Orange and Rockland Utilities, Inc.

Consolidated Financial Statements (Unaudited)

First Quarter 2023

Report of Independent Auditors

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

Results of Review of Interim Financial Information

We have reviewed the accompanying consolidated interim financial information of Orange and Rockland Utilities, Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheet as of March 31, 2023, and the related consolidated statements of income, comprehensive income, shareholder's equity, and cash flows for the three-month periods ended March 31, 2023 and 2022, including the related notes (collectively referred to as the "consolidated interim financial information").

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial information for it to be in accordance with accounting principles generally accepted in the United States of America.

Basis for Review Results

We conducted our review in accordance with auditing standards generally accepted in the United States of America (US GAAS) applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. A review of interim financial information is substantially less in scope than an audit conducted in accordance with US GAAS, the objective of which is an expression of an opinion regarding the financial information as a whole, and accordingly, we do not express such an opinion. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our review. We believe that the results of the review procedures provide a reasonable basis for our conclusion.

Responsibilities of Management for the Consolidated Interim Financial Information

Management is responsible for the preparation and fair presentation of the consolidated interim financial information in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated interim financial information that is free from material misstatement, whether due to fraud or error.

Other Matter

We previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet (presented herein) and statement of capitalization (not presented herein) of Orange and Rockland Utilities, Inc. and its subsidiaries as of December 31, 2022, and the related consolidated statements of income, comprehensive income, shareholder's equity, and cash flows for the year then ended (not presented herein), and in our report dated March 10, 2023, we expressed an unmodified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2022, is consistent, in all material respects, with the audited consolidated balance sheet from which it has been derived.

PricewaterhouseCoopers LLP

New York, NY
May 12, 2023

Orange and Rockland Utilities, Inc.

Consolidated Financial Statements (Unaudited)

First Quarter 2023

Orange and Rockland Utilities, Inc.
CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	For the Three Months Ended March 31,	
(Millions of Dollars)	**2023**	**2022**
OPERATING REVENUES		
Electric	$182	$166
Gas	139	119
TOTAL OPERATING REVENUES	321	285
OPERATING EXPENSES		
Purchased power	71	59
Gas purchased for resale	63	47
Other operations and maintenance	97	87
Depreciation and amortization	25	24
Taxes, other than income taxes	24	23
TOTAL OPERATING EXPENSES	280	240
OPERATING INCOME	41	45
OTHER INCOME (DEDUCTIONS)		
Allowance for equity funds used during construction	1	1
Other income (deductions)	11	5
TOTAL OTHER INCOME	12	6
INCOME BEFORE INTEREST AND INCOME TAX EXPENSE	53	51
INTEREST EXPENSE (INCOME)		
Interest on long-term debt	13	11
Other interest expense	1	—
Allowance for borrowed funds used during construction	(1)	—
NET INTEREST EXPENSE	13	11
INCOME BEFORE INCOME TAX EXPENSE	40	40
INCOME TAX EXPENSE	9	10
NET INCOME	$31	$30

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

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

	For the Three Months Ended March 31,	
(Millions of Dollars)	**2023**	**2022**
NET INCOME	$31	$30
OTHER COMPREHENSIVE INCOME, NET OF TAXES		
Pension and other postretirement benefit plan liability adjustments, net of taxes	—	3
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAXES	—	3
COMPREHENSIVE INCOME	$31	$33

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

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

	For the Three Months Ended March 31,	
(Millions of Dollars)	2023	2022
OPERATING ACTIVITIES		
Net income	$31	$30
PRINCIPAL NON-CASH CHARGES/(CREDITS) TO INCOME		
Depreciation and amortization	25	24
Deferred income taxes	—	(2)
Rate case amortization	5	4
Other non-cash items, net	2	7
CHANGES IN ASSETS AND LIABILITIES		
Accounts receivable - customers	(7)	(15)
Allowance for uncollectible accounts - customers	(1)	(1)
Accounts receivable from affiliated companies	1	—
Materials and supplies, including gas in storage	14	5
Unbilled revenue and net unbilled revenue deferrals	13	3
Prepayments	(4)	(5)
Other receivables and other current assets	—	(20)
Accounts payable	(4)	5
Accounts payable to affiliated companies	(16)	(3)
Pensions and retiree benefits obligations, net	—	(1)
Pensions and retiree benefits contributions	(1)	(1)
Accrued taxes	1	(2)
Accrued taxes to affiliated companies	6	12
Accrued interest	3	1
System benefit charge	(2)	(3)
Deferred charges, noncurrent assets, leases, net and other regulatory assets	(5)	(20)
Deferred credits, noncurrent liabilities and other regulatory liabilities	(10)	45
Other current liabilities	(8)	(11)
NET CASH FLOWS FROM OPERATING ACTIVITIES	43	52
INVESTING ACTIVITIES		
Utility construction expenditures	(65)	(48)
Cost of removal less salvage	(2)	(1)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(67)	(49)
FINANCING ACTIVITIES		
Net issuance (retirement) of short-term debt	(53)	13
Capital contribution by parent	90	—
Dividend to parent	(16)	(14)
NET CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES	21	(1)
CASH AND TEMPORARY CASH INVESTMENTS		
NET CHANGE FOR THE PERIOD	(3)	2
BALANCE AT BEGINNING OF PERIOD	35	29
BALANCE AT END OF PERIOD	$32	$31
SUPPLEMENTAL DISCLOSURE OF CASH INFORMATION		
Cash paid during the period for:		
Interest	$9	$9
Income taxes	$4	$—
SUPPLEMENTAL DISCLOSURE OF NON-CASH INFORMATION		
Construction expenditures in accounts payable	$19	$11
Software licenses acquired but unpaid as of end of period	$—	$1

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

Orange and Rockland Utilities, Inc.
CONSOLIDATED BALANCE SHEET (UNAUDITED)

(Millions of Dollars)	**March 31, 2023**	**December 31, 2022**
ASSETS		
CURRENT ASSETS		
Cash and temporary cash investments	$32	$35
Accounts receivable – customers, net allowance for uncollectible accounts of $7 and $8 in 2023 and 2022, respectively	101	93
Other receivables, net allowance for uncollectible accounts of $2 in 2023 and 2022	9	13
Accrued unbilled revenue	57	70
Accounts receivable from affiliated companies	3	4
Gas in storage, at average cost	10	25
Materials and supplies, at average cost	28	27
Prepayments	35	31
Regulatory assets	21	20
Revenue decoupling mechanism receivable	2	—
Fair value of derivative assets	9	7
Other current assets	7	7
TOTAL CURRENT ASSETS	314	332
INVESTMENTS	20	20
UTILITY PLANT, AT ORIGINAL COST		
Electric	2,207	2,183
Gas	1,043	1,025
General	335	326
TOTAL	3,585	3,534
Less: Accumulated depreciation	1,027	1,010
Net	2,558	2,524
Construction work in progress	208	214
NET UTILITY PLANT	2,766	2,738
OTHER NONCURRENT ASSETS		
Regulatory assets	303	305
Operating lease right-of-use asset	2	2
Pension and retiree benefits	73	80
Fair value of derivative assets	—	6
Other deferred charges and noncurrent assets	26	28
TOTAL OTHER NONCURRENT ASSETS	404	421
TOTAL ASSETS	$3,504	$3,511

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

Orange and Rockland Utilities, Inc.
CONSOLIDATED BALANCE SHEET (UNAUDITED)

(Millions of Dollars)	March 31, 2023	December 31, 2022
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES		
Notes payable	$6	$59
Accounts payable	99	119
Accounts payable to affiliated companies	19	35
Customer deposits	17	17
Accrued taxes	3	2
Accrued taxes to affiliated companies	11	5
Accrued interest	14	11
Accrued wages	10	11
Fair value of derivative liabilities	10	7
Regulatory liabilities	65	66
System benefit charge	37	39
Operating lease liabilities	1	1
Other current liabilities	28	37
TOTAL CURRENT LIABILITIES	320	409
NONCURRENT LIABILITIES		
Provision for injuries and damages	3	4
Pensions and retiree benefits	51	50
Superfund and other environmental costs	95	95
Asset retirement obligations	1	1
Deferred income taxes and unamortized investment tax credits	372	370
Regulatory liabilities	507	532
Operating lease liabilities	1	1
Fair value of derivative liabilities	7	5
Other deferred credits and noncurrent liabilities	43	45
TOTAL NONCURRENT LIABILITIES	1,080	1,103
LONG-TERM DEBT	1,068	1,068
SHAREHOLDER'S EQUITY (See Statement of Shareholder's Equity)	1,036	931
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$3,504	$3,511

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

Orange and Rockland Utilities, Inc.
CONSOLIDATED STATEMENT OF SHAREHOLDER'S EQUITY (UNAUDITED)

(In Millions/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, 2021	1,000	$—	$439	$443	$6	$888
Net income				30		30
Common stock dividend to parent				(14)		(14)
Other comprehensive income					3	3
BALANCE AS OF MARCH 31, 2022	1,000	$—	$439	$459	$9	$907
BALANCE AS OF DECEMBER 31, 2022	1,000	$—	$439	$474	$18	$931
Net income				31		31
Common stock dividend to parent				(16)		(16)
Capital contribution by parent			90			90
BALANCE AS OF MARCH 31, 2023	1,000	$—	$529	$489	$18	$1,036

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

Notes to the Financial Statements (Unaudited)

General

These notes accompany and form an integral part of the consolidated financial statements of Orange and Rockland Utilities, Inc., a New York, (NY) corporation, and its subsidiaries (the Company or O&R). The Company is a regulated utility, the equity of which is owned entirely by Consolidated Edison, Inc. (Con Edison). O&R has one regulated utility subsidiary: Rockland Electric Company (RECO). For the three months ended March 31, 2023 and 2022, operating revenues for RECO were 13.3 percent and 15.3 percent, respectively, of O&R's consolidated operating revenues. O&R, along with RECO, provides electric service in southeastern NY and adjacent areas of northern New Jersey, (NJ) and gas service in southeastern NY.

The Company is subject to regulation by the Federal Energy Regulatory Commission (FERC), the New York State Public Service Commission (NYSPSC) and the New Jersey Board of Public Utilities (NJBPU) with respect to rates and accounting.

The interim consolidated financial statements of the Company as of March 31, 2023 and for the three month periods ended March 31, 2023 and 2022 (the First Quarter Financial Statements) are unaudited but, in the opinion of the Company's management, reflect all adjustments (which include only normally recurring adjustments) necessary for a fair statement of the results for the interim periods presented. The First Quarter Financial Statements should be read together with the audited consolidated financial statements of the Company as of December 31, 2022 and 2021 and for each of the three years ended December 31, 2022, including the notes thereto.

Coronavirus Disease 2019 (COVID-19) Impacts

Information regarding the Coronavirus Disease 2019 (COVID-19) global pandemic and its impact on the Company are described in Note B and Note J.

Subsequent Events

The Company has, pursuant to the accounting rules for subsequent events, evaluated events or transactions that occurred after March 31, 2023 through the posting on its website (May 12, 2023) of the First Quarter Financial Statements for potential recognition or disclosure in the First Quarter Financial Statements.

Note A – Summary of Significant Accounting Policies

Accounting Policies

The accounting policies of the Company conform to generally accepted accounting principles in the United States of America (GAAP). For the Company, these accounting principles include the accounting rules for regulated operations and the accounting requirements of the FERC and the state regulators having jurisdiction.

Reclassification

Certain prior period amounts have been reclassified within the Consolidated Statement of Cash Flows to conform with the current period presentation.

Changes in Accumulated Other Comprehensive Income/(Loss) by Component

For the three months ended March 31, 2023 and 2022, changes to accumulated other comprehensive income/(loss) (OCI) were as follows:

	For the Three Months Ended March 31,	
(Millions of Dollars)	**2023**	**2022**
Beginning balance, accumulated OCI, net of taxes (a)	$18	$6
OCI before reclassifications, net of tax of $(1) in 2022	1	2
Amounts reclassified from accumulated OCI related to pension plan liabilities, net of tax (a)(b)	(1)	1
Current period OCI, net of taxes	—	3
Ending balance, accumulated OCI, net of taxes (a)	$18	$9

(a) Tax reclassified from accumulated OCI is reported in the income tax expense line item of the consolidated income statement.
(b) Only RECO's portion of unrecognized pension and other postretirement benefit costs are recorded into, and amortized out of, OCI. All other such costs are recorded through regulatory assets. The net actuarial losses and prior service costs recognized during the period are included in the computation of total periodic pension and other postretirement benefit costs. See Notes E and F.

Note B – Regulatory Matters

Federal Grants

In March and April of 2023, O&R applied for federal grants of $125 million, appropriated under the Infrastructure Investment and Jobs Act (IIJA). Federal grants obtained pursuant to the IIJA are to be used to reduce customers' costs for investments in O&R's electric system.

Rate Plans

O&R and Consolidated Edison Company of New York, Inc. (CECONY) are in the process of replacing their separate existing customer billing and information systems with a single new customer billing and information system. O&R's 2022 – 2024 electric and gas rate plans allow O&R to capitalize the costs of the new system.

Rockland Electric Company (RECO)

In January 2022, RECO filed a request with FERC for an increase to its annual transmission revenue requirement from $16.9 million to $20.4 million. The revenue requirement reflects a return on common equity of 11.04 percent and a common equity ratio of 47.31 percent.

In May 2023, RECO filed a petition with the NJBPU requesting permission to defer costs of $5.1 million related to major storms during 2022 and 2023 until RECO's next base rate case.

COVID-19 Regulatory Matters

Governors, public utility commissions and other regulatory agencies in the states in which O&R and RECO operate have issued orders related to the COVID-19 pandemic that impact the companies as described below.

NY Regulation

In March 2020, a New York State governor declared a State Disaster Emergency for the State of NY due to the COVID-19 pandemic and signed the "New York State on PAUSE" executive order that temporarily closed all non-essential businesses statewide. The governor then lifted these closures over time and ended the emergency declaration in June 2021. As a result of the emergency declaration, and due to economic conditions, the NYSPSC and the Company has worked to mitigate the potential impact of the COVID-19 pandemic on the Company, its customers and other stakeholders.

In March 2020, the Company began suspending service disconnections, certain collection notices, final bill collection agency activity, new late payment charges and certain other fees for all customers. The Company also began providing payment extensions for all customers that were scheduled to be disconnected prior to the start of the COVID-19 pandemic. In June 2020, the state of NY enacted a law prohibiting NY utilities, including O&R, from disconnecting residential customers, and starting in May 2021 small business customers, during the COVID-19 state of emergency, that ended in June 2021. In addition, such prohibitions were in effect until December 21, 2021 for residential and small business customers who experienced a change in financial circumstances due to the COVID-19 pandemic.

The Company's NY rate plans allow it to defer costs resulting from a change in legislation, regulation and related actions that have taken effect during the term of the rate plans once the costs exceed a specified threshold. The total reserve increase to the allowance for uncollectible accounts from January 1, 2020 through March 31, 2023 reflecting the impact of the COVID-19 pandemic for O&R electric and gas operations was $2 million and was deferred pursuant to the legislative, regulatory and related actions provisions of the rate plans as a result of the New York State on PAUSE and related executive orders, that have since been lifted, as described above. The Company's NY rate plans also provide for an allowance for write-offs of customer accounts receivable balances. The above amount was increased by the amount that the actual write-offs of customer accounts receivable balances was above the allowance reflected in rates which difference was $1 million from March 1, 2020 through March 31, 2023.

In April 2021, NY passed a law that created a program that allows eligible residential renters in NY who require assistance with rent and utility bills to have up to twelve months of electric and gas utility bill arrears forgiven, provided that such arrears were accrued on or after March 13, 2020. The program is administered by the State Office of Temporary and Disability Assistance (OTDA) in coordination with the NYSDPS (the OTDA Program). Under the OTDA Program, O&R qualifies for a refundable tax credit for NY gross-receipts tax equal to the amount of arrears waived by the Company in the year that the arrears are waived and certified by the NYSPSC. OTDA may also use the program funds to provide additional Home Energy Assistance Program payments to the Company on behalf of low-income customers.

In April 2022, NY approved the 2022-2023 state budget, that included $250 million for addressing statewide residential utility customers' arrears balances accrued from March 7, 2020 through March 1, 2022. In June 2022, the NYSPSC issued an order implementing a COVID-19 arrears assistance program that provides credits toward reducing the arrears balances of low-income electric and gas customers of O&R (Phase 1 Order).

For the year ended December 31, 2022, O&R issued total credits of $6.1 million toward reducing customers' accounts receivable balances comprised of: $1.6 million pursuant to the NY funding; $3.2 million pursuant to the Phase 1 Order, that will be recovered over a one-year period via a surcharge mechanism that began September 1, 2022, as described above; and $1.3 million, in qualified tax credits and payments pursuant to the OTDA Program described above.

In January 2023, the NYSPSC issued an order implementing a COVID-19 arrears assistance program that provides credits toward reducing the arrears balances of residential and small commercial electric and gas customers of O&R (Phase 2 Order). The Phase 2 Order authorizes a surcharge mechanism for recovery of the eligible credit amounts over a one-year period commencing after credits are issued for O&R. Pursuant to the order, O&R agreed not to seek recovery of incremental financing costs incurred associated with arrears from March 2020 through December 2022 estimated to be $0.5 million. To facilitate implementation, O&R agreed to suspend residential terminations for non-payment through March 1, 2023 or 30 days after credits have been applied, whichever is later.

For the three months ended March 31, 2023, O&R issued total credits of $2.2 million toward reducing customers' accounts receivable balances were comprised of: $0.1 million pursuant to the Phase 1 Order, $2.1 million pursuant to the Phase 2 Order, and an immaterial amount in qualified tax credits and payments pursuant to the OTDA Program.

The Company's rate plans have revenue decoupling mechanisms in its NY electric and gas businesses that largely reconcile actual energy delivery revenues to the authorized delivery revenues approved by the NYSPSC per month and reconcile the deferred balances annually under O&R's NY electric and gas rate plans (January through December). The difference is accrued with interest each month for O&R's NY electric customers and after the annual deferral period ends for O&R's NY gas customers for refund to, or recovery from customers, as applicable. Generally, the refund to or recovery from customers begins February of each year over an ensuing twelve-month period for O&R's NY electric and gas customers.

NJ Regulation

In March 2020, NJ Governor Murphy declared a Public Health Emergency and State of Emergency for the State of NJ. In June 2021, the Governor ended the emergency declaration. As a result of the emergency declaration, and due to economic conditions, the NJBPU and RECO have worked to mitigate the potential impact of the COVID-19 pandemic on RECO, its customers and other stakeholders. In March 2020, RECO began suspending late payment charges, terminations for non-payment, and no access fees during the COVID-19 pandemic. The suspension of these fees continued through July 31, 2021 and were not material.

In July 2020, the NJBPU authorized RECO and other NJ utilities to create a COVID-19-related regulatory asset by deferring prudently incurred incremental costs related to the COVID-19 pandemic beginning on March 9, 2020, and extended such deferrals through March 15, 2023. In March 2023, RECO filed a petition with the NJBPU seeking to defer its net incremental COVID-19 related costs as a regulatory asset of $0.3 million for consideration in RECO's next base rate case.

Other Regulatory Matters

In January 2018, the NYSPSC issued an order initiating a focused operations audit of the Company's financial accounting for income taxes. The audit is investigating the Company's inadvertent understatement of a portion, the amount of which may be material, of its calculation of total federal income tax expense for ratemaking purposes. The understatement was related to the calculation of plant retirement-related cost of removal. As a result of such understatement, the Company accumulated significant income tax regulatory assets that were not reflected in O&R’s rate plans prior to 2014. This understatement of historical income tax expense materially reduced the amount of revenue collected from the Company's customers in the past. As part of the audit, the Company plans to pursue a private letter ruling from the Internal Revenue Service (IRS) that is expected to confirm, among other things, that in order to comply with IRS normalization rules, such understatement may not be corrected through a write-down of a portion of the regulatory asset and must be corrected through an increase in future years’ revenue requirements. The regulatory asset ($21 million as of March 31, 2023 and $22 million as of December 31, 2022 and that is not earning a return) is netted against the future income tax regulatory liability on the Company's consolidated balance sheet. The Company is unable to estimate the amount or range of its possible loss, if any, related to this matter. At March 31, 2023, the Company has not accrued a liability related to this matter.

Regulatory Assets and Liabilities

Regulatory assets and liabilities at March 31, 2023 and December 31, 2022 were comprised of the following items:

(Millions of Dollars)	2023	2022
Regulatory assets		
Unrecognized pension and other postretirement costs	$2	$—
Deferred storm costs	103	98
Environmental remediation costs	85	85
Pension and other postretirement benefits deferrals	31	38
Legacy meters	19	19
Revenue taxes	20	19
Recoverable energy costs	—	15
Deferred derivative losses - long term	8	5
COVID - 19 pandemic deferrals	3	4
COVID - 19 arrears relief program deferral	4	3
Energy efficiency and EV Program	13	10
Other	15	9
Regulatory assets – noncurrent	303	305
Deferred derivative losses - short term	10	7
Recoverable energy costs	11	13
Regulatory assets – current	21	20
Total Regulatory Assets	$324	$325
Regulatory liabilities		
Allowance for cost of removal less salvage	$181	$178
Future federal income tax	122	124
Unrecognized other postretirement costs	89	102
Pension and other postretirement benefit deferrals	46	46
Deferred derivative gains - long term	—	15
Property tax reconciliation costs	5	5
Revenue levelization	11	10
Low income aggregation program	5	7
System benefits charge carrying charge	3	4
Earnings sharing - electric and gas	3	3
Tax Cuts and Job Act of 2017 (TCJA) net benefits	2	2
Carrying charges on deferred tax liability	2	2
Late payment charges/COVID-19 Deferrals	5	4
Other	33	30
Regulatory liabilities – noncurrent	507	532
Refundable energy costs	50	34
Deferred derivative gains - short term	12	24
Revenue decoupling mechanism	3	8
Regulatory liabilities – current	65	66
Total Regulatory Liabilities	$572	$598

In general, the Company receives or is being credited with a return at the Other Customer-Provided Capital rate for regulatory assets that have not been included in rate base, and receives or is being credited with a return at the pre-tax weighted average cost of capital once the asset is included in rate base. Similarly, the Company pays to or credits customers with a return at the Other Customer-Provided Capital rate for regulatory liabilities that have not been included in rate base, and pays to or credits customers with a return at the pre-tax weighted average cost of capital once the liability is included in rate base. The Other Customer-Provided Capital rate for the three months ended March 31, 2023 and 2022 was 5.20 percent and 1.75 percent, respectively.

In general, the Company is receiving or being credited with a return on its regulatory assets for which a cash outflow has been made ($199 million and $207 million at March 31, 2023 and December 31, 2022 respectively). Regulatory assets of RECO for which a cash outflow has been made $22 million and $21 million at March 31, 2023 and December 31, 2022, respectively) are not receiving or being credited with a return. RECO recovers regulatory assets over a period of up to four years or until they are addressed in its next base rate case in accordance with the rate provisions approved by the NJBPU. Regulatory liabilities are treated in a consistent manner.

Regulatory assets that represent future financial obligations and were deferred in accordance with the Company's rate plans or orders issued by state regulators do not earn a return until such time as a cash outlay has been made. Regulatory liabilities are treated in a consistent manner. At March 31, 2023 and December 31, 2022, regulatory assets that did not earn a return consisted of the following items:

Regulatory Assets Not Earning a Return*

(Millions of Dollars)	**2023**	**2022**
Unrecognized pension and other postretirement costs	$2	$—
Environmental remediation costs	85	85
Revenue taxes	17	16
Deferred derivative losses - long term	8	5
COVID-19 deferral of uncollectible accounts receivable	2	4
Deferred derivative losses - short-term	10	7
Other	1	1
Total	$125	$118

*This table presents regulatory assets not earning a return for which no cash outlay has been made.

The recovery periods for regulatory assets for which a cash outflow has not been made and that do not earn a return have not yet been determined, except as noted below, and are expected to be determined pursuant to O&R's future rate plans to be filed or orders issued by the state regulators in connection therewith.

The Company recovers unrecognized pension and other postretirement costs over 10 years, and the portion of investment gains or losses recognized in expense over 15 years, pursuant to NYSPSC policy.

The deferral for revenue taxes represents the New York State metropolitan transportation business tax surcharge on the cumulative temporary differences between the book and tax basis of assets and liabilities of the Company, as well as the difference between taxes collected and paid by the Company to fund mass transportation. The Company recovers the majority of the revenue taxes over the remaining book lives of the electric and gas plant assets.

The Company recovers deferred derivative losses – current within one year, and noncurrent generally within three years.

Note C – Capitalization

The carrying amounts and fair values of long-term debt at March 31, 2023 and December 31, 2022 were:

	2023		2022	
(Millions of Dollars)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-Term Debt (including current portion) (a)	$1,068	$951	$1,068	$910

(a) Amounts shown are net of unamortized debt expense and unamortized debt discount of $7 million at March 31, 2023 and December 31, 2022.

Fair values of long-term debt have been estimated primarily using available market information and are classified as Level 2 liabilities (see Note L).

Note D – Short-Term Borrowing

In March 2023, O&R, along with Con Edison and CECONY entered into a credit agreement (Credit Agreement), that replaces the December 2016 credit agreement, under which banks are committed to provide loans and letters of credit on a revolving credit basis. The Credit Agreement expires in March 2028, unless extended for up to two additional one–year terms. There is a maximum of $250 million of credit available to O&R. The Credit Agreement supports the Company's commercial paper programs.

At March 31, 2023 and December 31, 2022, O&R had $6 million and $59 million of commercial paper outstanding, respectively. The weighted average interest rate at March 31, 2023 and December 31, 2022 was 5.8 percent and 4.7 percent, respectively.

At March 31, 2023 and December 31, 2022, no loans were outstanding under the Credit Agreement and the December 2016 credit agreement, respectively. An immaterial amount of letters of credit were outstanding under the Credit Agreement and the December 2016 credit agreement as of March 31, 2023 and December 31, 2022, respectively.

The banks' commitments under the Credit Agreement are subject to certain conditions, including that there be no event of default. The commitments are not subject to maintenance of credit rating levels or the absence of a material adverse change. Upon a change of control of, or upon an event of default by the Company, the banks may terminate their commitments with respect to the Company, declare any amounts owed by the Company under the Credit Agreement immediately due and payable and require the Company to provide cash collateral relating to the letters of credit issued for it under the Credit Agreement. Events of default include exceeding at any time of a ratio of consolidated debt to consolidated total capital of 0.65 to 1; having liens on its assets in an aggregate amount exceeding 10 percent of its consolidated net tangible assets, subject to certain exceptions; the Company or any of its material subsidiaries failing to make one or more payments in respect of material financial obligations (in excess of an aggregate $150 million of debt or derivative obligations other than non-recourse debt) of the Company; the occurrence of an event or condition which results in the acceleration of the maturity of any material debt (in excess of an aggregate $150 million of debt other than non-recourse debt) of the Company or enables the holders of such debt to accelerate the maturity thereof; and other customary events of default. Interest and fees charged for the revolving credit facilities and any loans made or letters of credit issued under the Credit Agreement reflect the Company's credit ratings.

Note E – Pension Benefits

Total Periodic Benefit Cost

The components of the Company's total periodic benefit cost for the three months ended March 31, 2023 and 2022 were as follows:

	For the Three Months Ended March 31,	
(Millions of Dollars)	**2023**	**2022**
Service cost – including administrative expenses	$3	$5
Interest cost on projected benefit obligation	9	7
Expected return on plan assets	(14)	(15)
Recognition of net actuarial loss	(3)	5
Recognition of prior service cost	1	1
TOTAL PERIODIC BENEFIT COST/(CREDIT)	$(4)	$3
Cost capitalized	(1)	(1)
Reconciliation to rate level	5	3
Total expense recognized	$—	$5

Components of net periodic benefit cost other than service cost are presented outside of operating income on the Company's consolidated income statements, and only the service cost component is eligible for capitalization. Accordingly, the service cost component is included in the line "Other operations and maintenance" and the non-service cost components are included in the line "Other income (deductions)" in the Company's consolidated income statements.

Expected Contributions

Based on estimates as of March 31, 2023, O&R expects to make contributions to the pension plans during 2023 of $3 million. O&R's policy is to fund the total periodic benefit cost of the qualified plan to the extent tax deductible and to also contribute to the non-qualified plan. During the first three months of 2023, the Company contributed $1 million to the pension plans.

Note F – Other Postretirement Benefits

Total Periodic Benefit Cost

The components of the Company's total periodic other postretirement benefit cost/(credit) for the three months ended March 31, 2023 and 2022 were as follows:

	For the Three Months Ended March 31,	
(Millions of Dollars)	**2023**	**2022**
Service cost – including administrative expenses	$1	$1
Interest cost on projected other postretirement benefit obligation	2	1
Expected return on plan assets	(4)	(3)
Recognition of net actuarial loss/(gain)	(2)	(2)
Recognition of prior service credit	(1)	—
TOTAL PERIODIC OTHER POSTRETIREMENT BENEFIT COST/(CREDIT)	$(4)	$(3)
Cost capitalized	—	—
Reconciliation to rate level	1	1
Total credit recognized	$(3)	$(2)

For information about the presentation of the components of other postretirement benefit costs, see Note E.

Expected Contributions

Based on estimates as of March 31, 2023, O&R does not expect to make a contribution to the other postretirement benefit plans in 2023. O&R's policy is to fund the total periodic benefit cost of the plans to the extent tax deductible.

Note G – Environmental Matters

Superfund Sites

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

The Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 and similar state statutes (Superfund) impose joint and several liability, regardless of fault, upon generators of hazardous substances for investigation and remediation costs (which include costs of demolition, removal, disposal, storage, replacement, containment and monitoring) and natural resource damages. Liability under these laws can be material and may be imposed for contamination from past acts, even though such past acts may have been lawful at the time they occurred. The sites at which O&R has been asserted to have liability under these laws, including its 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 O&R is not managing the site investigation and remediation, the accrued liability represents an estimate of the amount O&R will need to pay to investigate and, where determinable, discharge its related obligations. For Superfund Sites (including the manufactured gas plant sites) for which O&R is managing the investigation and remediation, the accrued liability represents an estimate of the Company's share of the undiscounted cost to investigate the sites and the cost to remediate the sites, if remediation is necessary and if a reasonable estimate of such cost can be made. Remediation costs are estimated in light of the information available, applicable remediation standards and experience with similar sites.

The accrued liabilities and regulatory assets related to Superfund Sites at March 31, 2023 and December 31, 2022 were as follows:

(Millions of Dollars)	**2023**	**2022**
Accrued Liabilities:		
Manufactured gas plant sites	$94	$94
Other Superfund Sites	1	1
Total	$95	$95
Regulatory assets	$85	$85

The Superfund Sites have been investigated. However, for some of the sites, the extent and associated cost of the required remediation has not yet been determined. As information pertaining to the required remediation becomes available, the Company expects that additional liability may be accrued, the amount of which is not presently determinable but may be material. The Company is permitted to recover or defer as regulatory assets (for subsequent recovery through rates) prudently incurred site investigation and remediation costs.

Environmental remediation costs incurred related to Superfund Sites for the three months ended March 31, 2023 and 2022 were as follows:

	For the Three Months Ended March 31,	
(Millions of Dollars)	**2023**	**2022**
Remediation costs incurred	$0.2	$0.2

No insurance or other third-party recoveries were received by the Company for the three months ended March 31, 2023 and 2022.

In 2022, 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 coal tar and/or other environmental contaminants could range up to $149 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.

Asbestos Proceedings

Suits have been brought in New York State and federal courts 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, that 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 billions of dollars; however, the Company believes that these amounts are greatly exaggerated, based on the disposition of previous claims. At March 31, 2023 and December 31, 2022, the Company had accrued its estimated aggregate undiscounted potential liability for these suits and additional suits that may be brought over the next 15 years as shown in the following table. The estimates were based upon a combination of modeling, historical data analysis and risk factor assessment. Courts have begun, and unless otherwise determined on appeal may continue, to apply different standards for determining liability in asbestos suits than the standard that applied historically. As a result, the Company currently believes that there is a reasonable possibility of an exposure to loss in excess of the liability accrued for the suits. The Company is unable to estimate the amount or range of such loss. In addition, certain current and former employees have claimed or are claiming workers' compensation benefits based on alleged disability from exposure to asbestos. The Company defers as regulatory assets (for subsequent recovery through rates) costs 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 for the Company at March 31, 2023 and December 31, 2022 were as follows:

(Millions of Dollars)	2023	2022
Accrued liability – asbestos suits	$1.0	$1.0
Regulatory assets – asbestos suits	$1.0	$1.0
Accrued liability – workers' compensation	$2.0	$2.0

Note H – Income Tax

O&R's income tax expense decreased to $9 million for the three months ended March 31, 2023 from $10 million for the three months ended March 31, 2022. The decrease in income tax expense is primarily due to lower allowance for uncollectible accounts.

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 for the three months ended March 31, 2023 and 2022 is as follows:

	For the Three Months Ended March 31,	
(% of Pre-tax income)	**2023**	**2022**
STATUTORY TAX RATE		
Federal	21 %	21 %
Changes in computed taxes resulting from:		
State income taxes, net of federal income tax benefit	6	6
Cost of removal	2	2
Amortization of excess deferred federal income taxes	(4)	(4)
Allowance for uncollectible accounts	(1)	—
Other	(1)	(1)
Effective tax rate	23 %	24 %

In April 2023, the IRS released Revenue Procedure 2023-15 which provides a safe harbor method of accounting that taxpayers may use to determine whether certain expenditures to maintain, repair, replace, or improve natural gas transmission and distribution property must be capitalized as improvements by the taxpayer or currently deducted for federal income tax purposes. This revenue procedure also provides procedures for taxpayers to obtain automatic consent to change their method of accounting to the safe harbor method of accounting permitted by this revenue procedure. The Company expects to adopt the guidance in 2023, and is evaluating the cumulative impact of the change in accounting method.

In May 2023, New York State passed a law that extended the increase in the corporate franchise tax rate from 6.5% to 7.25% for another 3-year period, through tax year 2026, for taxpayers with taxable income greater than $5 million. The law also temporarily extended the business capital tax through tax year 2026, not to exceed an annual maximum tax liability of $5 million per taxpayer, with a corporation paying the higher of its franchise or income tax liability during the same period. New York State also passed a law establishing a permanent rate of 30% for the metropolitan transportation business tax surcharge. These provisions are not expected to have a material impact on the Company's financial position, results of operations or liquidity.

Uncertain Tax Positions

At March 31, 2023, the estimated liability for uncertain tax positions for O&R was an immaterial amount. O&R recognizes interest on liabilities for uncertain tax positions in interest expense and would recognize penalties, if any, in operating expenses in O&R’s consolidated income statement. In the three months ended March 31, 2023 and 2022, O&R recognized no interest expense or penalties for uncertain tax positions in its consolidated income statement.

Note I – Revenue Recognition

The following table presents, for the three months ended March 31, 2023 and 2022, revenue from contracts with customers as defined in Accounting Standards Codification (ASC) Topic 606, "Revenue from Contracts with Customers," as well as additional revenue from sources other than contracts with customers, disaggregated by major source.

	For the Three Months Ended March 31, 2023			For the Three Months Ended March 31, 2022		
(Millions of Dollars)	Revenues from contracts with customers	Other revenues (a)	Total operating revenues	Revenues from contracts with customers	Other revenues (a)	Total operating revenues
Electric	$178	$4	$182	$163	$3	$166
Gas	138	1	139	120	(1)	119
Total	$316	$5	$321	$283	$2	$285

(a) This includes revenue from alternative revenue programs, such as the revenue decoupling mechanisms under the NY electric and gas rate plans, as well as net earnings adjustment mechanisms (EAMs) and positive incentives primarily for achieving energy efficiency goals (see "Rate Plans" in Note B).

Revenues are recorded as energy is delivered, generated or services are provided and billed to customers. Amounts billed are recorded in accounts receivable - customers, with payment generally due the following month. The Company's accounts receivable - customers balance also reflects the Company's purchase of receivables from energy service companies to support retail choice programs. Accrued revenues not yet billed to customers are recorded as accrued unbilled revenues.

O&R has the obligation to deliver electricity and gas to its customers. As the energy is immediately available for use upon delivery to the customer, the energy and its delivery are identifiable as a single performance obligation. The Company recognizes revenues as this performance obligation is satisfied over time as the Company delivers, and the customers simultaneously receive and consume, the energy. The amount of revenues recognized reflects the consideration the Company expects to receive in exchange for delivering the energy. Under its tariffs, the transaction price for full-service customers includes the Company's energy cost and for all customers includes delivery charges determined based on customer class and in accordance with established tariffs and guidelines of the NYSPSC or the NJBPU, as applicable. Accordingly, there is no unsatisfied performance obligation associated with these customers. The transaction price is applied to the Company's revenue generating activities through the customer billing process. Because energy is delivered over time, the Company uses output methods that recognize revenue based on direct measurement of the value transferred, such as units delivered, that provides an accurate measure of value for the energy delivered. The Company accrues revenues at the end of each month for estimated energy delivered but not yet billed to customers. The Company defers over a 12-month period, net interruptible gas revenues, other than those authorized by the NYSPSC to be retained by the Company, for refund to firm gas sales and transportation customers.

Note J – Current Expected Credit Losses

Allowance for Uncollectible Accounts

The Company's "Accounts receivable - customers" balance consists of utility bills due (bills are generally due the month following billing) from customers who have energy delivered, generated, or services provided by the Company. The balance also reflects the Company's purchase of receivables from energy service companies to support the retail choice programs.

“Other receivables” balance generally reflects costs billed by the Company for goods and services provided to external parties, such as accommodation work for private parties and certain governmental entities, real estate rental and pole attachments.

The Company develops expected loss estimates using past events data and consider current conditions and future reasonable and supportable forecasts. Changes to the Company’s reserve balances that result in write-offs of customer accounts receivable balances above existing rate allowances are not reflected in rates during the term of the current rate plans. For the Company’s customer accounts receivable allowance for uncollectible accounts, past events considered include write-offs relative to customer accounts receivable; current conditions include macro-and micro-economic conditions related to trends in the local economy, bankruptcy rates and aged customer accounts receivable balances, among other factors; and forecasts about the future include assumptions related to the level of write-offs and recoveries. Generally, the Company writes off customer accounts receivable as uncollectible 90 days after the account is turned off for non-payment, or the account is closed during the collection process. See "COVID-19 Regulatory Matters" in Note B.

Other receivables allowance for uncollectible accounts is calculated based on a historical average of collections relative to total other receivables, including current receivables. Current macro-and micro-economic conditions are also considered when calculating the current reserve. Probable outcomes of pending litigation, whether favorable or unfavorable to the Company, are also included in the consideration.

Starting in 2020, the potential economic impact of the COVID-19 pandemic was also considered in forward-looking projections related to write-off and recovery rates and resulted in an increase to the allowance for uncollectible accounts. The decreases to the allowance for uncollectible customer accounts were $1 million for the three months ended March 31, 2023 and 2022.

Customer accounts receivable and the associated allowance for uncollectible accounts are included in the line “Accounts receivable - customers” on the Company’s consolidated balance sheets. Other receivables and the associated allowance for uncollectible accounts are included in “Other receivables” on the consolidated balance sheets.

The table below presents a rollforward by major portfolio segment type for the three months ended March 31, 2023 and 2022:

	For the Three Months Ended March 31,			
	Accounts receivable - customers		Other receivables	
(Millions of Dollars)	2023	2022	2023	2022
Allowance for credit losses				
Beginning Balance at January 1,	$8	$12	$2	$2
Recoveries	—	—	—	—
Write-offs	(2)	(1)	—	—
Reserve adjustments	1	—	—	—
Ending Balance March 31,	$7	$11	$2	$2

Note K – Derivative Instruments and Hedging Activities

The Company hedges market price fluctuations associated with physical purchases and sales of electricity, natural gas and, to a lesser extent, refined fuels by using derivative instruments including futures, forwards and options. These are economic hedges, for which the Company does not elect hedge accounting. Derivatives are recognized on the consolidated balance sheet at fair value (see Note L), unless an exception is available under the accounting rules for derivatives and hedging. Qualifying derivative contracts that have been designated as normal purchases or normal sales contracts are not reported at fair value under the accounting rules.

The fair values of the Company's commodity derivatives including the offsetting of assets and liabilities on the consolidated balance sheet at March 31, 2023 and December 31, 2022 were:

(Millions of Dollars)	2023				2022			
Balance Sheet Location	**Gross Amounts of Recognized Assets/ (Liabilities)**	**Gross Amounts Offset**	**Net Amounts of Assets/ (Liabilities) (a)**		**Gross Amounts of Recognized Assets/ (Liabilities)**	**Gross Amounts Offset**	**Net Amounts of Assets/ (Liabilities) (a)**	
Fair value of derivative assets								
Current	$13	$(4)	$9	(b)	$28	$(21)	$7	(b)
Noncurrent	2	(2)	—		18	(12)	6	
Total fair value of derivative assets	$15	$(6)	$9		$46	$(33)	$13	
Fair value of derivative liabilities								
Current	$(9)	$4	$(5)	(b)	$(9)	$6	$(3)	
Noncurrent	(9)	2	(7)		(6)	1	(5)	
Total fair value of derivative liabilities	$(18)	$6	$(12)		$(15)	$7	$(8)	
Net fair value derivative assets/(liabilities)	$(3)	$—	$(3)		$31	$(26)	$5	

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

(b) At March 31, 2023, margin deposits of $(5) million and an immaterial amount were classified as derivative liabilities and derivative assets, respectively, on the consolidated balance sheet, but not included in the table. At December 31, 2022, margin deposits of $4 million and an immaterial amount were classified as derivative liabilities and derivative assets, respectively, on the consolidated balance sheet, but not included in the table. Margin is collateral, typically cash, that the holder of a derivative instrument is required to deposit in order to transact on an exchange and to cover its potential losses with its broker or the exchange.

The Company generally recovers its prudently incurred purchased power and gas costs, including hedging gains and losses, in accordance with rate provisions approved by the applicable state utility regulators. See "Recoverable Energy Costs" in Note A. In accordance with the accounting rules for regulated operations, the Company records a regulatory asset or liability to defer recognition of unrealized gains and losses on its electric and gas derivatives. As gains and losses are realized in future periods, they will be recognized as purchased power, gas and fuel costs in the Company's consolidated income statements.

O&R and CECONY (CECONY together with O&R, the Utilities) have combined their gas requirements, and contracts to meet those requirements, into a single portfolio. The combined portfolio is administered by, and related management services (including hedging market price fluctuations associated with the physical purchase of gas) are provided by, CECONY (for itself and as agent for O&R) and costs (net of the effect of the related hedging transactions) are allocated between the Utilities in accordance with provisions approved by the NYSPSC. See Note M.

The following table presents the realized and unrealized gains or losses on commodity derivatives that have been deferred for the three months ended March 31, 2023 and 2022:

		For the Three Months Ended March 31,	
(Millions of Dollars)	**Balance Sheet Location**	**2023**	**2022**
Pre-tax gains/(losses) deferred in accordance with accounting rules for regulated operations:			
Current	Deferred derivative gains	$(12)	$27
Noncurrent	Deferred derivative gains	(15)	3
Total deferred gains/(losses)		$(27)	$30
Current	Deferred derivative losses	$(4)	$(5)
Current	Recoverable energy costs	(18)	15
Noncurrent	Deferred derivative losses	(3)	—
Total deferred gains/(losses)		$(25)	$10
Net deferred gains/(losses)		$(52)	$40

The following table presents the hedged volume of the Company's commodity derivative transactions at March 31, 2023:

Electric Energy (MWh) (a)	Capacity (MW) (a)	Natural Gas (Dt) (a)
1,740,600	7,200	13,040,000

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

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

At March 31, 2023, the Company had $8 million of credit exposure in connection with open energy supply net receivables and hedging activities, net of collateral related to investment-grade counterparties and exchange brokers.

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

The following table presents the aggregate fair value of the Company's derivative instruments with credit-risk-related contingent features that are in a net liability position, the collateral posted for such positions and the additional collateral that would have been required to be posted had the lowest applicable credit rating been reduced one level and to below investment grade at March 31, 2023:

(Millions of Dollars)	
Aggregate fair value – net liabilities (a)	$9
Collateral posted	—
Additional collateral (b) (downgrade one level from current ratings)	10
Additional collateral (b) (downgrade to below investment grade from current ratings)	14 (c)

(a) Non-derivative transactions for the purchase and sale of electricity, gas and qualifying derivative instruments, that have been designated as normal purchases or normal sales, are excluded from the table. These transactions primarily include purchases of electricity from independent system operators. In the event the Company was no longer extended unsecured credit for such purchases, the Company would be required to post $1 million of additional collateral at March 31, 2023. For certain other such non-derivative transactions, the Company could be required to post collateral under certain circumstances, including in the event counterparties had reasonable grounds for insecurity.

(b) The additional collateral amounts shown above are based upon the estimated O&R allocation of the Utilities' collateral requirements. The Utilities measures the collateral requirements by taking into consideration the fair value amounts of derivative instruments that contain credit-risk-related contingent features that are in a net liability position plus amounts owed to counterparties for settled transactions and amounts required by counterparties for minimum financial security. The fair value amounts represent unrealized losses, net of any unrealized gains where the Company has a legally enforceable right to offset.

(c) Derivative instruments that are net assets have been excluded from the table. At March 31, 2023, if the Company had been downgraded to below investment grade, it would have been required to post $2 million of additional collateral.

Note L – Fair Value Measurements

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

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

- Level 1 – Consists of assets or liabilities whose value is based on unadjusted quoted prices in active markets at the measurement date. An active market is one in which transactions for assets or liabilities occur with sufficient frequency and volume to provide pricing information on an ongoing basis. This category includes contracts traded on active exchange markets valued using unadjusted prices quoted directly from the exchange.

- Level 2 – Consists of assets or liabilities valued using industry standard models and based on prices, other than quoted prices within Level 1, that are either directly or indirectly observable as of the measurement date. The industry standard models consider observable assumptions including time value, volatility factors, and current market and contractual prices for the underlying commodities, in addition to other economic measures. This category includes contracts traded on active exchanges or in over-the-counter markets priced with industry standard models.

- Level 3 – Consists of assets or liabilities whose fair value is estimated based on internally developed models or methodologies using inputs that are generally less readily observable and supported by little, if any, market activity at the measurement date. Unobservable inputs are developed based on the best available information and subject to cost benefit constraints. This category includes contracts priced using models that are internally developed and contracts placed in illiquid markets. It also includes contracts that expire after the period of time for which quoted prices are available and internal models are used to determine a significant portion of the value.

Assets and liabilities measured at fair value on a recurring basis as of March 31, 2023 and December 31, 2022 are summarized below.

	2023					2022				
(Millions of Dollars)	Level 1	Level 2	Level 3	Netting Adjustment (e)	Total	Level 1	Level 2	Level 3	Netting Adjustment (e)	Total
Derivative assets:										
Commodity (a)(b)(c)	$—	$12	$—	$(2)	$10	$1	$44	$—	$(32)	$13
Other (a)(b)(d)	13	6	—	—	19	14	6	—	—	20
Total assets	$13	$18	$—	$(2)	$29	$15	$50	$—	$(32)	$33
Derivative liabilities:										
Commodity (a)(b)(c)	$1	$8	$6	$2	$17	$—	$8	$8	$(4)	$12
Total liabilities	$1	$8	$6	$2	$17	$—	$8	$8	$(4)	$12

(a) The Company's policy is to review the fair value hierarchy and recognize transfers into and transfers out of the levels at the end of each reporting period. There were no transfers of commodity derivative liabilities from level 3 to level 2 during the three months ended March 31, 2023. There was $1 million of commodity derivative liabilities transferred from level 3 to level 2 during the year ended December 31, 2022 because of availability of observable market data due to the decrease in the terms of certain contracts from beyond three years as of September 30, 2022 to less than three years as of December 31, 2022.
(b) Level 2 assets and liabilities include investments held in the non-qualified retirement plans, exchange-traded contracts where there is insufficient market liquidity to warrant inclusion in Level 1 and certain over−the−counter derivative instruments for electricity and natural gas. Derivative instruments classified as Level 2 are valued using industry standard models that incorporate corroborated observable inputs, such as pricing services or prices from similar instruments that trade in liquid markets, time value and volatility factors.
(c) The accounting rules for fair value measurements and disclosures require consideration of the impact of nonperformance risk (including credit risk) from a market participant perspective in the measurement of the fair value of assets and liabilities. At March 31, 2023 and December 31, 2022, the Company determined that nonperformance risk would have no material impact on its financial position or results of operation.
(d) Other assets are comprised of assets such as life insurance contracts within the non-qualified retirement plan.
(e) Amounts represent the impact of legally-enforceable master netting agreements that allow the Company to net gain and loss positions and cash collateral held or placed with the same counterparties.

The employees in CECONY's risk management group develop and maintain the valuation policies and procedures for, and verify pricing and fair value valuation of, commodity derivatives for the Utilities. Under CECONY's policies and procedures, multiple independent sources of information are obtained for forward price curves used to value commodity derivatives. Fair value and changes in fair value of commodity derivatives are reported monthly to the Utilities' risk committees, comprised of officers and employees of the Utilities that oversee energy hedging. The risk management group reports to CECONY's Vice President and Treasurer.

	Fair Value of Level 3 at March 31, 2023 (*Millions of Dollars*)	Valuation Techniques	Unobservable Inputs	Range
Commodity				
Electricity	$(6)	Discounted Cash Flow	Forward energy prices (a)	$2.25 - $7.26 per kW-month
Total O&R - Commodity	$(6)			

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

The table listed below provides a reconciliation of the beginning and ending net balances for assets and liabilities measured at fair value for the three months ended March 31, 2023 and 2022 and classified as Level 3 in the fair value hierarchy:

	For the Three Months Ended March 31,	
(Millions of Dollars)	2023	2022
Beginning balance as of January 1,	$(8)	$(8)
Included in earnings	(1)	(2)
Included in regulatory assets and liabilities	1	1
Settlements	2	3
Ending balance as of March 31,	$(6)	$(6)

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

Note M – Related Party Transactions

The Company provides and receives administrative and other services to and from Con Edison and its subsidiaries pursuant to cost allocation procedures developed in accordance with rules approved by the NYSPSC and/or other regulatory authorities, as applicable. The services received include substantial administrative support operations, such as corporate secretarial and associated managerial duties, accounting, treasury, investor relations, information technology, 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 three months ended March 31, 2023 and 2022 were as follows:

	For the Three Months Ended March 31,	
(Millions of Dollars)	2023	2022
Cost of services provided	$4	$4
Cost of services received	$16	$16

At March 31, 2023 and December 31, 2022, O&R's net payable to Con Edison and its other subsidiaries associated with these services were $8 million and $7 million, respectively.

In addition, CECONY and O&R have joint gas supply arrangements, in connection with which O&R purchased from CECONY $33 million and $45 million of natural gas for the three months ended March 31, 2023 and 2022, respectively. These amounts are net of the effect of related hedging transactions. At March 31, 2023 and December 31, 2022, O&R's net payable to CECONY associated with these gas purchases was $8 million and $24 million, respectively.

At March 31, 2023 and December 31, 2022, the Company's net payable to Con Edison for income taxes were $11 million and $5 million, respectively.

FERC has authorized CECONY to lend funds to O&R, for periods of not more than 12 months, in an amount not to exceed $250 million at prevailing market rates. At March 31, 2023 and December 31, 2022, there were no outstanding loans to O&R.

Note N – New Financial Accounting Standards

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting (ASU 2020-04). In 2017, the United Kingdom's Financial Conduct Authority announced that it intends to stop persuading or compelling banks to submit the London Interbank Offered Rate (LIBOR), a benchmark interest rate referenced in a variety of agreements, after 2021.The United Kingdom's Financial Conduct Authority ceased publication of U.S. Dollar LIBOR after December 31, 2021 for one-week and two-month U.S. Dollar LIBOR tenors, and expects to cease publishing after June 30, 2023 for all other U.S. Dollar LIBOR tenors. ASU 2020-04 provides entities with optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. In January 2021, the FASB issued amendments to the guidance through ASU 2021-01 to include all contract modifications and hedging relationships affected by reference rate reform, including those that do not directly reference LIBOR or another reference rate expected to be discontinued, and clarify which optional expedients may be applied to them. As the Company continues to modify contracts that contain references to LIBOR that allow for the use of an alternative rate, it has applied the practical expedient to not assess each change for a contract modification. The guidance can be applied prospectively. The optional relief is temporary and generally cannot be applied to contract modifications and hedging relationships entered into or evaluated after December 31, 2024, that date reflects the updates in ASU 2022-06, Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848. The Company does not expect the guidance to have a material impact on its financial position, results of operations and liquidity.

In March 2023, the FASB issued amendments to the guidance on accounting for Investments—Equity Method and Joint Ventures (Topic 323) through ASU 2023-02. The amendments would expand the use of the proportional amortization method of income recognition. The new guidance does not have an impact on the Company's financial position, results of operations and liquidity.