

Orange and Rockland Utilities, Inc.
Second Quarter 2010 Financial Statements and Notes

Financial Statements (Unaudited)

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

	For the Three Months Ended June		For the Six Months Ended June	
	2010	2009	2010	2009
	30,		30,	
	(Millions of Dollars)			
OPERATING REVENUES				
Electric	\$ 153	\$ 144	\$ 314	\$ 289
Gas	35	39	125	145
TOTAL OPERATING REVENUES	188	183	439	434
OPERATING EXPENSES				
Purchased power	72	72	158	150
Gas purchased for resale	15	20	58	85
Other operations and maintenance	64	59	133	117
Depreciation and amortization	11	11	22	21
Taxes, other than income taxes	12	11	25	23
TOTAL OPERATING EXPENSES	174	173	396	396
OPERATING INCOME	14	10	43	38
OTHER INCOME (DEDUCTIONS)				
Investment and other income	(1)	1	(1)	1
Allowance for equity funds used during construction	1	-	1	-
TOTAL OTHER INCOME (DEDUCTIONS)	-	1	-	1
INCOME BEFORE INTEREST AND INCOME TAX EXPENSE	14	11	43	39
INTEREST EXPENSE				
Interest on long-term debt	8	7	16	14
Other interest	-	1	1	2
Allowance for borrowed funds used during construction	-	-	(1)	-
NET INTEREST EXPENSE	8	8	16	16
INCOME BEFORE INCOME TAXES	6	3	27	23
INCOME TAX EXPENSE	2	1	9	9
NET INCOME	\$ 4	\$ 2	\$ 18	\$ 14

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

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

	For the Six Months Ended June 30,	
	2010	2009
	(Millions of Dollars)	
OPERATING ACTIVITIES		
Net income	\$ 18	\$ 14
PRINCIPAL NON-CASH CHARGES/(CREDITS) TO INCOME		
Depreciation and amortization	22	21
Deferred income taxes	(17)	8
Other non-cash items (net)	14	6
CHANGES IN ASSETS AND LIABILITIES		
Accounts receivable - customers, less allowance for uncollectibles	(12)	23
Accounts receivable from affiliated companies	(15)	6
Materials and supplies, including gas in storage	10	28
Prepayments, other receivables and other current assets	16	(10)
Recoverable energy costs	(4)	(19)
Accounts payable	(10)	39
Accounts payable to affiliated companies	(12)	(27)
Pensions and retiree benefits	29	23
Accrued taxes	3	2
Accrued interest	(1)	-
Accrued wages	3	-
Deferred charges, deferred derivative losses, noncurrent assets and other regulatory assets	(52)	(9)
Deferred credits and other regulatory liabilities	20	21
Superfund and other environmental costs	32	-
Other assets	-	-
Other liabilities	(6)	(4)
NET CASH FLOWS FROM OPERATING ACTIVITIES	38	122
INVESTING ACTIVITIES		
Utility construction expenditures	(51)	(42)
Increase in restricted cash	(1)	-
Cost of removal less salvage	(1)	(3)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(53)	(45)
FINANCING ACTIVITIES		
Net proceeds from short-term debt	87	14
Retirement of long-term debt	(100)	(1)
Capital contribution by parent	-	30
Dividend to parent	(16)	(16)
Retirement of loan from affiliate	-	(113)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	(29)	(86)
CASH AND TEMPORARY CASH INVESTMENTS:		
NET CHANGE FOR THE PERIOD	(44)	(9)
BALANCE AT BEGINNING OF PERIOD	52	17
BALANCE AT END OF PERIOD	\$ 8	\$ 8
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	\$ 17	\$ 14
Income Taxes	\$ 23	\$ 1

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

	June 30, 2010	December 31, 2009
	(Millions of Dollars)	
ASSETS		
CURRENT ASSETS		
Cash and temporary cash investments	\$ 8	\$ 52
Accounts receivable - customers, less allowance for uncollectible accounts of \$6 and \$5 in 2010 and 2009, respectively	70	58
Accrued unbilled revenue	32	56
Other receivables, less allowance for uncollectible accounts of \$1 in 2010 and 2009	22	22
Accounts receivable from affiliated companies	27	12
Gas in storage, at average cost	22	31
Materials and supplies, at average cost	9	10
Prepayments	23	15
Deferred derivative losses	43	37
Recoverable energy costs	22	31
Revenue decoupling mechanism receivable	8	10
Other current assets	7	6
TOTAL CURRENT ASSETS	293	340
INVESTMENTS	10	10
UTILITY PLANT, AT ORIGINAL COST		
Electric	1,098	1,076
Gas	464	446
General	161	158
Total	1,723	1,680
Less: Accumulated depreciation	479	464
Net	1,244	1,216
Construction work in progress	92	87
NET UTILITY PLANT	1,336	1,303
DEFERRED CHARGES, REGULATORY ASSETS AND NONCURRENT ASSETS		
Regulatory assets	535	513
Other deferred charges and noncurrent assets	19	21
TOTAL DEFERRED CHARGES, REGULATORY ASSETS AND NONCURRENT ASSETS	554	534
TOTAL ASSETS	\$ 2,193	\$ 2,187

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

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

	June 30, 2010	December 31, 2009
(Millions of Dollars)		
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES		
Long-term debt due within one year	\$ 3	\$ 103
Notes payable	87	-
Accounts payable	78	88
Accounts payable to affiliated companies	12	24
Customer deposits	14	14
Accrued taxes	3	-
Accrued interest	5	6
Fair value of derivative liabilities	42	36
Deferred income taxes - recoverable energy costs	9	12
Accrued wages	5	2
Uncertain Income Taxes	6	-
Other current liabilities	19	25
TOTAL CURRENT LIABILITIES	283	310
NONCURRENT LIABILITIES		
Provision for injuries and damages	7	7
Pensions and retiree benefits	381	386
Superfund and other environmental costs	85	53
Fair value of derivative liabilities	35	30
Other noncurrent liabilities	1	-
TOTAL NONCURRENT LIABILITIES	509	476
DEFERRED CREDITS AND REGULATORY LIABILITIES		
Deferred income taxes and investment tax credits	266	268
Regulatory liabilities	123	127
Other deferred credits	3	3
TOTAL DEFERRED CREDITS AND REGULATORY LIABILITIES	392	398
LONG-TERM DEBT	497	497
SHAREHOLDER'S EQUITY		
Common shareholder's equity (See Statement of Common Shareholder's Equity)	512	506
TOTAL SHAREHOLDER'S EQUITY	512	506
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	\$ 2,193	\$ 2,187

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

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

(Millions of Dollars/Except Share Data)	Shares	<u>Common Stock</u> Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
BALANCE AS OF DECEMBER 31, 2008	1,000	\$ -	\$ 274	\$ 228	\$ (47)	\$ 455
Net Income				12		12
Common stock dividend to parent				(8)		(8)
Capital contribution by parent			20			20
Other comprehensive loss					1	1
BALANCE AS OF MARCH 31, 2009	1,000	\$ -	\$ 294	\$ 232	\$ (46)	\$ 480
Net Income				2		2
Common stock dividend to parent				(8)		(8)
Capital contribution by parent			10			10
Other comprehensive loss					1	1
BALANCE AS OF JUNE 30, 2009	1,000	\$ -	\$ 304	\$ 226	\$ (45)	\$ 485
BALANCE AS OF DECEMBER 31, 2009	1,000	\$ -	\$ 304	\$ 239	\$ (37)	\$ 506
Net Income				13		13
Common stock dividend to parent				(8)		(8)
Other comprehensive income					3	3
BALANCE AS OF MARCH 31, 2010	1,000	\$ -	\$ 304	\$ 244	\$ (34)	\$ 514
Net Income				4		4
Common stock dividend to parent				(8)		(8)
Other comprehensive income					2	2
BALANCE AS OF JUNE 30, 2010	1,000	\$ -	\$ 304	\$ 240	\$ (32)	\$ 512

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 June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
	(Millions of Dollars)			
NET INCOME	\$ 4	\$ 2	\$ 18	\$ 14
OTHER COMPREHENSIVE INCOME, NET OF TAXES				
Pension plan liability adjustments, net of \$1 and \$3 in 2010, \$0 and \$(1) taxes in 2009, respectively	2	1	5	2
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAXES	2	1	5	2
COMPREHENSIVE INCOME	\$ 6	\$ 3	\$ 23	\$ 16

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 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 two regulated utility subsidiaries: Rockland Electric Company (RECO) and Pike County Light & Power Company (Pike). For the six months ended June 30, 2010 and 2009, operating revenues for RECO and Pike were 23.6 percent and 0.8 percent and 23.8 percent and 0.8 percent, respectively, of O&R's consolidated operating revenues. 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.

Certain prior year amounts have been reclassified to conform with the current year presentation. Consistent with current industry practice, the Company is presenting income tax expense as one item on its consolidated income statement (instead of separate items in the operating income and other income sections of the consolidated income statement).

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

The interim consolidated financial statements as of June 30, 2010 and 2009 and for the three and six-month periods ended June 30, 2010 and 2009 (the Second 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 presentation of the results for the interim periods presented. The Second Quarter Financial Statements should be read together with the audited consolidated financial statements of the Company, as of December 31, 2009 and 2008 and for each of the three years in the period ended December 31, 2009, including the notes thereto (the 2009 Annual Financial Statements). Information in the notes to the 2009 Annual Financial Statements referred to in these notes is incorporated by reference herein. The use of terms such as "see" or "refer to" shall be deemed to incorporate by reference into these notes the information to which reference is made.

The Company has, pursuant to the accounting rules for subsequent events, evaluated events or transactions that occurred after June 30, 2010 of the Second Quarter Financial Statements for potential recognition or disclosure in the Second Quarter Financial Statements.

Notes to the Financial Statements (Unaudited) - Continued

Note A – Regulatory Matters

Reference is made to Note B to the 2009 Annual Financial Statements.

Rate Agreements

Electric

In July 2010, O&R filed a request with the New York State Public Service Commission (NYSPSC) for an increase in the rates it charges for electric service rendered in New York, effective July 2011, of \$61.7 million. The filing reflects a return on common equity of 11 percent and a common equity ratio of 49.9 percent. Among other things, the filing proposes continuation of the current provisions with respect to recovery from customers of the cost of purchased power and with respect to the deferral of differences between actual expenses allocable to the electric business for pensions and other postretirement benefits, environmental, research and developmental cost to the amounts for such costs reflected in electric rates. The filing also includes an alternative proposal for a three-year electric rate plan with rate increases of (A) \$64.9 million, effective July 2011, \$17.5 million, effective July 2012, and \$9.7 million, effective July 2013, or (B) \$47.1 million effective July 2011, and \$33.2 million effective July 2012 and 2013. The multi-year filing reflects a return on common equity of 11.55 percent.

In May 2010, RECO, the Division of Rate Counsel, Staff of the NJBPU and certain other parties entered into a stipulation of settlement of the Company's August 2009 request to increase the rates that it can charge its customers for electric delivery service. The stipulation, which was approved by the Board of the NJBPU, provides for an annual electric rate increase, effective May 17, 2010, of \$9.8 million. The stipulation reflects a return on common equity of 10.3 percent and a common equity ratio of 49.85 percent. The stipulation continues current provisions for recovery from customers of the cost of purchased power and does not provide for reconciliation of actual expenses to amounts reflected in electric rates for pension and other postretirement benefit costs.

Other Regulatory Matters

In April 2010, the NJBPU approved a March 2010 stipulation among RECO, the Division of Rate Counsel and Staff of the NJBPU, authorizing RECO to recover, through a customer bill surcharge, the revenue requirement impact associated with 50 percent of up to \$19.4 million of the costs of certain RECO smart electric grid projects for which RECO receives grants for the remaining 50 percent of such costs from the United States Department of Energy under the American Recovery and Reinvestment Act of 2009. The revenue requirement recovered through the bill surcharge will include a return on investment based upon a return on common equity of 10.3 percent, approved by the NJBPU in May 2010, as noted above. Pursuant to the stipulation, in the company's next base rate proceeding, the NJBPU will review the projects' costs, require the company to refund to customers amounts collected for costs, if any, that were not prudent, reasonable and incremental, and include in the company's rate base the remaining projects' costs.

Notes to the Financial Statements (Unaudited) - Continued

Regulatory Assets and Liabilities

Regulatory assets and liabilities at June 30, 2010 and December 31, 2009 were comprised of the following items:

(Millions of Dollars)	2010	2009
Regulatory assets		
Unrecognized pension and other postretirement costs	\$189	\$213
Environmental remediation costs	90	59
Future federal income tax	74	68
Transition bond charges	50	55
Pension and other postretirement benefits deferrals	55	52
Deferred derivative losses	24	20
Surcharge for New York State Assessment	11	12
Deferred losses on interest rate swap	12	11
Other	30	23
Regulatory assets	535	513
Deferred derivative losses - current	44	37
Recoverable energy costs - current	22	31
Total regulatory assets	\$601	\$581
Regulatory liabilities		
Allowance for cost of removal less salvage	\$71	\$68
Refundable energy costs	29	42
Carrying Charges on T&D Net Plant	16	9
NYS tax law changes	-	1
Other	7	7
Total regulatory liabilities	\$123	\$127

Note B – Capitalization

Reference is made to Note C to the 2009 Annual Financial Statements.

In July 2010, O&R issued a notice to change the method used to determine the interest it is required to pay on its \$55 million Series 1994 A tax-exempt debt. The debt (which currently bears a variable rate, determined weekly) is subject to mandatory tender for purchase in August 2010. O&R expects to fund the payment of the purchase price for the debt either from the proceeds of the reoffering of the debt (with a fixed interest rate) or, if O&R determines to have the debt cancelled, the sale of other debt securities.

Note C – Short-Term Borrowing

Reference is made to Note D to the 2009 Annual Financial Statements.

At June 30, 2010, O&R had \$87 million of commercial paper outstanding. At December 31, 2009, O&R had no commercial paper outstanding. At June 30, 2010 and December 31, 2009, \$45 million and \$20 million of letters of credit, respectively, were outstanding and no borrowings were outstanding for O&R under the Credit Agreement.

Note D – Pension Benefits

Reference is made to Note E to the 2009 Annual Financial Statements.

Net Periodic Benefit Cost

The components of the Company's net periodic benefit costs for the three and six months ended June 30, 2010 and 2009 were as follows:

Notes to the Financial Statements (Unaudited) - Continued

(Millions of Dollars)	For the Three Months Ended June 30,	
	2010	2009
Service cost – including administrative expenses	\$3	\$3
Interest cost on projected benefit obligation	9	8
Expected return on plan assets	(9)	(8)
Amortization of net actuarial loss	6	7
NET PERIODIC BENEFIT COST	\$9	\$10
Cost capitalized	(3)	(2)
Cost deferred	(1)	(2)
Cost charged to operating expenses	\$5	\$6

(Millions of Dollars)	For the Six Months Ended June 30,	
	2010	2009
Service cost – including administrative expenses	\$6	\$6
Interest cost on projected benefit obligation	18	16
Expected return on plan assets	(18)	(16)
Amortization of net actuarial loss	12	14
NET PERIODIC BENEFIT COST	\$18	\$20
Cost capitalized	(5)	(4)
Cost deferred	(3)	(5)
Cost charged to operating expenses	\$10	\$11

Note E – Other Postretirement Benefits

Reference is made to Note F to the 2009 Annual Financial Statements.

Net Periodic Benefit Cost

The components of the Company's net periodic postretirement benefit costs for the three and six months ended June 30, 2010 and 2009 were as follows:

(Millions of Dollars)	For the Three Months Ended June 30,	
	2010	2009
Service cost	\$1	\$1
Interest cost on accumulated other postretirement benefit obligation	3	3
Expected return on plan assets	(3)	(1)
Amortization of net actuarial loss	2	2
Amortization of prior service costs	1	-
NET PERIODIC POSTRETIREMENT BENEFIT COST	\$4	\$5
Cost capitalized	(2)	(1)
Cost deferred	1	-
Cost charged to operating expenses	\$3	\$4

(Millions of Dollars)	For the Six Months Ended June 30,	
	2010	2009
Service cost	\$2	\$2
Interest cost on accumulated other postretirement benefit obligation	6	6
Expected return on plan assets	(6)	(2)
Amortization of net actuarial loss	4	4
Amortization of prior service costs	2	-
NET PERIODIC POSTRETIREMENT BENEFIT COST	\$8	\$10
Cost capitalized	(3)	(3)
Cost deferred	2	1
Cost charged to operating expenses	\$7	\$8

Notes to the Financial Statements (Unaudited) - Continued

Health Care Reform

In March 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 became law. The Company is assessing the impact of these laws. In the first half of 2010, the Company reduced its deferred tax asset to reflect the laws' repeal, effective 2013, of the deduction for federal income tax purposes of the portion of the cost of an employer's retiree prescription drug coverage for which the employer received a benefit under the Medicare Prescription Drug Improvement and Modernization Act of 2003 (see Note F to the 2009 Annual Financial Statements). For O&R's New York electric and gas services the reductions in their deferred tax assets of \$3 million had no effect on net income because a regulatory asset in a like amount on a pre-tax basis was established to reflect future recovery from customers of the increased cost of their retiree prescription drug coverage resulting from the loss of the tax deduction. For RECO and Pike, the reduction in their deferred tax assets of \$1 million was taken as a charge to net income.

Note F – 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 seven 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 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 undiscounted cost to investigate the sites and, for sites that have been investigated in whole or in part, the cost to remediate the sites, if remediation is necessary and if a reasonable estimate of such cost can be made. Remediation costs are estimated in light of the information available, applicable remediation standards and experience with similar sites.

The accrued liabilities and regulatory assets related to Superfund Sites at June 30, 2010 and December 31, 2009 were as follows:

Notes to the Financial Statements (Unaudited) - Continued

(Millions of Dollars)	2010	2009
Accrued Liabilities:		
Manufactured gas plant sites	\$85	\$52
Other Superfund Sites	1	1
Total	\$86	\$53
Regulatory assets	\$89	\$59

Most of the accrued Superfund Site liability relates to sites that have been investigated, in whole or in part. As investigations progress on these and other sites, O&R expects that additional liability will be accrued, the amount of which is not presently determinable but may be material. Under its current rate plans for provision of electric and gas service in New York, O&R is permitted to recover or defer as regulatory assets (for subsequent recovery through rates) certain site investigation and remediation costs.

There were no insurance recoveries received related to Superfund Sites for the three months ended June 30, 2010 and 2009. Environmental remediation costs incurred related to Superfund Sites during the three and six months ended June 30, 2010 and 2009 were as follows:

(Millions of Dollars)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Remediation costs incurred	\$1.3	\$1.0	\$1.7	\$1.0

In 2007, O&R estimated that for its manufactured gas plant sites, each of which has been investigated, the aggregate undiscounted potential liability for the remediation of such contaminants could range up to \$115 million. These estimates were based on 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 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 billions 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) at June 30, 2010 and December 31, 2009 were as follows:

Notes to the Financial Statements (Unaudited) - Continued

(Millions of Dollars)	2010	2009
Accrued liability – asbestos suits	\$0.4	\$0.4
Regulatory assets – asbestos suits	0.4	0.4
Accrued liability – workers' compensation	\$5.2	\$5.9
Regulatory assets – workers' compensation	\$0.5	\$0.6

Note G – Financial Information by Business Segment

Reference is made to Note K to the 2009 Annual Financial Statements.

The financial data for the business segments are as follows:

(Millions of Dollars)	For the Three Months Ended June 30,							
	Operating revenues		Inter-segment revenues		Depreciation and amortization		Operating income	
	2010	2009	2010	2009	2010	2009	2010	2009
Electric	\$153	\$144	\$-	\$-	\$8	\$8	\$15	\$10
Gas	35	39	-	-	3	3	(1)	-
Total	\$188	\$183	\$-	\$-	\$11	\$11	\$14	\$10

(Millions of Dollars)	For the Six Months Ended June 30,							
	Operating revenues		Inter-segment revenues		Depreciation and amortization		Operating income	
	2010	2009	2010	2009	2010	2009	2010	2009
Electric	\$314	\$289	\$-	\$-	\$16	\$15	\$22	\$18
Gas	125	145	-	-	6	6	21	20
Total	\$439	\$434	\$-	\$-	\$22	\$21	\$43	\$38

Note H – Derivative Instruments and Hedging Activities

Under the accounting rules for derivatives and hedging, derivatives are recognized on the balance sheet at fair value, unless an exception is available under the accounting rules. Certain qualifying derivative contracts have been designated as normal purchases or normal sales contracts. These contracts are not reported at fair value under the accounting rules.

Energy Price Hedging

The Company hedges market price fluctuations associated with physical purchases of electricity by using electric and gas derivative instruments including futures, forwards, and options. The fair values of these hedges at June 30, 2010 and December 31, 2009 were as follows:

(Millions of Dollars)	2010	2009
Fair value of net derivative assets/ (liabilities) – gross	\$ (64) ^(a)	\$(52) ^(a)
Impact of netting of cash collateral	-	-
Fair value of net derivative assets/ (liabilities) – net	\$ (64)^(a)	\$(52)^(a)

(a) Includes derivative liabilities of \$7 million and \$9 million with Con Edison's competitive energy businesses at June 30, 2010 and December 31, 2009, respectively. See Note J. See Note N to the 2009 Annual Financial Statements.

O&R and Con Edison's other utility subsidiary, Consolidated Edison Company of New York, Inc. (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,

Notes to the Financial Statements (Unaudited) - Continued

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 J.

Credit Exposure

The Company is exposed to credit risk related to transactions entered into primarily for the various electric 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 \$1 million of credit exposure in connection with electricity supply and hedging activities, net of collateral, at June 30, 2010. The Company's net credit exposure was with investment-grade counterparties and commodity exchange brokers.

Economic Hedges

The Company enters into certain derivative instruments that do not qualify or are not designated as hedges under the accounting rules for derivatives and hedging. However, management believes these instruments represent economic hedges that mitigate exposure to fluctuations in electric prices.

The fair values of the Company's commodity derivatives at June 30, 2010 and December 31, 2009 were:

Fair Value of Commodity Derivatives ^(a)			
(Millions of Dollars)	Balance Sheet Location	2010	2009
Asset Derivatives			
Current	Other Current assets	\$ -	\$ 2
Long term	Other deferred charges and non-current assets	1	2
Total asset derivatives		\$ 1	\$ 4
Impact of netting		-	(1)
Net asset derivatives		\$ 1	\$ 3
Liability Derivatives			
Current	Fair value of derivative liabilities	\$42	\$36
Long term	Fair value of derivative liabilities	23	20
Total liability derivatives		\$65	\$56
Impact of netting		-	(1)
Net liability derivatives		\$65 ^(b)	\$55 ^(b)

(a) Qualifying derivative contracts, which have been designated as normal purchases or normal sales contracts, are not reported at fair value under the accounting rules for derivative and hedging and, therefore, are excluded from the table.

(b) Includes derivative liabilities of \$7 and \$9 million with Con Edison's competitive energy businesses at June 30, 2010 and December 31, 2009, respectively. See Note J. See Note N to the 2009 Annual Financial Statements.

The Company generally recovers all of its prudently incurred purchased power and gas costs, including hedging gains and losses, in accordance with rate provisions approved by the applicable state utility commissions. See "Recoverable Energy Costs" in Note A to the 2009 Annual Financial Statements. 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 commodity derivatives. As gains and losses are realized in future periods, they will be recognized as purchased power costs in the Company's consolidated income statement.

Notes to the Financial Statements (Unaudited) - Continued

The following table presents the changes in the fair values of commodity derivatives that have been deferred for the three and six months ended June 30, 2010 and 2009:

Realized and Unrealized (Losses) on Commodity Derivatives ^(a)			
(Millions of Dollars)	Balance Sheet Location	Deferred for the Three Months Ended June 30, 2010	Deferred for the Three Months Ended June 30, 2009
Pre-tax (losses) deferred in accordance with the accounting rules for regulated operations:			
Current	Deferred derivative losses	\$17	\$(1)
Current	Recoverable energy costs ^(b)	(21)	(30)
Long term	Regulatory assets	13	10
Total deferred losses		\$ 9	\$(21)

(a) Qualifying derivative contracts, which have been designated as normal purchases or normal sales contracts, are not reported at fair value under the accounting rules for derivatives and hedging and, therefore, are excluded from the table.

(b) Includes payments of \$8 and \$10 million to Con Edison's competitive energy businesses for the three months ended June 30, 2010 and 2009, respectively. See Note J.

Realized and Unrealized (Losses) on Commodity Derivatives ^(a)			
(Millions of Dollars)	Balance Sheet Location	Deferred for the Six Months Ended June 30, 2010	Deferred for the Six Months Ended June 30, 2009
Pre-tax (losses) deferred in accordance with the accounting rules for regulated operations:			
Current	Deferred derivative losses	\$(6)	\$(14)
Current	Recoverable energy costs ^(b)	(41)	(64)
Long term	Regulatory assets	(5)	(4)
Total deferred losses		\$(52)	\$(82)

(a) Qualifying derivative contracts, which have been designated as normal purchases or normal sales contracts, are not reported at fair value under the accounting rules for derivatives and hedging and, therefore, are excluded from the table.

(b) Includes payments of \$16 and \$19 million to Con Edison's competitive energy businesses for the six months ended June 30, 2010 and 2009, respectively. See Note J.

As of June 30, 2010, the Company had 80 electric or gas derivative contracts hedging electric energy or capacity market prices, which were considered to be derivatives under the accounting rules for derivatives and hedging (excluding qualifying derivative contracts, which have been designated as normal purchases or normal sales contracts). The following table presents the number of contracts by commodity type:

Number of Energy Contracts ^{(a)(c)}	Electric Derivatives		Gas Derivatives		Total Number Of Contracts ^(a)	
	MWhs ^{(b)(c)}	Number of Capacity Contracts ^(a)	MWhs ^(b)	Number of Contracts ^(a)		
10	3,184,864	1	1,948	69	5,520,000	80

(a) Qualifying derivative contracts, which have been designated as normal purchases or normal sales contracts, are not reported at fair value under the accounting rules for derivative and hedging and, therefore, are excluded from the table.

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

(c) Includes one contract of 244,235 MWhs with Con Edison's competitive energy businesses. See Note J.

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 the Company to provide collateral on derivative instruments in net liability positions. The Utilities enter into separate derivative instruments for electric energy or capacity, and CECONY enters into derivative instruments in connection with the Utilities' joint gas supply arrangements (see

Notes to the Financial Statements (Unaudited) - Continued

Note J). The amount of collateral to be provided will depend on the fair value of the derivative instruments and the Utilities' credit ratings.

The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a net liability position and collateral posted at June 30, 2010, 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 were:

(Millions of Dollars)	
Aggregate fair value – net liabilities ^(a)	\$57
Collateral posted ^(b)	44
Additional collateral ^(c) (downgrade one level from current rating ^(d))	1
Additional collateral ^(c) (downgrade to below investment grade from current rating ^(d))	18 ^(e)

- (a) Non-derivative transactions for the purchase and sale of electricity and qualifying derivative instruments, which have been designated as normal purchases or normal sales, are excluded from the table. These transactions primarily include purchases of electricity from independent system operators.
- (b) Across the Utilities' energy derivative positions, credit limits for the same counterparties are generally integrated. At June 30, 2010, the Utilities posted a combined \$117 million, including the collateral posted that is estimated to be attributable to O&R shown above.
- (c) The additional collateral amounts shown above are based upon the estimated O&R allocation of the Utilities' collateral requirements. The Utilities measure the collateral requirements by taking into consideration the fair value amounts of derivative instruments that contain credit-risk-related contingent features that are in a net 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 Utilities have a legally enforceable right of setoff.
- (d) The current long-term ratings of O&R are Baa1/A-/A by Moody's Investors Service, Standard & Poor's Rating Services and Fitch Ratings, respectively. Credit ratings assigned by rating agencies are expressions of opinions that are subject to revision or withdrawal at any time by the assigning rating agency.
- (e) Derivative instruments that are net assets have been excluded from the table. At June 30, 2010, if O&R had been downgraded to below investment grade, it would have been required to post additional collateral for such derivative instruments of not more than \$1 million.

Interest Rate Swaps

O&R has an interest rate swap related to its Series 1994A Debt. See Note C to the 2009 Annual Financial Statements. O&R pays a fixed-rate of 6.09 percent and receives a LIBOR-based variable rate. The fair value of this interest rate swap at June 30, 2010 was an unrealized loss of \$12 million, which has been included in the consolidated balance sheet as a noncurrent liability/fair value of derivative liabilities and a regulatory asset. There was no material change in the fair value of the swap for the three and six months ended June 30, 2010. In the event O&R's credit rating was downgraded to BBB- or lower by Standard & Poor's Rating Services or Baa3 or lower by Moody's Investors Service, the swap counterparty could elect to terminate the agreement and, if it did so, the parties would then be required to settle the transaction.

Note I – Fair Value Measurements

Effective January 1, 2010, the Company adopted Accounting Standards Update (ASU) No. 2010-06, "Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements," except as discussed in the following paragraph. This update requires the Company to disclose significant transfers in and

Notes to the Financial Statements (Unaudited) - Continued

out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. The guidance also clarifies level of disaggregation and disclosure requirements about inputs and valuation techniques used to measure fair value for both recurring and nonrecurring fair value measurements and the meaning of a class of assets and liabilities.

In addition, the update requires the Company to present information about purchases, sales, issuances and settlements on a gross basis in the reconciliation for fair value measurements using significant unobservable inputs (Level 3). This disclosure is effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years.

The accounting rules for fair value measurements and disclosures established a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value in three broad levels. The rules require that assets and liabilities be classified in their entirety based on the level of input that is significant to the fair value measurement. Assessing the significance of a particular input may require judgment considering factors specific to the asset or liability, and may affect the valuation of the asset or liability and their placement within the fair value hierarchy. See Note O to the 2009 Annual Financial Statements for how the Company classifies fair value balances based on the fair value hierarchy.

The valuation technique used by the Company with regard to commodity derivatives and other assets that fall into either Level 2 or Level 3 is the market approach, which uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The valuation technique used by the Company with regard to the interest rate contract that falls into Level 3 is the income approach which uses valuation techniques to convert future income stream amounts to a single amount in present value terms.

Assets and liabilities measured at fair value on a recurring basis as of June 30, 2010 are summarized below.

(Millions of Dollars)	Level 1	Level 2	Level 3	Total
Derivative assets:				
Commodity ⁽¹⁾	\$ -	\$ 1	\$ -	\$ 1
Other assets ⁽³⁾	-	-	9	9
Total	\$ -	\$ 1	\$ 9	\$ 10
Derivative liabilities:				
Commodity ⁽¹⁾	\$ -	\$ -	\$65 ⁽⁴⁾	\$65 ⁽⁴⁾
Interest rate contract ⁽²⁾	-	-	12	12
Total	\$ -	\$ -	\$77	\$77

(1) A significant portion of the commodity derivative contracts categorized in Level 3 is valued using either an industry acceptable model or an internally developed model with observable inputs. The models also include some less readily observable inputs resulting in the classification of the entire contract as Level 3. See Note H.

(2) See Note H.

(3) Other assets are comprised of assets such as life insurance contracts within the Supplemental Employee Retirement Plan, held in a rabbi trust.

(4) Includes derivative liabilities of \$7 million with Con Edison's competitive energy businesses. See Note J.

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2009 are summarized below.

Notes to the Financial Statements (Unaudited) - Continued

(Millions of Dollars)	Level 1	Level 2	Level 3	Total
Derivative assets:				
Commodity ⁽¹⁾	\$ -	\$ 4	\$ -	\$ 4
Other assets ⁽³⁾	-	-	9	9
Total	\$ -	\$ 4	\$ 9	\$ 13
Derivative liabilities:				
Commodity ⁽¹⁾	\$ -	\$ 1	\$ 55 ⁽⁴⁾	\$ 56 ⁽⁴⁾
Interest rate contract ⁽²⁾	-	-	11	11
Total	\$ -	\$ 1	\$ 66	\$ 67

- (1) A significant portion of the commodity derivative contracts categorized in Level 3 is valued using either an industry acceptable model or an internally developed model with observable inputs. The models also include some less readily observable inputs resulting in the classification of the entire contract as Level 3. See Note H.
- (2) See Note H.
- (3) Other assets are comprised of assets such as life insurance contracts within the Supplemental Employee Retirement Plan, held in a rabbi trust.
- (4) Includes derivative liabilities of \$9 million with Con Edison's competitive energy businesses. See Note J.

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 and six months ended June 30, 2010 and classified as Level 3 in the fair value hierarchy:

(Millions of Dollars)	For the Three Months Ended June 30, 2010					
	Beginning Balance as of April 1, 2010	Total Gains/(Losses) – Realized and Unrealized		Purchases, Issuances, Sales and Settlements	Transfer In/Out of Level 3	Ending Balance as of June 30, 2010
		Included in Earnings	Included in Regulatory Assets and Liabilities			
Derivatives:						
Commodity	\$(94) ⁽²⁾	\$ (19)	\$29	\$ 19	\$ -	\$(65) ⁽¹⁾
Interest rate contract	(11)	(1)	(1)	1	-	(12)
Other	9	-	-	-	-	9
Total	\$(96)	\$(20)	\$28	\$20	\$ -	\$(68)

(1) Includes derivative liabilities of \$7 million with Con Edison's competitive energy business. See Note J.

(2) Includes derivative liabilities of \$11 million with Con Edison's competitive energy business.

(Millions of Dollars)	For the Six Months Ended June 30, 2010					
	Beginning Balance as of January 1, 2010	Total Gains/(Losses) – Realized and Unrealized		Purchases, Issuances, Sales and Settlements	Transfer In/Out of Level 3	Ending Balance as of June 30, 2010
		Included in Earnings	Included in Regulatory Assets and Liabilities			
Derivatives:						
Commodity	\$(55) ⁽²⁾	\$(36)	\$(10)	\$36	\$ -	\$(65) ⁽¹⁾
Interest rate contract	(11)	(2)	(1)	2	-	(12)
Other	9	-	-	-	-	9
Total	\$(57)	\$(38)	\$(11)	\$38	\$ -	\$(68)

(1) Includes derivative liabilities of \$7 million with Con Edison's competitive energy business. See Note J.

(2) Includes derivative liabilities of \$9 million with Con Edison's competitive energy business.

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 and six months ended June 30, 2009 and classified as Level 3 in the fair value hierarchy:

Notes to the Financial Statements (Unaudited) - Continued

(Millions of Dollars)	For the Three Months Ended June 30, 2009					
	Beginning Balance as of April 1, 2009	Total Gains/(Losses) – Realized and Unrealized		Purchases, Issuances, Sales and Settlements	Transfer In/Out of Level 3	Ending Balance as of June 30, 2009
		Included in Earnings	Included in Regulatory Assets and Liabilities			
Derivatives:						
Energy	\$(96)	\$(32)	\$10	\$32	\$-	\$(86) ⁽¹⁾
Financial & other	(14)	-	2	-	-	(12)
Other	7	-	1	-	-	8
Total	\$(103)	\$(32)	\$13	\$32	\$-	\$(90)

(1) Includes derivative liabilities of \$17 million with Con Edison's competitive energy businesses. See Note J.

(Millions of Dollars)	For the Six Months Ended June 30, 2009					
	Beginning Balance as of January 1, 2009	Total Gains/(Losses) – Realized and Unrealized		Purchases, Issuances, Sales and Settlements	Transfer In/Out of Level 3	Ending Balance as of June 30, 2009
		Included in Earnings	Included in Regulatory Assets and Liabilities			
Derivatives:						
Energy	\$(53)	\$(45)	\$(33)	\$45	\$-	\$(86) ⁽¹⁾
Financial & other	(15)	-	3	-	-	(12)
Other	8	-	-	-	-	8
Total	\$(60)	\$(45)	\$(30)	\$45	\$-	\$(90)

(1) Includes derivative liabilities of \$17 million with Con Edison's competitive energy businesses. See Note J.

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 commissions. See Note A to the 2009 Annual Financial Statements. 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 J – Related Party Transactions

Reference is made to Note N to the 2009 Annual Financial Statements.

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 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 three and six months ended June 30, 2010 and 2009 were as follows:

(Millions of Dollars)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Cost of services provided	\$4	\$4	\$9	\$9
Cost of services received	\$9	\$10	\$20	\$19

Notes to the Financial Statements (Unaudited) - Continued

In addition, CECONY and O&R have joint gas supply arrangements, in connection with which O&R purchased from CECONY \$20 million and \$26 million of natural gas for the three months ended June 30, 2010 and 2009, respectively, and \$51 million and \$74 million of natural gas for the six months ended June 30, 2010 and 2009, respectively. These amounts are net of the effect of related hedging transactions. At June 30, 2010 and December 31, 2009, O&R's net payable to CECONY associated with these gas purchases was \$7 million and \$16 million, respectively.

RECO purchased from Consolidated Edison Energy, Inc. \$8 million and \$10 million of electricity for the three months ended June 30, 2010 and 2009, respectively, and \$16 million and \$19 million of electricity for the six months ended June 30, 2010 and 2009, respectively, pursuant to energy auctions.

At June 30, 2010 and December 31, 2009, the Company's receivable from Con Edison for income taxes was \$27 million and \$12 million, respectively. See Note A to the 2009 Annual Financial Statements.

FERC has authorized CECONY through 2011 to lend funds to O&R from time to time, for periods of not more than 12 months, in amounts not to exceed \$250 million outstanding at any time, at prevailing market rates. At June 30, 2010 and 2009, there were no loans outstanding for O&R.