

Orange and Rockland Utilities, Inc.
Third Quarter 2009 Financial Statements and Notes

Financial Statements (Unaudited)

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

	September 30, 2009	December 31, 2008
	(Millions of Dollars)	
ASSETS		
UTILITY PLANT, AT ORIGINAL COST		
Electric	\$ 1,059	\$ 1,023
Gas	439	424
General	152	148
Total	1,650	1,595
Less: Accumulated depreciation	458	443
Net	1,192	1,152
Construction work in progress	63	58
NET UTILITY PLANT	1,255	1,210
CURRENT ASSETS		
Cash and temporary cash investments	11	17
Accounts receivable - customers, less allowance for uncollectible accounts of \$5 and \$4 in 2009 and 2008, respectively	58	87
Accrued unbilled revenue	44	47
Other receivables, less allowance for uncollectible accounts of \$1 in 2009 and 2008	13	4
Accounts receivable from affiliated companies	18	24
Gas in storage, at average cost	40	61
Materials and supplies, at average cost	10	10
Prepayments	33	12
Deferred derivative losses	42	42
Recoverable energy costs	51	26
Other current assets	14	4
TOTAL CURRENT ASSETS	334	334
INVESTMENTS	9	8
DEFERRED CHARGES, REGULATORY ASSETS AND NONCURRENT ASSETS		
Regulatory assets	552	573
Other deferred charges and noncurrent assets	25	37
TOTAL DEFERRED CHARGES, REGULATORY ASSETS AND NONCURRENT ASSETS	577	610
TOTAL ASSETS	\$ 2,175	\$ 2,162

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

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

	September 30, 2009	December 31, 2008
	(Millions of Dollars)	
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION		
Common shareholder's equity	\$ 498	\$ 455
Long-term debt	424	416
TOTAL CAPITALIZATION	922	871
NONCURRENT LIABILITIES		
Provision for injuries and damages	7	7
Pensions and retiree benefits	422	453
Superfund and other environmental costs	52	53
Fair value of derivative liabilities	34	40
Uncertain income taxes	-	9
TOTAL NONCURRENT LIABILITIES	515	562
CURRENT LIABILITIES		
Long-term debt due within one year	58	3
Notes payable	81	-
Accounts payable	70	95
Accounts payable to affiliated companies	25	181
Customer deposits	15	15
Accrued taxes	12	-
Accrued interest	9	11
Fair value of derivative liabilities	41	27
Deferred income taxes - recoverable energy costs	21	11
Uncertain income taxes	3	-
Other current liabilities	26	30
TOTAL CURRENT LIABILITIES	361	373
DEFERRED CREDITS AND REGULATORY LIABILITIES		
Deferred income taxes and investment tax credits	230	216
Regulatory liabilities	144	137
Other deferred credits	3	3
TOTAL DEFERRED CREDITS AND REGULATORY LIABILITIES	377	356
TOTAL CAPITALIZATION AND LIABILITIES	\$2,175	\$2,162

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
	(Millions of Dollars)			
OPERATING REVENUES				
Electric	\$ 209	\$ 252	\$ 499	\$ 590
Gas	26	31	171	179
TOTAL OPERATING REVENUES	235	283	670	769
OPERATING EXPENSES				
Purchased power	102	154	253	358
Gas purchased for resale	12	18	98	108
Other operations and maintenance	64	55	181	167
Depreciation and amortization	10	10	31	30
Taxes, other than income taxes	11	11	34	34
Income taxes	12	11	20	18
TOTAL OPERATING EXPENSES	211	259	617	715
OPERATING INCOME	24	24	53	54
OTHER INCOME (DEDUCTIONS)				
Investment and other income	1	1	1	1
Income taxes	(1)	-	-	-
TOTAL OTHER INCOME (DEDUCTIONS)	-	1	1	1
INTEREST EXPENSE				
Interest on long-term debt	7	6	20	19
Other interest	(2)	-	-	1
NET INTEREST EXPENSE	5	6	20	20
NET INCOME	\$ 19	\$ 19	\$ 34	\$ 35

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 September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
	(Millions of Dollars)		(Millions of Dollars)	
NET INCOME	\$ 19	\$ 19	\$ 34	\$ 35
OTHER COMPREHENSIVE INCOME/(LOSS), NET OF TAXES				
Pension plan liability adjustments, net of \$1 and 2 taxes in 2009 and \$1 and \$2 taxes in 2008, respectively	2	1	4	3
Unrealized losses on derivatives qualified as cash flow hedges, net of \$0 and \$(1) taxes in 2008	-	-	-	(1)
Less: Reclassification adjustment for unrealized gains/(losses) included in net income, net of \$0 and \$0 taxes in 2008	-	(1)	-	-
Less: Reclassification adjustment for unrealized losses included in regulatory assets, net of \$0 and \$(5) taxes in 2008	-	-	-	(8)
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAXES	2	2	4	10
COMPREHENSIVE INCOME	\$ 21	\$ 21	\$ 38	\$ 45

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)	<u>Common Stock</u>		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
	Shares	Amount				
BALANCE AS OF DECEMBER 31, 2007	1,000	\$ -	\$ 234	\$ 215	\$ (33)	\$ 416
Net income				12		12
Common stock dividend to parent				(8)		(8)
Other comprehensive income					7	7
BALANCE AS OF MARCH 31, 2008	1,000	\$ -	\$ 234	\$ 219	\$ (26)	\$ 427
Net Income				4		4
Common stock dividend to parent				(7)		(7)
Other comprehensive income					1	1
Capital contribution by parent			29			29
BALANCE AS OF JUNE 30, 2008	1,000	\$ -	\$ 263	\$ 216	\$ (25)	\$ 454
Net Income				19		19
Common stock dividend to parent				(8)		(8)
Other comprehensive income					2	2
Capital contribution by parent			10			10
BALANCE AS OF SEPTEMBER 30, 2008	1,000	\$ -	\$ 273	\$ 227	\$ (23)	\$ 477
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 income					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 income					1	1
BALANCE AS OF JUNE 30, 2009	1,000	\$ -	\$ 304	\$ 226	\$ (45)	\$ 485
Net Income				19		19
Common stock dividend to parent				(8)		(8)
Other comprehensive income					2	2
BALANCE AS OF SEPTEMBER 30, 2009	1,000	\$ -	\$ 304	\$ 237	\$ (43)	\$ 498

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

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

	For the Nine Months Ended September 30,	
	2009	2008
	(Millions of Dollars)	
OPERATING ACTIVITIES		
Net income	\$ 34	\$ 35
PRINCIPAL NON-CASH CHARGES/(CREDITS) TO INCOME		
Depreciation and amortization	31	30
Deferred income taxes	18	(2)
Other non-cash items (net)	(9)	11
CHANGES IN ASSETS AND LIABILITIES		
Accounts receivable - customers, less allowance for uncollectibles	29	(18)
Accounts receivable from affiliated companies	9	1
Materials and supplies, including gas in storage	21	(31)
Prepayments, other receivables and other current assets	(37)	(8)
Recoverable energy costs	(25)	29
Accounts payable	40	(65)
Accounts payable to affiliated companies	(31)	17
Pensions and retiree benefits	(10)	(24)
Accrued taxes	12	13
Accrued interest	(2)	2
Deferred charges, noncurrent assets and other regulatory assets	16	(5)
Deferred credits and other regulatory liabilities	3	5
Superfund and Other Environmental Charges	(1)	-
Other liabilities	(4)	(3)
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	94	(13)
INVESTING ACTIVITIES		
Utility construction expenditures	(70)	(69)
Cost of removal less salvage	(2)	(1)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(72)	(70)
FINANCING ACTIVITIES		
Net proceeds from short-term debt	81	35
Issuance long-term debt	-	50
Retirement of long-term debt	(2)	(2)
Capital contribution by parent	30	39
Dividend to parent	(24)	(23)
Retirement of loan from affiliate	(113)	(55)
NET CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES	(28)	44
CASH AND TEMPORARY CASH INVESTMENTS:		
NET CHANGE FOR THE PERIOD	(6)	(39)
BALANCE AT BEGINNING OF PERIOD	17	60
BALANCE AT END OF PERIOD	\$ 11	\$ 21
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	\$ 21	\$ 19
Income Taxes	\$ -	\$ 24

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. (the Company or O&R), a New York corporation, and its subsidiaries. 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 nine months ended September 30, 2009 and 2008, operating revenues for RECO and Pike were 26.0 percent and 0.7 percent and 23.9 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.

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

The interim consolidated financial statements as of September 30, 2009 and 2008 and for the three and nine-month periods ended September 30, 2009 and 2008 (the Third 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 Third Quarter Financial Statements should be read together with the audited consolidated financial statements of the Company, as of December 31, 2008 and 2007 and for each of the three years in the period ended December 31, 2008, including the notes thereto (the 2008 Annual Financial Statements). Information in the notes to the 2008 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 September 30, 2009 through the posting on its website of the Third Quarter Financial Statements for potential recognition or disclosure in the Third Quarter Financial Statements.

Certain prior period amounts have been reclassified to conform to the current period presentation. Effective June 2009, the Company is including receivables purchased from energy supply companies within accounts receivable – customers, and to conform to this presentation, have reclassified receivables purchased from energy supply companies that were included in other receivables at December 31, 2008 (\$27 million for O&R). This reclassification more appropriately reflects the Company's customer operations' practices, policies and procedures. Results for interim periods are not necessarily indicative of results for the entire fiscal year.

Notes to the Financial Statements (Unaudited) - Continued

Note A – Regulatory Matters

Reference is made to Note B to the 2008 Annual Financial Statements.

Rate Agreements

Electric

In August 2009, RECO filed a request with the NJBPU for a net increase in the rates it charges for electric service, effective May 17, 2010, of \$9.8 million. The filing reflects a return on common equity of 11.0 percent and a common equity ratio of 53.6 percent. The filing proposes the continuation of the current provisions with respect to recovery from customers of the cost of purchased power and proposes a reconciliation of actual expenses to amounts reflected in electric rates for pension and other postretirement benefit costs.

Gas

In October 2009, the PSC adopted the June 2009 Joint Proposal among O&R, PSC staff and other parties. As approved, the Joint Proposal establishes a gas rate plan that covers the three-year period November 1, 2009 through October 31, 2012 and provides for increases in base rates of \$9 million in each of the first two years and \$4.6 million in the third year, with an additional \$4.3 million to be collected through a surcharge in the third rate year.

The rate plan reflects the following major items:

- an annual return on common equity of 10.4 percent;
- most of any actual earnings above an 11.4 percent annual return on common equity (based upon the actual average common equity ratio, subject to a maximum 50 percent of capitalization) are to be applied to reduce regulatory assets;
- deferral as a regulatory asset or liability, as the case may be, of differences between the actual level of certain expenses, including expenses for pension and other postretirement benefits, environmental remediation, property taxes and taxable and tax-exempt long-term debt, and amounts for those expenses reflected in rates;
- deferral as a regulatory liability of the revenue requirement impact (i.e., return on investment, depreciation and income taxes) of the amount, if any, by which average gas net plant balances are less than balances reflected in rates;
- deferral as a regulatory asset of increases, if any, over the course of the rate plan, in certain expenses above a 4 percent annual inflation rate, but only if the actual annual return on common equity is less than 10.4 percent;
- implementation of a revenue decoupling mechanism;
- continuation of the provisions pursuant to which the Company recovers its cost of purchasing gas and the provisions pursuant to which the effects of weather on gas income are moderated; and
- potential negative earnings adjustments of up to \$1.4 million annually if certain operations and customer service requirements are not met.

Notes to the Financial Statements (Unaudited) - Continued

Regulatory Assets and Liabilities

Regulatory assets and liabilities at September 30, 2009 and December 31, 2008 were comprised of the following items:

(Millions of Dollars)	2009	2008
Regulatory assets		
Unrecognized pension and other post-retirement costs	\$246	\$267
Future federal income tax	65	58
Environmental remediation costs	58	63
Transition bond charges	56	59
Pension and other post-retirement benefits deferrals	54	55
Deferred derivative losses	22	26
Surcharge for New York State Assessment	16	-
Deferred losses on interest rate swap	12	15
Other	23	30
Regulatory assets	552	573
Deferred derivative losses – current	42	42
Recoverable energy costs – current	51	26
Total regulatory assets	\$645	\$641
Regulatory liabilities		
Allowance for cost of removal less salvage	\$68	\$65
Refundable energy costs	57	57
Deferred derivative gains	2	-
NYS tax law changes	1	1
Other	16	14
Total regulatory liabilities	\$144	\$137

Note B – Capitalization

Reference is made to Note C to the 2008 Annual Financial Statements.

In June 2009, the \$49 million of the \$55 million aggregate principal amount of O&R's Series 1994A weekly-rate, tax-exempt debt insured by Financial Guaranty Insurance Company that had been tendered was remarketed, and the proceeds from the remarketing were used to pay short-term borrowings that funded the purchased tendered bonds.

Note C – Short-Term Borrowing

Reference is made to Note D to the 2008 Annual Financial Statements.

At September 30, 2009, O&R had \$81 million of commercial paper outstanding at a weighted average interest rate of 0.3 percent. At December 31, 2008, O&R had no commercial paper outstanding. At September 30, 2009 and December 31, 2008, no loans for both period and \$20 million and \$10 million of letters of credit, respectively, were outstanding for O&R under the Amended and Restated Credit Agreement to which it is a party. Outstanding loans to O&R from Con Edison of New York amounted to \$0 million and \$113 at September 30, 2009 and December 31, 2008, respectively. See Note K for information about short-term borrowing between related parties.

Notes to the Financial Statements (Unaudited) - Continued

Note D – Pension Benefits

Reference is made to Note E to the 2008 Annual Financial Statements.

Net Periodic Benefit Cost

The components of the Company's net periodic benefit costs for the three and nine months ended September 30, 2009 and 2008 were as follows:

(Millions of Dollars)	For the Three Months Ended September 30,	
	2009	2008
Service cost – including administrative expenses	\$3	\$3
Interest cost on projected benefit obligation	8	8
Expected return on plan assets	(8)	(8)
Amortization of net actuarial loss	7	5
Amortization of prior service costs	-	1
NET PERIODIC BENEFIT COST	\$10	\$9
Cost capitalized	(3)	(2)
Cost (deferred)/amortized	(1)	1
Cost charged to operating expenses	\$6	\$6

(Millions of Dollars)	For the Nine Months Ended September 30,	
	2009	2008
Service cost – including administrative expenses	\$9	\$8
Interest cost on projected benefit obligation	24	24
Expected return on plan assets	(24)	(23)
Amortization of net actuarial loss	21	16
Amortization of prior service cost	-	1
NET PERIODIC BENEFIT COST	\$30	\$26
Cost capitalized	(7)	(7)
Cost (deferred)/amortized	(6)	2
Cost charged to operating expenses	\$17	\$21

Expected Contributions

The Company is not required under funding regulations and laws to make any contributions to the pension plan during 2009, however, the Company's policy is to fund its accounting cost to the extent tax deductible. During the first nine months of 2009, O&R contributed \$38 million to the pension plan. The Company is continuing to monitor changes to funding and tax laws that may impact future pension plan funding requirements.

Note E – Other Post-Retirement Benefits

Reference is made to Note F to the 2008 Annual Financial Statements.

Net Periodic Benefit Cost

The components of the Company's net periodic post-retirement benefit costs for three and nine months ended September 30, 2009 and 2008 were as follows:

Notes to the Financial Statements (Unaudited) - Continued

(Millions of Dollars)	For the Three Months Ended September 30,	
	2009	2008
Service cost	\$1	\$2
Interest cost on accumulated other post-retirement benefit obligation	3	3
Expected return on plan assets	(1)	(4)
Amortization of net actuarial loss	2	2
Amortization of prior service costs	-	1
NET PERIODIC POSTRETIREMENT BENEFIT COST	\$5	\$4
Cost capitalized	(2)	(1)
Cost (deferred)/amortized	1	1
Cost charged to operating expenses	\$4	\$4

(Millions of Dollars)	For the Nine Months Ended September 30,	
	2009	2008
Service cost	\$3	\$4
Interest cost on accumulated other post-retirement benefit obligation	9	8
Expected return on plan assets	(3)	(8)
Amortization of net actuarial loss	6	7
Amortization of prior service costs	-	2
NET PERIODIC POSTRETIREMENT BENEFIT COST	\$15	\$13
Cost capitalized	(5)	(4)
Cost (deferred)/amortized	2	(1)
Cost charged to operating expenses	\$12	\$8

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 environmental damages. Liability under these laws can be material and may be imposed for contamination from past acts, even though such past acts may have been lawful at the time they occurred. The sites at which 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,

Notes to the Financial Statements (Unaudited) - Continued

the cost to remediate the sites. 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 September 30, 2009 and December 31, 2008 were as follows:

(Millions of Dollars)	2009	2008
Accrued Liabilities:		
Manufactured gas plant sites	\$51	\$52
Other Superfund Sites	1	1
Total	\$52	\$53
Regulatory assets	\$58	\$63

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 and nine months ended September 30, 2009 and 2008. Environmental remediation and investigation costs incurred related to Superfund Sites during the three and nine months ended September 30, 2009 and 2008 were as follows:

(Millions of Dollars)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
Remediation costs incurred	\$0.3	\$0.3	\$1.2	\$1.4

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, all of which relate to its divested generating plants.

Notes to the Financial Statements (Unaudited) - Continued

The Company's accrued liability for asbestos suits and workers' compensation proceedings (including those related to asbestos exposure) was \$6 million at both September 30, 2009 and December 31, 2008.

Note G – Income Tax

Reference is made to Note I to the 2008 Annual Financial Statements.

In June 2009, Con Edison entered into partial agreements with the Internal Revenue Service (IRS) to resolve outstanding issues with Con Edison's consolidated federal income tax returns for 1998 through 2004, including O&R's outstanding issues. The partial agreements incorporate the July 2008 closing agreement between Con Edison and the IRS covering, among other things, O&R's use of the "simplified service cost method" (SSCM) to deduct construction-related costs in 2002, 2003 and 2004. The partial agreements resulted in tax deficiencies allocable to O&R of \$6 million and \$3 million of related interest for tax years 1998, 2000 and 2002. The partial agreements did not result in any changes to O&R's tax expense for 1999, 2001, 2003 or 2004.

In August 2009, the IRS billed Con Edison for tax liabilities and related interest, including \$9 million allocable to O&R (\$6 million for the tax liabilities, consistent with the partial agreements, and \$3 million for related interest), for 1998, 2000 and 2002. In September 2009, Con Edison paid the bills by applying a portion of a deposit Con Edison made with the IRS in June 2007, including \$9 million of the deposit allocable to O&R.

At September 30, 2009, Con Edison's remaining funds on deposit with the IRS allocable to O&R of \$4 million were reclassified as current assets on O&R's consolidated balance sheet.

At September 30, 2009, O&R's estimated liabilities for uncertain tax positions of \$3 million were classified as current liabilities on its consolidated balance sheet. The Company reasonably expects to resolve these uncertain tax positions with the IRS in the next 12 months.

Note H – Financial Information by Business Segment

Reference is made to Note K to the 2008 Annual Financial Statements.

The financial data for the business segments are as follows:

(Millions of Dollars)	For the Three Months Ended September 30,							
	Operating revenues		Inter-segment revenues		Depreciation and amortization		Operating income	
	2009	2008	2009	2008	2009	2008	2009	2008
Electric	\$209	\$252	\$-	\$-	\$7	\$7	\$26	\$26
Gas	26	31	-	-	3	3	(2)	(2)
Total	\$235	\$283	\$-	\$-	\$10	\$10	\$24	\$24

Notes to the Financial Statements (Unaudited) - Continued

(Millions of Dollars)	For the Nine Months Ended September 30,							
	Operating revenues		Inter-segment revenues		Depreciation and amortization		Operating income	
	2009	2008	2009	2008	2009	2008	2009	2008
Electric	\$499	\$590	\$-	\$-	\$22	\$21	\$40	\$42
Gas	171	179	-	-	9	9	13	12
Total	\$670	\$769	\$-	\$-	\$31	\$30	\$53	\$54

Note I – 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.

The accounting rules for derivatives and hedging were expanded in 2009 to require the Company to provide users of financial statements with enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under the accounting rules, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The accounting rules require qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements.

Energy Price Hedging

The Company hedges market price fluctuations associated with physical purchases and sales of electricity by using derivative instruments including futures, forwards, basic swaps, or options. The Company and Con Edison of New York (the Utilities) have joint gas supply arrangements for which Con Edison of New York enters into derivative instruments to hedge market price fluctuations. See Note K.

The fair values of the Company's commodity hedges at September 30, 2009 and December 31, 2008 were as follows:

(Millions of Dollars)	2009	2008
Fair value of net derivative assets/ (liabilities) – gross	\$ (58) ^(a)	\$(63) ^(a)
Impact of netting of cash collateral	-	-
Fair value of net derivative assets/ (liabilities) - net	\$ (58) ^(a)	\$(63) ^(a)

(a) Includes derivative liabilities of \$13 million with Con Edison's competitive energy businesses at September 30, 2009 and December 31, 2008. See Note K.

Credit Exposure

The Company is exposed to credit risk related to transactions entered into primarily for the various electricity 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.

Notes to the Financial Statements (Unaudited) - Continued

The Company had \$1 million credit exposure in connection with electricity supply and hedging activities, net of collateral, at September 30, 2009. The Company's entire exposure was with investment-grade counterparties.

Economic Hedges

The Company enters into 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 September 30, 2009 were:

(Millions of Dollars)	Balance Sheet Location	Fair Value of Commodity Derivatives ^(a)
Asset Derivatives		
Current	Fair value of derivative assets	\$ 1
Long term	Other deferred charges and non-current assets	3
Total asset derivatives		\$ 4
Impact of netting		-
Net asset derivatives		\$ 4
Liability Derivatives		
Current	Fair value of derivative liabilities	\$ 41
Long term	Fair value of derivative liabilities	21
Total liability derivatives		\$ 62
Impact of netting		-
Net liability derivatives		\$ 62 ^(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 \$13 million with Con Edison's competitive energy businesses. See Note K.

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 2008 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 on the Company's commodity derivatives are realized in future periods, they will be recognized as purchased power costs in the Company's consolidated income statement.

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

(Millions of Dollars)	Balance Sheet Location	Realized and Unrealized Gains/(Losses) on Commodity Derivatives ^(a)	
		Deferred for the Three Months Ended September 30, 2009	Deferred for the Nine Months Ended September 30, 2009
Pre-tax gains/(losses) deferred in accordance with the accounting rules for regulated operations:			
Long term	Regulatory liabilities	\$2	\$2
Total deferred gains		\$2	\$2
Current	Deferred derivative losses	\$14	\$-
Current	Recoverable energy costs ^(b)	(34)	(97)
Long term	Regulatory assets	8	4
Total deferred losses		\$(12)	\$(93)
Net deferred gains/(losses)		\$(10)	\$(91)

Notes to the Financial Statements (Unaudited) - Continued

(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 recoverable energy losses of \$10 million and \$29 million with Con Edison's competitive energy businesses deferred for the three and nine months ended September 30, 2009, respectively.

As of September 30, 2009, the Company had 29 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).

Number of Energy Contracts ^(a)	Electric Derivatives		Gas Derivatives		Total Number Of Contracts ^(a)	
	MWhs ^(b)	Number of Capacity Contracts ^(a)	MWs ^(b)	Number of Contracts ^(a)		Dths ^(b)
11	4,066,519	1	398	17	3,600,000	29

(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.

The collateral requirements associated with, and settlement of, the Company's derivative transactions are included in net cash flows from operating activities in the Company's consolidated statement of cash flows. Most of the Company's 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 Con Edison of New York enters into derivative instruments in connection with the Utilities' joint gas supply arrangements (See Note K). Across the Utilities' energy derivative positions, credit limits for the same counterparties are generally integrated. 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 of the Company's derivative instruments with credit-risk-related contingent features that are in a net liability position, and the amount of collateral posted at September 30, 2009 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)	\$ 47
Collateral posted ^(b)	\$36
Additional collateral ^(b) (downgrade one level from current rating ^(c))	\$-
Additional collateral ^(b) (downgrade to below investment grade from current rating ^(c))	\$12

(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. In the event the Company was no longer extended unsecured credit for such purchases, the Company would be required to post collateral, which at September 30, 2009, would have amounted to an estimated \$19 million. 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) Across the Utilities' energy derivative positions, credit limits for the same counterparties are generally integrated. At September 30, 2009, all collateral for these positions was posted by Con Edison of New York, including the collateral posted that is estimated to be attributable to O&R shown above. 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

Notes to the Financial Statements (Unaudited) - Continued

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.

- (c) 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.

Interest Rate Swaps

O&R has an interest rate swap related to its Series 1994A Debt. See Note C to the 2008 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 September 30, 2009 was an unrealized loss of \$12 million, which has been included in the consolidated balance sheet as a regulatory asset and a fair value of derivative liabilities – noncurrent liabilities. There was no change in the fair value of the swap for the three months ended September 30, 2009. The increase in the fair value of the swap for the nine months ended September 30, 2009 was \$3 million. In the event O&R's credit rating was downgraded to BBB-/Baa3 or lower, the swap counterparty could elect to terminate the agreement and O&R would be required to settle immediately.

Note J– Fair Value Measurements

Reference is made to Note O to the 2008 Annual Financial Statements.

The accounting rules for fair value measurements and disclosures defines fair value, establishes a framework for measuring fair value and expands the disclosures about fair value measurements.

Assets and liabilities measured at fair value on a recurring basis as of September 30, 2009 are summarized below under the three-level hierarchy established by the accounting rules for fair value measurements and disclosures.

The accounting rules define the levels within the hierarchy as follows:

- Level 1 – Consists of assets or liabilities whose value is based on unadjusted quoted prices in active markets at the measurement date.
- 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.
- 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.

Assets and liabilities measured at fair value on a recurring basis as of September 30, 2009 are summarized below:

Notes to the Financial Statements (Unaudited) - Continued

(Millions of Dollars)	Level 1	Level 2	Level 3	Total
Derivative assets:				
Energy ⁽¹⁾	\$-	\$3	\$4	\$7
Other assets ⁽³⁾	-	-	9	9
Total	\$-	\$3	\$13	\$16
Derivative liabilities:				
Energy ⁽¹⁾	\$-	\$1	\$64 ⁽⁴⁾	\$65 ⁽⁴⁾
Financial & other ⁽²⁾	-	-	12	12
Total	\$-	\$1	\$76	\$77

(1) A significant portion of the energy 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 I.

(2) Includes an interest rate swap. See Note I.

(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 \$13 million with Con Edison's competitive energy businesses. See Note K.

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2008 are summarized below:

(Millions of Dollars)	Level 1	Level 2	Level 3	Total
Other assets ⁽³⁾				
	\$-	\$-	\$8	\$8
Total	\$-	\$-	\$8	\$8
Derivative liabilities:				
Energy ⁽¹⁾	\$-	\$10	\$53 ⁽⁴⁾	\$63 ⁽⁴⁾
Financial & other ⁽²⁾	-	-	15	15
Total	\$-	\$10	\$68	\$78

(1) A significant portion of the energy 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 I.

(2) Includes an interest rate swap. See Note I.

(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 \$13 million with Con Edison's competitive energy businesses. See Note N to the 2008 Annual Financial Statements.

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

(Millions of Dollars)	For the Three Months Ended September 30, 2009					Ending Balance as of September 30, 2009
	Beginning Balance as of July 1, 2009	Total Gains/(Losses) – Realized and Unrealized		Purchases, Issuances, Sales and Settlements	Transfer In/Out of Level 3	
		Included in Earnings	Included in Regulatory Assets and Liabilities			
Derivatives:						
Energy	\$(86)	\$(28)	\$26	\$28	\$-	\$(60) ⁽¹⁾
Financial & other	(12)	-	-	-	-	(12)
Other	8	-	1	-	-	9
Total	\$(90)	\$(28)	\$27	\$28	\$-	\$(63)

(1) Includes derivative liabilities of \$13 million with Con Edison's competitive energy businesses. See Note K.

Notes to the Financial Statements (Unaudited) - Continued

For the Nine Months Ended September 30, 2009

(Millions of Dollars)	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 September 30, 2009
		Included in Earnings	Included in Regulatory Assets and Liabilities			
Derivatives:						
Energy	\$(53)	\$(73)	\$(7)	\$73	\$-	\$(60) ⁽¹⁾
Financial & other	(15)	-	3	-	-	(12)
Other	8	-	1	-	-	9
Total	\$(60)	\$(73)	\$(3)	\$73	\$-	\$(63)

(1) Includes derivative liabilities of \$13 million with Con Edison's competitive energy businesses. See Note K.

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 nine months ended September 30, 2008 and classified as Level 3 in the fair value hierarchy:

For the Three Months Ended September 30, 2008

(Millions of Dollars)	Beginning Balance as of July 1, 2008	Total Gains/(Losses) – Realized and Unrealized		Purchases, Issuances, Sales and Settlements	Transfer In/Out of Level 3	Ending Balance as of September 30, 2008
		Included in Earnings	Included in Regulatory Assets and Liabilities			
Derivatives:						
Energy	\$161	\$10	\$(147)	\$(10)	\$-	\$14
Financial & other	(11)	-	1	(1)	-	(11)
Other	12	(1)	(1)	-	-	10
Total	\$162	\$9	\$(147)	\$(11)	\$-	\$13

For the Nine Months Ended September 30, 2008

(Millions of Dollars)	Beginning Balance as of January 1, 2008	Total Gains/(Losses) – Realized and Unrealized		Purchases, Issuances, Sales and Settlements	Transfer In/Out of Level 3	Ending Balance as of September 30, 2008
		Included in Earnings	Included in Regulatory Assets and Liabilities			
Derivatives:						
Energy	\$16	\$19	\$(2)	\$(19)	\$-	\$14
Financial & other	(11)	-	-	-	-	(11)
Other	12	-	(2)	-	-	10
Total	\$17	\$19	\$(4)	\$(19)	\$-	\$13

Realized gains and losses on Level 3 energy 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 2008 Annual Financial Statements and Note A. Unrealized gains and losses for energy derivatives are generally deferred on the consolidated balance sheet in accordance with the accounting rules for regulated operations.

Realized and unrealized losses on Level 3 financial and other derivatives and other assets are generally deferred on the consolidated balance sheet in accordance with the accounting rules for regulated operations.

Notes to the Financial Statements (Unaudited) - Continued

Note K - Related Party Transactions

Reference is made to Note N to the 2008 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 PSC and/or other regulatory authorities, as applicable. The services received include substantial administrative support operations, such as corporate secretarial and associated ministerial duties, accounting, treasury, investor relations, information resources, legal, human resources, fuel supply, and energy management services. The costs of administrative and other services provided by the Company, and received from Con Edison and its other subsidiaries for the three and nine months ended September 30, 2009 and 2008 were as follows:

(Millions of Dollars)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
Cost of services provided	\$5	\$5	\$14	\$14
Cost of services received	\$11	\$6	\$31	\$23

In addition, Con Edison of New York and O&R have joint gas supply arrangements, in connection with which O&R purchased from Con Edison of New York \$25 million and \$44 million of natural gas for the three months ended September 30, 2009 and 2008, respectively, and \$98 million and \$143 million of natural gas for the nine months ended September 30, 2009 and 2008, respectively. These amounts are net of the effect of related hedging transactions.

At September 30, 2009 and December 31, 2008, O&R's net payable to Con Edison of New York associated with derivatives for energy price hedging was \$1 million and \$15 million, respectively. See Note I.

At September 30, 2009 and December 31, 2008, the Company's receivable from Con Edison for income taxes was \$13 million and \$24 million, respectively. See Note A to the 2008 Annual Financial Statements.

FERC has authorized Con Edison of New York through December 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. Con Edison of New York's outstanding loans to O&R amounted to \$0 million and \$113 at September 30, 2009 and December 31, 2008, respectively.

Note L – New Financial Accounting Standards

Reference is made to Note P to the 2008 Annual Financial Statements.

In April 2009, the Financial Accounting Standards Board (FASB) issued FSP FAS 157-4 "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That are Not Orderly." This FSP provides additional guidance on how fair value measurements might be determined in an inactive market. The FSP provides factors for determining whether a market is active

Notes to the Financial Statements (Unaudited) - Continued

and subsequently whether a transaction is distressed. Additionally, this FSP requires an entity to disclose a change in valuation technique (and the related inputs) resulting from the application of the FSP and to quantify its effects, if practicable. This FSP applies to all fair value measurements when appropriate and is effective for interim and annual periods ending after June 15, 2009; early adoption is permitted for periods ending after March 15, 2009. The application of this FSP did not have a material impact on the Company's financial position, results of operations and liquidity.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments." This FSP amends the method for determining whether an other-than-temporary impairment exists for debt securities and the amount of an impairment charge to be recorded in earnings. Under the FSP, an entity must assess the likelihood of selling the security prior to recovering its cost basis to determine whether an other-than-temporary impairment exists. This FSP is effective for interim and annual periods ending after June 15, 2009; early adoption is permitted for periods ending after March 15, 2009. The application of this FSP did not have a material impact on the Company's financial position, results of operations and liquidity.

In April 2009, the FASB issued FSP FAS 107-1 and Accounting Principles Board (APB) 28-1 "Interim Disclosures about Fair Value of Financial Instruments." This FSP applies to all financial instruments within the scope of FASB Statement No. 107, "Disclosures about Fair Value of Financial Instruments," and requires entities to disclose the methods and significant assumptions used to estimate the fair value of financial instruments, in both interim financial statements as well as annual financial statements. This FSP is effective for interim and annual periods ending after June 15, 2009; early adoption is permitted for periods ending after March 15, 2009. The application of this FSP did not have a material impact on the Company's financial position, results of operations and liquidity.

In June 2009, the FASB issued Statement No. 168, "The FASB Accounting Standards CodificationTM and the Hierarchy of Generally Accepted Accounting Principles." This Statement replaces FASB Statement No. 162, "The Hierarchy of Generally Accepted Accounting Principles" and establishes the FASB Accounting Standards CodificationTM as the source of authoritative U.S. generally accepted accounting principles recognized by the FASB to be applied to by nongovernmental entities. This Statement is effective for interim and annual periods ending after September 15, 2009. The adoption of this Statement did not have a material impact on the Company's financial position, results of operations or liquidity.

In June 2009, the FASB issued SFAS No. 167, "*Amendments to FASB Interpretation No. 46(R)*." This Standard amends FASB Interpretation No. 46(R), "*Consolidation of Variable Interest Entities (revised December 2003)—an interpretation of ARB No. 51*," to improve financial reporting by entities involved with variable interest entities (VIEs) and to address the impact of pending amendments to derecognition guidance. Under this Standard, an entity must perform qualitative assessments of power and economics when determining the primary beneficiary of VIEs. This Standard is effective as of the beginning of the first fiscal year that begins after November 15, 2009. The Company is currently evaluating the impact of this Standard on its financial position, results of operations and liquidity.

Notes to the Financial Statements (Unaudited) - Continued

In June 2009, the FASB issued SFAS No. 166, "*Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140.*" This Standard amends FASB Statement No. 140, "*Accounting for Transfers of Financial Assets and Servicing of Financial Assets and Extinguishments of Liabilities,*" by eliminating the concept of a qualifying special-purpose entity, modifying the transferability constraints, requiring consideration of all arrangements made in connection with a transfer, clarifying the legal isolation analysis, providing guidance on when a portion of a financial asset can be derecognized, and modifying the initial measurement of a beneficial interest retained by a transferor. This Standard is effective as of the beginning of the first fiscal year that begins after November 15, 2009. The application of this Standard is not expected to have a material impact on the Company's financial position, results of operations and liquidity.

In August 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2009-05, "Fair Value Measurements and Disclosures (Topic 820)—Measuring Liabilities at Fair Value." The Update addresses valuation techniques for circumstances in which a quoted price in an active market for the identical liability is not available. The Update requires companies to measure fair value using valuation techniques provided within the Update or those consistent with Topic 820. The Update is effective for the first interim or annual reporting period beginning after the Update's issuance. The Company currently records certain derivative liabilities at fair value using valuation techniques consistent with Topic 820. The adoption of this Update is not expected to have a material impact on the Company's financial position, results of operations or liquidity.