accounting to record the difference between taxes being collected and the actual tax expense under the new tax law until that expense is incorporated in base rates. For O&R, state income tax is being recovered through base rates for its electric and gas businesses effective November 2003.

The Company, along with Con Edison and its other subsidiaries, files 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.

Reclassification

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

Stock-Based Compensation

The Company accounts for its stock-based compensation plans using the intrinsic value model of Accounting Principles Board (APB) Opinion No. 25, “Accounting for Stock Issued to Employees,” and its related interpretations. All options and units granted under these plans had an exercise price equal to the market value of the underlying common stock on the date of grant. No compensation expense has been reflected in the income statement for any period presented except as described in Note L. The effect on earnings if the Company had applied the fair value recognition provisions of SFAS No. 123, “Accounting for Stock-Based Compensation (SFAS No. 123),” as amended by SFAS No. 148, “Accounting for Stock-Based Compensation – Transition and Disclosure – An Amendment of FASB Statement No. 123,” would have been immaterial.

Certain of the Company’s stock-based compensation plans allow employees to continue vesting in an award in accordance with the stated vesting terms even though the employee has retired from the Company. The Company has historically recognized compensation cost over the employee’s nominal vesting period with any remaining compensation cost recognized at the date of retirement (the nominal vesting period approach). The Company’s compensation expense would not have materially increased had it immediately recognized compensation cost for awards granted to retirement eligible employees or over the period from the grant date to the date of retirement eligibility (non-substantive vesting period approach).

The Company plans to adopt the non-substantive vesting period approach in connection with its implementation of SFAS 123(R), “Share-Based Payment.” See Note L.

Estimates

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

Note B – Regulatory Matters

Rate and Restructuring Agreements

Electric

In 1997, the PSC approved a four-year O&R restructuring plan pursuant to which O&R sold all of its generating assets and made retail access available to all of its electric customers. Similar retail access plans were approved for RECO and Pike by the NJBPU and PPUC, respectively.

In October 2003, the PSC approved agreements 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 covers the period from July 2003 through October 2006, provides for no changes to electric base rates and contains provisions for the amortization and offset of regulatory assets and liabilities, the net effect of which is reducing electric operating income by a total of $11 million (pre tax) over the period covered by the agreement. The agreement continues to provide for recovery of energy costs from customers on a current basis. It also provides 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 will not be subject to earnings sharing.

In July 2003, the NJBPU ruled on the petitions of RECO 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. At December 31, 2002, the Company had accrued a reserve for $13 million of the disallowance, and at June 30, 2003 reserved an additional $6 million for the disallowance.

In July 2004, the NJBPU approved RECO’s Phase II petition to increase base rates annually by $2.7 million (2.0 percent), 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, Transition Funding 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. The TBC replaced a Transition Recovery Charge, a temporary surcharge that was effective August 1, 2003.

Pike is obligated under Pennsylvania law to serve those customers who do not purchase electricity from other suppliers. See “Recoverable Energy Costs” in Note A.

Gas

In October 2003, the PSC approved a new gas rate agreement among O&R, the PSC staff and other parties. This agreement, which covers the period November 2003 through October 2006, provides for increases in gas base rates of $9 million (5.8 percent) effective November 2003, $9 million (4.8 percent) effective November 2004 and $5 million (2.5 percent) effective November 2005. The agreement provides for O&R to share equally with customers earnings in excess of an 11 percent return on common equity. It continues to provide for recovery of energy costs from customers on a current basis and continues a weather normalization clause that moderates, but does not eliminate, the effect of weather-related changes on net income. The rate increases also include the amortization of certain regulatory assets and liabilities. The net effect of this amortization will be to increase gas revenues by $2 million over the period of the three-year rate plan.

In November 2005, O&R filed a request with the PSC for an increase in the rates it charges for gas service, effective November 1, 2006, of $24 million (4.7 percent). The filing reflects a return on common equity of 11 percent and a common equity ratio of 48.9 percent of capitalization. The filing includes a proposal for a three-year plan, with additional increases effective November 1, 2007 and 2008 of $2.1 million and $1.8 million, respectively. The filing proposes continuation of the current gas rate plan provisions with respect to the reconciliation of actual expenses allocable to gas operations to the amounts reflected in rates for pension and other postemployment benefit costs, property taxes, environmental remediation and research and development costs.

In May 2005, the PPUC approved an increase to the rates Pike charges for gas service by $0.1 million (8.7 percent), effective June 1, 2005.

Regulatory Assets and Liabilities

Regulatory assets and liabilities at December 31, 2005 and 2004 were comprised of the following items:

(Millions of Dollars)	2005	2004
Regulatory assets		
Transition bond charges	$70	$74
Environmental remediation costs	59	59
Future federal income tax	50	47
Pension and other postretirement benefits deferrals	50	42
Asbestos-related costs	-	1
Other	15	12
Regulatory Assets	244	235
Recoverable energy costs - current	29	18
Total Regulatory Assets	$273	$253
Regulatory liabilities		
Allowance for cost of removal less salvage	$57	$57
Refundable energy costs	40	29
Hedging unrealized gains	16	2
NYS tax law changes	12	12
Other	13	12
Regulatory Liabilities	138	112
Deferred derivative gains - current	54	15
Total Regulatory Liabilities	$192	$127

Note C – Capitalization

Common Stock

At December 31, 2005 and 2004, all of the outstanding common stock of the Company was owned by Con Edison. In accordance with PSC requirements, the dividends that the Company generally may pay to Con Edison are limited to not more than 100 percent of its 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 the Company’s equity ratio to a level appropriate to its business risk.

Long-term Debt

Long-term debt maturing in the period 2006-2010 is as follows:

(Millions of Dollars)	
2006	$2
2007	22
2008	3
2009	3
2010	58

O&R has issued certain series 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, in certain circumstances, is subject to mandatory tender for purchase by the Company. This tax-exempt debt includes

O&R's $55 million aggregate principal amount of Series 1994A and $44 million aggregate principal amount of Series 1995A.

Long-term debt is stated at cost, which in total, as of December 31, 2005, approximates fair value (estimated based on current rates for debt of the same remaining maturities).

At December 31, 2005 and 2004, long-term debt of the Company included $23 million of mortgage bonds collateralized by substantially all utility plant and other physical property of RECO and Pike. It also included $45 million and $46 million at December 31, 2005 and 2004, respectively, of Transition Bonds issued by Transition Funding. See Note B.

Significant Debt Covenants

There are no significant debt covenants under the financing arrangements for the debentures of O&R, 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 Company are subject to these covenants and the covenants discussed below. The Company believes that they were in compliance with their significant debt covenants at December 31, 2005.

The tax-exempt financing arrangements involved the issuance of uncollateralized promissory notes of the Company to NYSERDA in exchange for the net proceeds of a like amount of tax-exempt bonds with substantially the same terms sold to the public by NYSERDA. The tax-exempt financing arrangements include covenants with respect to the tax-exempt status of the financing and 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 $12.5 million.

Note D – Short Term Borrowing and Credit Agreements

In April 2005, O&R along with Con Edison and its other regulated utility subsidiary, Consolidated Edison of New York, Inc. (Con Edison of New York), entered into a five-year revolving credit agreement, under which banks committed to provide loans and letters of credit in an aggregate amount of up to $937.5 million, and terminated a three-year credit agreement that was to expire in November 2005. Bank commitments under the new revolving credit agreement and a similar existing three-year credit agreement that expires in November 2006 total $1.5

billion, with $150 million available to O&R. O&R is solely responsible for its obligations under the credit agreements and no company is responsible for the obligations of any company other than itself. O&R uses the credit agreements to support its commercial paper program and obtain letters of credit.

At December 31, 2005, O&R had $101 million of commercial paper outstanding at a weighted average interest rate of 4.36 percent. At December 31, 2005, $6 million of letters of credit were outstanding under the agreements. O&R had no outstanding commercial paper at December 31, 2004.

The banks' commitments under the credit agreements 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 any of Con Edison's subsidiaries, the banks may terminate their commitments with respect to that company and declare any amounts owed by that company under the credit agreements 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, 2005, this ratio was 0.57 to 1 for O&R); 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 O&R, following any applicable notice period, to meet certain other customary covenants. The fees charged to O&R for the revolving credit facilities and any loans made or letters of credit issued under the credit agreements reflect O&R's respective credit ratings.
See Note P for information about short-term borrowing between related parties.

Note E – Pension Benefits

Substantially all employees of O&R are covered by a tax-qualified, non-contributory pension plan maintained by Con Edison, which also covers substantially all employees of Con Edison of New York and O&R and certain employees of Con Edison's competitive 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 pension plans covering certain current and retired O&R officers.

Investment gains and losses are fully recognized in expense over a 15-year period. Other actuarial gains and losses are fully recognized in expense over a 10-year period. 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 O&R's current electric and gas rate plans, the Company defers any difference between expenses recognized under SFAS No. 87 for the Company's New York business and the amount reflected in O&R's rates for such expenses. The rate plans for RECO and Pike do not have comparable deferral provisions.

A measurement date of December 31 is used for the pension plan.

Net Periodic Benefit Cost

The components of the Company's net periodic benefit costs for 2005, 2004 and 2003 were as follows:

(Millions of Dollars)	2005	2004	2003
Service cost – including administrative expenses	$9	$8	$7
Interest cost on projected benefit obligation	28	26	27
Expected return on plan assets	(24)	(23)	(23)
Amortization of net actuarial loss	17	12	9
Amortization of prior service costs	1	1	1
NET PERIODIC BENEFIT COST	$31	$24	$21
Cost capitalized	(7)	(6)	(5)
Cost deferred	(11)	(1)	(9)
Cost charged to operating expenses	$13	$17	$7

Funded Status

The funded status of the Company's pension obligations at December 31, 2005, 2004 and 2003 was as follows:

(Millions of Dollars)	2005	2004	2003
CHANGE IN PROJECTED BENEFIT OBLIGATION			
Projected benefit obligation at beginning of year	$471	$425	$404
Service cost – excluding administrative expenses	9	8	7
Interest cost on projected benefit obligation	28	26	27
Plan amendments	-	10	-
Net actuarial loss	38	26	11
Benefits paid	(25)	(24)	(24)
PROJECTED BENEFIT OBLIGATION AT END OF YEAR	$521	$471	$425
CHANGE IN PLAN ASSETS			
Fair value of plan assets at beginning of year	$267	$236	$197
Actual return on plan assets	22	32	43
Employer contributions	31	24	20
Benefits paid	(25)	(24)	(23)
Administrative expenses	(1)	(1)	(1)
FAIR VALUE OF PLAN ASSETS AT END OF YEAR	$294	$267	$236
Funded status	$(227)	$(204)	$(189)
Unrecognized net loss	157	133	127
Unrecognized prior service costs	12	13	4
NET ACCRUED BENEFIT COST	$(58)	$(58)	$(58)
ACCUMULATED BENEFIT OBLIGATION	$498	$452	$407

The amounts recognized in the Company's consolidated balance sheet at December 31, 2005 and 2004 were as follows:

(Millions of Dollars)	2005	2004
Accrued benefit cost	$(58)	$(58)
Additional minimum pension liability	(3)	(1)
Accumulated other comprehensive income	3	1
Net accrued benefit cost	$(58)	$(58)

At December 31, 2005 and 2004, the Company's other current assets include $11 million, held in an external trust account for benefit payments pursuant to the supplemental retirement plans. The accumulated benefit obligations for the supplemental retirement plans for O&R were $33 million and $32 million as of December 31, 2005 and 2004, respectively.

Assumptions

The actuarial assumptions were as follows:

	2005	2004	2003
Weighted-average assumptions used to determine benefit obligations at December 31:			
Discount rate	5.70 %	5.90%	6.30%
Rate of compensation increase	4.00 %	4.00%	4.00%
Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31:			
Discount rate	5.90 %	6.30%	6.75%
Expected return on plan assets	8.80 %	8.80%	8.80%
Rate of compensation increase	4.00 %	4.00%	4.15%

The expected return assumption reflects anticipated returns on the plan's current and future assets. The Company uses historical investment data as well as the plan's target asset class and investment management mix to determine the expected return on plan assets. This analysis incorporates such factors as real return, inflation, and expected investment manager performance for each broad asset class applicable to the plan. Historical plan performance and peer data are also reviewed to check for reasonability and appropriateness.

Discount Rate Assumption

To determine the assumed discount rate, the Company uses a model that produces a yield curve based on yields on selected 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 Company expects to make the following benefit payments over the next ten years:

(Millions of dollars)	2006	2007	2008	2009	2010	2011-2015
O&R	$ 26	$ 28	$ 29	$ 30	$ 32	$ 179

Expected Contributions

Based on current estimates, the Company is not required under funding regulations and laws to make any contributions to the pension plan during 2006. The Company's policy is to fund its accounting cost to the extent tax deductible, therefore, O&R expects to make a discretionary contribution of $35 million to the pension plan during 2006.

Plan Assets

The asset allocations for the pension plan at the end of 2005, 2004 and 2003, and the target allocation for 2006 are as follows:

	Target Allocation	Plan Assets at December 31		
ASSET CATEGORY	2006	2005	2004	2003
Equity Securities	65%	67%	67%	64%
Debt Securities	30%	28%	28%	32%
Real Estate	5%	5%	5%	4%
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 pension plan 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 plans' 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, chief financial and chief accounting officers and others the Board of Directors 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 for 2006 reflects the results of such a study conducted in 2003.

Individual 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.

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

	For the Years Ended December 31,		
(Millions of Dollars)	2005	2004	2003
O&R	$2	$2	$1

Note F – Other Postretirement Benefits

The Company has contributory comprehensive hospital, medical and prescription drug programs for all retirees, their dependents and surviving spouses.

Investment plan gains and losses are fully recognized in expense over a 15-year period. Other actuarial gains and losses are fully recognized in expense over a 10-year period.

O&R defers any difference between expenses recognized under SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pension," and the current rate allowance for its electric and gas operations. The electric rate plan for Pike has a comparable deferral provision. The rate plan for RECO and the gas rate plan for Pike do not have comparable deferral provisions.

A measurement date of December 31 is used for the other postretirement benefit plans.

Net Periodic Benefit Cost

The components of the Company's net periodic postretirement benefit costs for 2005, 2004 and 2003 were as follows:

(Millions of Dollars)	2005	2004	2003
Service cost	$4	$3	$2
Interest cost on accumulated other postretirement benefit obligation	10	8	9
Expected return on plan assets	(5)	(5)	(4)
Amortization of net actuarial loss	9	5	5
Amortization of prior service cost	-	-	(1)
NET PERIODIC POSTRETIREMENT BENEFIT COST	$18	$11	$11
Cost capitalized	(4)	(3)	(4)
Cost deferred	(6)	(1)	(3)
Cost charged to operating expenses	$8	$7	$4

Funded Status

The funded status of the programs at December 31, 2005, 2004 and 2003 was as follows:

(Millions of Dollars)	2005	2004	2003
CHANGE IN BENEFIT OBLIGATION			
Benefit obligation at beginning of year	$157	$131	$132
Service cost	4	3	2
Interest cost on accumulated postretirement benefit obligation	10	8	9
Net actuarial loss	23	25	10
Benefits paid and administrative expenses	(10)	(10)	(8)
Medicare prescription subsidy	-	-	(14)
BENEFIT OBLIGATION AT END OF YEAR	$184	$157	$131
CHANGE IN PLAN ASSETS			
Fair value of plan assets at beginning of year	$55	$49	$43
Actual return on plan assets	3	4	2
Employer contributions	13	8	8
Benefits paid	(7)	(6)	(4)
FAIR VALUE OF PLAN ASSETS AT END OF YEAR	$64	$55	$49
Funded status	$(120)	$(102)	$(82)
Unrecognized net loss	80	64	44
Unrecognized prior service costs	(1)	(1)	(1)
ACCRUED POSTRETIREMENT BENEFIT COST	$(41)	$(39)	$(39)

Assumptions

The actuarial assumptions were as follows:

	2005	2004	2003
Weighted-average assumptions used to determine benefit obligations at December 31:			
Discount Rate	5.70 %	5.90%	6.30%
Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31:			
Discount Rate	5.90 %	6.30%	6.75%
Expected Return on Plan Assets			
Tax-Exempt	8.80 %	8.80%	8.80%
Taxable	8.30 %	8.30%	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, 2005 was 10 percent, which is assumed to decrease gradually to 4.5 percent by 2011 and remain at that level thereafter. The health care cost trend rate used to determine benefit obligations for the year ended December 31, 2005 was 9 percent, which is assumed to decrease gradually to 4.5 percent by 2011 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, 2005:

	1-Percentage-Point	
(Millions of Dollars)	Increase	Decrease
Effect on accumulated other postretirement benefit obligation	$ 19	$ (16)
Effect on service cost and interest cost components for 2005	2	(2)

Expected Benefit Payments

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

(Millions of Dollars)	2006	2007	2008	2009	2010	2011-2015
Gross Benefit Payments	$11	$11	$12	$13	$14	$75
Medicare Prescription Benefit Receipts	1	1	1	1	1	8

Expected Contributions

Based on current estimates, O&R expects to make contributions of $13 million to the other postretirement benefit plans in 2006.

Plan Assets

The asset allocations for O&R's other postretirement benefit plans at the end of 2005, 2004 and 2003, and the target allocation for 2006 are as follows:

	Target Allocation	Plan Assets at December 31		
ASSET CATEGORY	2006	2005	2004	2003
Equity Securities	65%	64%	63%	90%
Debt Securities	35%	36%	37%	10%
Total	100%	100%	100%	100%

O&R 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 the investment policy for its benefit plans.

Effect of Medicare Prescription Benefit

In December 2003, President Bush signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003. 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 Company's actuaries have determined that each prescription drug plan 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 Company has determined that it is eligible to receive the benefit.

To reflect the effect of the Act on the plans, the accumulated postretirement benefit obligations were reduced by $27 million as of December 31, 2005 and the 2005 postretirement benefit costs were reduced by $4 million. The Company will recognize the 28 percent benefit (reflected as an unrecognized net gain to each plan) as an offset to plan costs. The 28 percent benefit is expected to reduce prescription drug plan costs by about 25% starting in 2006.

Note G – Environmental Matters

Hazardous substances, such as coal tar and asbestos, have been used or generated in the course of operations of O&R and its predecessors and are present at sites and in facilities and equipment they currently or previously owned, including seven sites at which gas was manufactured (the MGP Sites).

MGP Sites

The New York State Department of Environmental Conservation (DEC) requires O&R to develop and implement remediation programs for its MGP Sites. O&R has investigated and detected soil and/or groundwater contamination to varying degrees at its MGP Sites. Additional investigation and determination of the remediation and monitoring methods will be required at its other MGP Sites. At December 31, 2005 and 2004, O&R had an accrued liability of $53 million and $58 million, respectively, for their MGP Sites.

In 2004, O&R estimated that the aggregate undiscounted potential liability for the remediation of the MGP Sites could range from approximately $31 million to $87 million. These estimates were based on assumptions regarding the extent of contamination and the type and extent of remediation that may be required. Actual experience may be materially different.

O&R is permitted under its New York rate agreements to recover or defer as regulatory assets (for subsequent recovery through rates) certain site investigation and remediation costs. At December 31, 2005 and 2004, O&R's regulatory asset for recovery of these costs was $59 million. The environmental remediation costs for the years ended December 31, 2005 and 2004 were approximately $5 million and $3 million, respectively. There were no insurance recoveries during these periods.

In February 2006, a suit was brought against the Company seeking unspecified compensatory and punitive damages with respect to two decedents whose deaths were allegedly caused by exposure to contaminants from an O&R MGP site. The Company is in the process of investigating the allegations.

Asbestos Proceedings

Suits have been brought against O&R 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 O&R premises. The suits that have been resolved, which are many, have been resolved without any payment by O&R, or for amounts that were not, in the aggregate, material to the Company. The amounts specified in all the remaining suits total millions of dollars but the Company believes that these amounts are greatly exaggerated, based on the disposition of previous claims.

In addition, certain current and former employees have claimed or are claiming workers' compensation benefits based on alleged disability from exposure to asbestos. The Company defers as regulatory assets (for subsequent recovery through rates) liabilities incurred for asbestos claims by employees and third-party contractors relating to its divested generating plants.

The Company's accrued liability for asbestos suits and workers' compensation proceedings (including those related to asbestos exposure) and the amounts deferred as regulatory assets at December 31, 2005 and 2004 were as follows:

(Millions of Dollars)	2005	2004
Accrued liability – asbestos suits	$-	$1
Regulatory assets – asbestos suits	-	1
Accrued liability – workers' compensation	5	4

Note H – Other Material Contingencies

Generating Assets Sold To Mirant

In June 1999, O&R completed the sale of all of its generating assets to affiliates (the Mirant Affiliates) of Mirant Corporation (formerly Southern Energy, Inc.). The total gross proceeds from the sale amounted to $343 million. In 2003, Mirant and most of its subsidiaries filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code. Effective January 3, 2006, Mirant and most of its subsidiaries, but not including the Mirant Affiliates, emerged from bankruptcy.

O&R is a party to an agreement with Mirant and its affiliates tolling the running of any statute of limitations with respect to any claim Mirant or its affiliates may have against the Company. Mirant has indicated that it is considering a lawsuit against the Company in which it may seek to claim that some portion of what was paid in 1999 to purchase the generating assets exceeded the fair value of the assets. The Mirant Affiliates are pursuing claims against O&R, the amount of which they have indicated could be substantial, related to certain of the former O&R facilities.

In addition, Mirant has indicated in certain filings in its bankruptcy proceeding that under certain circumstances it would retire its Lovett generating units in 2007 and 2008. O&R is in the process of upgrading its transmission and distribution system to meet anticipated demand growth, and believes that by 2007 it would be able to meet existing transmission reliability criteria in the event that the Lovett units were shut down.

O&R is unable to predict whether or not any Mirant related lawsuits or other actions will have a material adverse effect on its financial position, results of operations or liquidity.

Note I – Non-Utility Generators and Other Power Purchase Agreements

O&R 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 applicable state public utility commissions. See “Recoverable Energy Costs” in Note A.

At December 31, 2005, the significant terms of the PPAs were as follows:

Facility	Equity Owner	Plant Output (MW)	Contracted Output (MW)	Contract Start Date	Contract Term (Years)
Lederle	Wyeth Laboratories	20	20	January 1991	15
Crossroads	Algonquin Power	4	4	January 1989	20

The Lederle PPA ended in January 2006. The Crossroads PPA obligates O&R to make capacity and other fixed payments. The Company has entered into an agreement to pay Crossroads a buyout amount, calculated in accordance with an agreed upon formula, to terminate the Crossroads PPA. The agreement is subject to regulatory approvals, including approval of the recovery from customers of the buyout amount.

For the years 2006 through 2010, the capacity and other fixed payments under the contracts are estimated to be as follows:

(Millions of Dollars)	2006	2007	2008	2009	2010
O&R	$8	$5	$3	-	-

For energy delivered under the PPAs, the Company is obligated to pay variable prices. The Company's payments under the PPAs for capacity, energy and other fixed payments in 2005, 2004 and 2003 were as follows:

	For the Years Ended December 31,		
(Millions of Dollars)	2005	2004	2003
Lederle	$14	$12	$12
Crossroads	2	3	2

Note J – Leases

O&R leases include rights of way for electric and gas distribution facilities, office buildings and automobiles. In accordance with SFAS No. 13, "Accounting for Leases," these leases are classified as operating leases. Generally, it is expected that leases will be renewed or replaced in the normal course of business.

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

(Millions of Dollars)	
2006	$2
2007	2
2008	2
2009	2
2010	1
All years thereafter	12
Total	$21

Note K – Income Tax

The components of income tax for the Company are as follows:

(Millions of Dollars)	2005	2004	2003
Charge/(benefit) to operations:			
State			
Current	$4	$3	$-
Deferred – net	3	(8)	9
Federal			
Current	23	7	(7)
Deferred – net	1	15	32
TOTAL CHARGE TO OPERATIONS	31	17	34
TOTAL CHARGE/(BENEFIT) TO OTHER INCOME	-	-	-
TOTAL	$31	$17	$34

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

(Millions of Dollars)	2005	2004
Depreciation	$113	$108
Regulatory asset – future income tax	50	47
State income tax	10	9
Capitalized overheads	28	30
Other	(12)	(8)
NET LIABILITIES	189	186
INVESTMENT TAX CREDITS	5	5
DEFERRED INCOME TAXES AND INVESTMENT TAX CREDITS	194	191
DEFERRED INCOME TAXES – RECOVERABLE ENERGY COSTS	12	7
TOTAL DEFERRED INCOME TAXES AND INVESTMENT TAX CREDITS	$206	$198

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)	2005	2004	2003
STATUTORY TAX RATE			
Federal	35%	35%	35%
Changes in computed taxes resulting from:			
State income tax	6	(5)	7
Depreciation related differences	-	-	1
Cost of removal	(1)	(2)	(1)
Other	(1)	(1)	1
Effective Tax Rate	39%	27%	43%

Timing of Deduction of Construction-Related Costs

In August 2005, the Internal Revenue Service (IRS) issued Revenue Ruling 2005-53 with respect to when federal income tax deductions can be taken for certain construction-related costs. The Company used the “simplified service cost method” (SSCM) to determine the extent to which these costs could be deducted in 2002, 2003 and 2004, and as a result reduced its current tax expense by $24 million. Under Revenue Ruling 2005-53, the Company may be required to repay, with interest, a portion of its past SSCM tax benefits and to capitalize and depreciate over a period of years costs it previously deducted under SSCM. The interest could range from zero to approximately $4 million. Repayment of the SSCM tax benefits would not otherwise affect the Company’s 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.

Note L – Stock-Based Compensation

O&R provides stock-based compensation to its employees under Con Edison’s stock-based compensation plans. These plans include stock options, restricted stock units and contributions to a stock purchase plan.

Stock Options

The Stock Option Plan (the 1996 Plan) provides for awards of stock options to officers and employees of Con Edison and its subsidiaries for up to 10 million shares of common stock.

Notes to the Financial Statements - Continued

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

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. Upon exercise of a stock option, the option holder may receive Con Edison common shares, cash, or a combination of both.

The weighted average fair values of options granted in 2005, 2004 and 2003 are $4.51, $5.12 and $4.30 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:

	2005	2004	2003
Risk-free interest rate	3.95%	3.47%	3.35%
Expected life	4.6 years	6 years	6 years
Expected stock volatility	19.00%	20.63%	21.44%
Expected dividend yield	5.37%	5.16%	5.66%

A summary of changes in the status of stock options awarded to O&R employees as of December 31, 2005, 2004 and 2003 is as follows:

	Shares	Weighted Average Exercise Price
Outstanding at 12/31/02	285,000	$38.311
Granted	113,000	39.505
Exercised	(9,500)	32.500
Forfeited	-	-
Outstanding at 12/31/03	388,500	38.800
Granted	101,500	43.753
Exercised	(24,000)	33.594
Forfeited	(1,000)	44.100
Outstanding at 12/31/04	465,000	40.139
Granted	105,000	43.031
Exercised	(32,000)	38.715
Forfeited	-	-
Outstanding at 12/31/05	538,000	$40.788

The following table summarizes O&R employees' stock options outstanding at December 31, 2005 for each plan year:

Plan Year	Remaining Contractual Life	Options Outstanding	Weighted Average Exercise Price	Options Exercisable
2005	9	105,000	43.031	-
2004	8	100,500	43.750	-
2003	7	113,000	39.505	-
2002	6	101,000	42.510	101,000
2001	5	80,000	37.750	80,000
2000	4	38,500	32.500	38,500
Total		538,000		219,500

The exercise prices of options awarded in 2005 and 2004 range from $42.18 to $43.72 and from $43.06 to $44.10, respectively. Options outstanding awarded in prior years have exercise prices equal to the weighted average exercise prices stated above.

Restricted Stock Units

Restricted stock unit awards under the LTIP have been made as follows: (i) annual awards to O&R officers under restricted stock unit agreements that provide for adjustment of the number of units (as described in the following paragraph); and (ii) restricted stock unit agreements with an officer. 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.

The number of units in each annual restricted stock unit award under the LTIP 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 the Standard & Poor's Electric Utilities Index 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 150 percent based on determinations made in connection with the O&R Annual Team Incentive Plan. Units vest when the performance period ends. In 2005, O&R recognized compensation expense, which was immaterial, for the portion of the awards for which the performance period ended December 31, 2005.

A senior officer of O&R was granted restricted stock units in 2000 and 2002. The units, each of which represented the right to receive one share of Con Edison common stock, became fully vested in 2005 and the receipt of certain of these units was deferred by the officer until a future date. Pursuant to APB No. 25, O&R recognized compensation expense for the units, which was not material, over the vesting period. The following table summarizes restricted stock activity for the three years ended December 31, 2005:

	Shares
Shares outstanding at 12/31/02	70,000
Granted	-
Redeemed	(25,000)
Shares outstanding at 12/31/03	45,000
Granted	-
Redeemed	(10,000)
Shares outstanding at 12/31/04	35,000
Granted	-
Redeemed	(10,000)
Shares outstanding at 12/31/05	25,000

Stock Purchase Plan

Under the Con Edison Stock Purchase Plan, O&R contributes $1 for each $9 invested by its officers and employees to purchase Con Edison common stock. 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.

Adoption of SFAS 123(R)

In January 2006, the Company adopted SFAS No. 123(R). This Statement requires that the Company recognize the cost of a transaction where it exchanges its equity instruments for goods and services as an expense on its income statement using a fair-value measurement method. SFAS No. 123(R) provides for two alternative methods of adoption, the modified prospective application and the modified retrospective application. The modified prospective application applies to new awards and to awards modified, repurchased, or cancelled after the Statement's effective date. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered that are outstanding after the Statement's effective date will be recognized as the service is rendered on or after the effective date. Alternatively, the modified retrospective application may be applied either to all prior years for which SFAS No. 123 was effective or only to prior interim periods in the year of initial adoption. The Company has elected the modified prospective application method for adopting SFAS No. 123(R). The fair value of stock options, which contain an employee service condition, will be determined on the grant date using the Black-Scholes valuation model. The fair value of the TSR portion of performance-based restricted stock units, will be valued on the grant date using a model that accommodates the plan's market-based conditions, with changes in fair value recorded in net income each reporting period. The fair value of all other restricted stock units will be based upon the closing market price on the grant date with changes in fair value recorded in earnings each reporting period. The Company will also adopt a non-substantive vesting period approach to record compensation expense related to retirement eligible employees. See Note A. The Company elected to apply the provisions of FSP 123(R)-3, "Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards," to determine the pool of tax benefits as of the adoption date of SFAS No. 123(R).

In October 2005, the FASB issued FSP 123(R)-2, "Practical Accommodation to the Application of Grant Date as Defined in FASB Statement No. 123(R)." This FSP allows companies to use the date the awards are approved as grant date in calculating the fair value as long as the awards are non-negotiable and the key terms and conditions are communicated to employees within a relatively short period of time. The Company will use the date the awards are approved as the grant date because both conditions are satisfied.

The Company does not expect the adoption of SFAS No. 123(R) to have a material impact on its financial position, results of operations or liquidity.

Note M – Financial Information By Business Segment

The business segments of the Company 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."

The Company's principal business segments are its regulated electric and gas utility activities.

All revenues of these business segments are from customers located in the United States of America. Also, all assets of the business segments 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.

The financial data for the business segments are as follows:

As of and for the Year Ended December 31, 2005 (Millions of Dollars)	Operating revenues	Depreciation and amortization	Income tax expense	Operating income	Interest charges	Total assets	Construction expenditures
Electric	$596	$ 25	$25	$56	$15	$1,082	$61
Gas	228	9	6	16	7	459	26
Other*	-	-	-	-	2	47	-
Total	$824	$34	$31	$72	$24	$1,588	$87

As of and for the Year Ended December 31, 2004 (Millions of Dollars)	Operating revenues	Depreciation and amortization	Income tax expense	Operating income	Interest charges	Total assets	Construction expenditures
Electric	$499	$25	$13	$49	$13	$935	$51
Gas	204	8	4	16	6	406	28
Other*	-	-	-	-	1	49	-
Total	$703	$33	$17	$65	$20	$1,390	$79

As of and for the Year Ended December 31, 2003 (Millions of Dollars)	Operating revenues	Depreciation and amortization	Income tax expense	Operating income	Interest charges	Total assets	Construction expenditures
Electric	$530	$26	$26	$52	$14	$906	$53
Gas	197	8	8	16	7	361	18
Other	-	-	-	-	-	2	-
Total	$727	$34	$34	$68	$21	$1,269	$71

* Includes amounts related to Transition Funding.

Note N – 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

The Company hedges market price fluctuations associated with physical purchases and sales of electricity and natural gas by using derivative instruments including futures, financial swaps, or options. The fair values of these hedges at December 31, 2005 and 2004 were as follows:

(Millions of Dollars)	2005	2004
Fair value of net assets	$69	$14

Credit Exposure

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

The Company had $68 million credit exposure in connection with energy supply and hedging activities, net of collateral and reserves, at December 31, 2005. The entire $68 million was with investment-grade counterparties.

Cash Flow Hedges

The Company designates a portion of its 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 other comprehensive income (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.

The following table presents selected information related to these cash flow hedges included in accumulated OCI at December 31, 2005:

(Term in Months/ Millions of Dollars)	Maximum Term	Accumulated Other Comprehensive Income/(Loss) Net of Tax	Portion Expected to be Reclassified to Earnings during the Next 12 Months
Energy Price Hedges	24	$1	$1

The actual amounts that will be reclassified to earnings may vary from the expected amounts presented above as a result of changes in market prices. The effect of reclassification from accumulated OCI to earnings will generally be offset by the recognition of the hedged transaction in earnings.

The unrealized net gains and losses relating to the hedge ineffectiveness of these cash flow hedges that were recognized in net earnings for the years ended December 31, 2005, 2004 and 2003 were immaterial to the results of operations of the Company for those periods.

Interest Rate Hedging

The Company uses interest rate swaps to manage interest rate exposure associated with debt. The fair values of these interest rate swaps at December 31, 2005 and 2004 were as follows:

(Millions of Dollars)	2005	2004
Fair value of interest rate swaps	$(13)	$(16)

Cash Flow Hedges

The Company's interest rate 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	Maturity Date	Notional Amount (Millions of Dollars)	Fixed Rate Paid	Variable Rate Received
Pollution Control Refunding Revenue Bond, 1994 Series A	2014	$55	6.09%	Current bond rate

The following table presents selected information related to these cash flow hedges included in accumulated OCI at December 31, 2005:

(Millions of Dollars)	Accumulated Other Comprehensive Income/(Loss) Net of Tax	Portion Expected to be Reclassified to Earnings during the Next 12 Months
Interest Rate Swaps	$(8)	$(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 Company, these costs are recovered in rates and the reclassification will have no impact on results of operations.

Note O – Asset Retirement Obligations

The Company accounts for retirement obligations on its 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 Company includes 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 the Company were $57 million in 2005 and 2004, respectively.

In March 2005, the FASB issued FIN 47, “Accounting for Conditional Asset Retirement Obligations – An Interpretation of SFAS No. 143,” which is effective for fiscal years ending after December 15, 2005. The Interpretation clarifies that a legal obligation to perform an asset retirement activity that is conditional on a future event is within the scope of SFAS No. 143. Accordingly, an entity is required to recognize a liability for the fair value of an asset retirement obligation that is conditional on a future event if the liability’s fair value can be reasonably estimated. The Interpretation provides guidance for evaluating whether sufficient information is available to make a reasonable estimate of the fair value. The Company did not recognize any asset retirement obligations under SFAS No. 143 or FIN 47.

Note P – Related Party Transactions

The Company provides and receives administrative and other services to and from Con Edison and its other subsidiaries pursuant to cost allocation procedures developed in accordance with rules approved by the PSC and/or other regulatory authorities, as applicable. The services received include substantial administrative support operations, such as corporate secretarial and associated ministerial duties, accounting, treasury, investor relations, information resources, legal, human resources, fuel supply, and energy management services. The costs of administrative and other services provided by the Company, and received from Con Edison and its other subsidiaries for the years ended December 31, 2005 and 2004 were as follows:

(Millions of Dollars)	2005	2004	2003
Cost of services provided	$14	$14	$13
Cost of services received	$25	$23	$20

In addition, the Company purchased from Con Edison of New York $185 million, $142 million and $128 million of natural gas for the years ended December 31, 2005, 2004 and 2003, respectively. These amounts are net of the effect of related hedging transactions.

The Company also purchased from Con Edison of New York $16 million of electricity for the year ended December 31, 2003. This amount includes the net effect of all electric hedging transactions executed by Con Edison of New York on behalf of O&R. In 2005 and 2004, such sales net of all electric hedging transactions resulted in a credit of $3 million and $2 million, respectively, to O&R.

The Company also purchased from Consolidated Edison Energy, Inc., a wholly owned subsidiary of Con Edison, $2 million, $9 million and $8 million of electricity for its New Jersey regulated subsidiary for the years ended December 31, 2005, 2004 and 2003, respectively, pursuant to a statewide energy auction.

In December 2005, the FERC authorized Con Edison of New York to lend funds to O&R, for periods of not more than 12 months, in amounts not to exceed $200 million outstanding at any time, at prevailing market rates. O&R has not borrowed any funds from Con Edison of New York.

Note Q – New Financial Accounting Standards

In September 2005, the Emerging Issues Task Force (“EITF”) reached a consensus on Issue 04-13, “Accounting for Purchases and Sales of Inventory with the Same Counterparty” (EITF 04-13). The FASB Task Force concluded that inventory purchases and sales transactions with the same counterparty should be combined for accounting purposes if they were entered into in contemplation of each other. The Task Force provided indicators to be considered for purposes of determining whether such transactions are entered into in contemplation of each other. The Task Force also provided guidance on the circumstances under which nonmonetary exchanges of inventory within the same line of business should be recognized at fair value. EITF 04-13 will be effective for reporting periods beginning after March 15, 2006, although no final guidance has been provided on its applicability to the purchase and sale of electricity by utilities. The adoption of EITF 04-13 is not expected to have a material impact on the Company’s financial position, results of operations or liquidity.

In July 2005, the FASB issued Exposure Draft titled “Accounting for Uncertain Tax Positions,” an interpretation of FASB Statement No. 109, “Accounting for Income Taxes” (the Exposure Draft). The Exposure Draft would clarify the accounting for uncertain tax positions in accordance with FASB Statement No. 109. Under the Exposure

Draft, an enterprise would not be allowed to recognize, in its financial statements, the benefit of a tax position unless that position will more likely than not be sustained on audit by taxing authorities based solely on the technical merits of the position. The IRS has completed its audits of the Company's tax returns through 1997. The Company's tax returns for subsequent years, which the IRS is reviewing, reflect certain tax positions with which the IRS does not or may not agree, including the deduction of certain construction-related costs. See "Timing of Deduction of Construction-Related Costs" in Note K. The Company is unable to predict whether the Exposure Draft, if adopted in its present form, would have a material impact on its financial position, results of operations or liquidity.

In June 2005, the Derivatives Implementation Group (DIG) task force of the FASB issued guidance on SFAS No. 133 implementation, Issue No. B38, which provides guidance on whether the potential settlement of the debtor's obligation to the creditor that would occur upon exercise of a put option or call option embedded in a debt instrument, meets the criteria for net settlement. The DIG also issued guidance on SFAS No. 133 implementation, Issue No. B39, which clarifies that certain conditions in the evaluation of embedded derivative debt instruments do not apply to an embedded call option if the right to accelerate the settlement of the debt can be exercised only by the debtor (issuer/borrower). Both these DIG issues are effective in the first fiscal quarter after December 15, 2005. The adoption of Issue Nos. B38 and B39 are not expected to have a material impact on the Company's financial position, results of operations or liquidity.

In June 2005, the EITF reached a consensus on Issue 05-6, "Determining the Amortization Period for Leasehold Improvements" (EITF 05-6), which is effective for periods beginning after June 30, 2005. EITF 05-6 states that leasehold improvements acquired in a business combination and those acquired after the inception of a lease should be amortized over the shorter of the useful life of the assets or a term that includes renewals that are reasonably assured at the date of the acquisition of the leasehold improvements. The adoption of EITF 05-6 did not have a material impact on the Company's financial position, results of operations or liquidity.

In May 2005, the FASB issued Statement No. 154, "Accounting for Changes and Error Corrections" (SFAS No. 154), which is effective for fiscal years beginning after December 15, 2005. This statement replaces APB No. 20, "Accounting Changes" (APB 20) and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements." APB 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS No. 154 requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period specific effects or the cumulative effect of the change. The adoption of SFAS No. 154 is not expected to have a material impact on the Company's financial position, results of operations or liquidity.

In March 2005, the FASB issued FSP FIN 46R-5, "Implicit Variable Interests under FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities."* This FSP is effective as of April 1, 2005. The FSP requires a company to consider whether it holds an implicit variable interest in a variable interest entity

(VIE) or potential VIE. An implicit interest involves the absorbing and/or receiving of variability indirectly from the VIE, and may take many different forms such as a lessee under a leasing arrangement or a party to a supply contract, service contract or derivative contract. The adoption of FSP FIN 46R-5 did not have a material impact on the Company's financial position, results of operations or liquidity.

In December 2004, the FASB issued Statement No. 153, "Exchanges of Nonmonetary Assets – an amendment of APB Opinion No. 29" (SFAS No. 153). APB 29 requires exchanges of nonmonetary assets to be measured on the basis of the fair value of the assets exchanged, with certain exceptions. SFAS No. 153 eliminates the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance, that is, transactions that are not expected to result in significant changes in the future cash flows of the reporting entity. This Statement is effective for nonmonetary exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of SFAS No. 153 did not have a material impact on the Company's financial position, results of operations or liquidity.

In November 2004, the FASB issued Statement No. 151, "Inventory Costs – an amendment of Accounting Research Bulletin No. 43, Chapter 4" (SFAS No. 151). This Statement clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. The Statement is effective for inventory costs incurred during fiscal periods beginning after June 15, 2005. The adoption of SFAS No. 151 did not have a material impact on the Company's financial position, results of operations or liquidity.