Orange and Rockland Utilities, Inc.
First Quarter 2008 Financial Statements and Notes

Financial Statements (Unaudited)

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

	March 31, 2008	December 31, 2007
	(Millions of Dollars)	
ASSETS		
UTILITY PLANT, AT ORIGINAL COST		
Electric	$ 962	$ 952
Gas	407	403
General	136	133
Total	1,505	1,488
Less: Accumulated depreciation	430	423
Net	1,075	1,065
Construction work in progress	50	55
NET UTILITY PLANT	1,125	1,120
CURRENT ASSETS		
Cash and temporary cash investments	22	60
Restricted cash	1	1
Accounts receivable - customers, less allowance for uncollectible accounts of $2 in 2008 and 2007	72	54
Accrued unbilled revenue	32	42
Other receivables, less allowance for uncollectible accounts of $2 in 2008 and 2007	30	26
Accounts receivable from affiliated companies	11	5
Gas in storage, at average cost	20	43
Materials and supplies, at average cost	9	8
Prepayments	12	11
Fair value of derivative assets	33	4
Deferred derivative losses	-	1
Recoverable energy costs	4	23
TOTAL CURRENT ASSETS	246	278
INVESTMENTS	11	12
DEFERRED CHARGES, REGULATORY ASSETS AND NONCURRENT ASSETS		
Regulatory assets	405	408
Other deferred charges and noncurrent assets	53	44
TOTAL DEFERRED CHARGES, REGULATORY ASSETS AND NONCURRENT ASSETS	458	452
TOTAL ASSETS	$ 1,840	$ 1,862

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

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

	March 31, 2008	December 31, 2007
	(Millions of Dollars)	
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION		
Common shareholder's equity (See Statement of Common Shareholder's Equity)	$ 427	$ 416
Long-term debt	387	433
TOTAL CAPITALIZATION	814	849
NONCURRENT LIABILITIES		
Provision for injuries and damages	7	6
Pensions and retiree benefits	305	299
Superfund and other environmental costs	56	56
Hedges on variable rate long-term debt	11	10
Uncertain income taxes	12	12
TOTAL NONCURRENT LIABILITIES	391	383
CURRENT LIABILITIES		
Long-term debt due within one year	3	3
Notes payable	45	45
Accounts payable	115	95
Accounts payable to affiliated companies	33	94
Customer deposits	15	15
Accrued taxes	13	1
Accrued interest	15	12
Deferred derivative gains	36	5
Deferred income taxes - recoverable energy costs	10	9
Other current liabilities	13	20
TOTAL CURRENT LIABILITIES	298	299
DEFERRED CREDITS AND REGULATORY LIABILITIES		
Deferred income taxes and investment tax credits	209	207
Regulatory liabilities	125	121
Other deferred credits	3	3
TOTAL DEFERRED CREDITS AND REGULATORY LIABILITIES	337	331
TOTAL CAPITALIZATION AND LIABILITIES	$1,840	$1,862

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

	For the Three Months Ended March 31, 2008	2007
	(Millions of Dollars)	
OPERATING REVENUES		
Electric	$ 158	$ 144
Gas	105	113
TOTAL OPERATING REVENUES	263	257
OPERATING EXPENSES		
Purchased power	95	83
Gas purchased for resale	65	71
Other operations and maintenance	55	46
Depreciation and amortization	10	9
Taxes, other than income taxes	12	10
Income taxes	7	12
TOTAL OPERATING EXPENSES	244	231
OPERATING INCOME	19	26
INTEREST EXPENSE		
Interest on long-term debt	6	6
Other interest	1	1
NET INTEREST EXPENSE	7	7
NET INCOME	$ 12	$ 19

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Orange and Rockland Utilities, Inc.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Unaudited)

	For the Three Months Ended March 31, 2008	2007
	(Millions of Dollars)	
NET INCOME	$ 12	$ 19
OTHER COMPREHENSIVE INCOME/(LOSS), NET OF TAXES		
Pension plan liability adjustments, net of $1 taxes in 2007	-	2
Unrealized (losses)/gains on derivatives qualified as cash flow hedges, net of $(1) taxes in 2008	(1)	1
Less: Reclassification adjustment for unrealized losses included in regulatory assets, net of $(5) taxes in 2008	(8)	-
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAXES	7	3
COMPREHENSIVE INCOME	$ 19	$ 22

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)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
BALANCE AS OF DECEMBER 31, 2006	1,000	$ -	$ 194	$ 200	$ (34)	$ 360
Net Income				19		19
Common stock dividend to parent				(8)		(8)
Other comprehensive income					3	3
BALANCE AS OF MARCH 31, 2007	1,000	$ -	$ 194	$ 211	$ (31)	$ 374
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

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

	For the Three months Ended March 31, 2008	2007
	(Millions of Dollars)	
OPERATING ACTIVITIES		
Net income	$ 12	$ 19
PRINCIPAL NON-CASH CHARGES/(CREDITS) TO INCOME		
Depreciation and amortization	10	9
Deferred income taxes	(3)	-
Other non-cash items (net)	10	5
CHANGES IN ASSETS AND LIABILITIES		
Accounts receivable - customers, less allowance for uncollectibles	(18)	(12)
Accounts receivable from affiliated companies	(6)	(7)
Materials and supplies, including gas in storage	22	33
Prepayments, other receivables and other current assets	5	5
Recoverable energy costs	13	(4)
Accounts payable	(25)	(8)
Accounts payable to affiliated companies	(6)	12
Pensions and retiree benefits	6	4
Accrued taxes	12	12
Accrued interest	3	3
Deferred charges, noncurrent assets and other regulatory assets	(33)	7
Deferred credits and other regulatory liabilities	41	(3)
Other assets	-	(1)
Other liabilities	(6)	(15)
NET CASH FLOWS FROM OPERATING ACTIVITIES	37	59
INVESTING ACTIVITIES		
Utility construction expenditures	(11)	(16)
Increase/(Decrease) in restricted cash	-	1
Cost of removal less salvage	-	(1)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(11)	(16)
FINANCING ACTIVITIES		
Net proceeds from/(payments of) short-term debt	-	(29)
Retirement of long-term debt	(1)	(21)
Dividend to parent	(8)	(8)
Retirement of loan from affiliate	(55)	-
NET CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES	(64)	(58)
CASH AND TEMPORARY CASH INVESTMENTS:		
NET CHANGE FOR THE PERIOD	(38)	(15)
BALANCE AT BEGINNING OF PERIOD	60	21
BALANCE AT END OF PERIOD	$ 22	$ 6
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	$ 3	$ 4
Income Taxes	$ 1	$ 2

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 unaudited interim 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 three months ended March 31, 2008 and 2007, operating revenues for RECO and Pike were 18.8 percent and 0.8 percent and 16.3 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, 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 (NJBPU) and the Pennsylvania Public Utility Commission (PPUC) with respect to rates, service and accounting.

The interim consolidated financial statements of O&R are unaudited but, in the opinion of its management, reflect all adjustments (which include only normally recurring adjustments) necessary for a fair presentation of the results for the interim periods presented. O&R's interim consolidated financial statements should be read together with its audited financial statements (including the notes thereto) for the year ended December 31, 2007 (2007 Annual Financial Statements). Results for interim periods are not necessarily indicative of results for the entire fiscal year.

Note A – Regulatory Matters

Reference is made to "Rate and Restructuring Agreements" in Note B to the 2007 Annual Financial Statements.

Rate and Restructuring Agreements

Electric

On April 18, 2008, O&R entered into a Joint Proposal with the PSC staff and other parties for the rates O&R can charge its New York customers for electric service from July 2008 through June 2011. The Joint Proposal, which is subject to approval by the PSC, provides for electric rate increases of $15.6 million, $15.6 million and $5.7 million effective July 1, 2008, 2009 and 2010, respectively, and the collection of an additional $9.9 million during the 12-month period beginning July 1, 2010. The PSC is expected to consider the Joint Proposal in July 2008.

The Joint Proposal reflected the following major items:

- an annual return on common equity of 9.4 percent;
- most of any actual earnings above a 10.2 percent return on equity (based on actual average common equity ratio, subject to a 50 percent maximum) are to be applied to reduce regulatory assets for pension and other post-retirement benefit expenses;
- deferral as a regulatory asset or regulatory liability, as the case may be, of the difference between actual pension and other post-retirement benefit expenses, environmental remediation expenses, property taxes, tax-exempt debt costs and certain other expenses 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 actual transmission and distribution related capital expenditures are less than amounts reflected in rates;
- deferral as a regulatory asset of increases, if any, in certain expenses above a 4 percent annual inflation rate, but only if the actual annual return on common equity is less than 9.4 percent;
- potential operations penalties of approximately $2 million to $3 million annually if certain customer service and system reliability performance targets are not met;
- implementation of a revenue decoupling mechanism under which actual energy delivery revenues would be compared, on a periodic basis, with the authorized delivery revenues with the difference accrued, with interest, for refund to, or recovery from, customers, as applicable;
- continuation of the rate provisions pursuant to which the company recovers its purchased power costs from customers; and
- withdrawal of the litigation O&R commenced seeking to annul the PSC’s March and October 2007 orders relating to O&R’s electric rates.

Regulatory Assets and Liabilities

Regulatory assets and liabilities at March 31, 2008 and December 31, 2007 were comprised of the following items:

(Millions of Dollars)	2008	2007
Regulatory assets		
Unrecognized pension and other postretirement costs	$145	$150
Environmental remediation costs	65	65
Transition bond charges	62	63
Pension and other postretirement benefits deferrals	56	56
Future federal income tax	56	55
Other	21	19
Regulatory assets	405	408
Deferred derivative losses - current	-	1
Recoverable energy costs - current	4	23
Total regulatory assets	$409	$432
Regulatory liabilities		
Allowance for cost of removal less salvage	$62	$61
Refundable energy costs	23	29
Unrealized gains on hedging	23	13
NYS tax law changes	1	2
Other	16	16
Regulatory liabilities	125	121
Deferred derivative gains – current	36	5
Total regulatory liabilities	$161	$126

Note B – Capitalization

Reference is made to Note C to the 2007 Annual Financial Statements.

In April 2008, Con Edison invested $29 million in O&R’s common shareholder’s equity. The cash was used to reduce short-term borrowings and for other corporate purposes.

At March 31, 2008, $45 million of the $55 million of O&R's weekly-rate, tax-exempt debt that is insured by Financial Guaranty Insurance Company (Series 1994A Debt), and $16 million of the $44 million of such debt insured by Ambac Assurance Company (Series 1995 A Debt), had been tendered by bondholders and purchased with funds drawn under letters of credit maintained as liquidity facilities for the tax-exempt debt. At March 31, 2008, O&R's obligation to reimburse the bank that issued the letter of credit for the Series 1994A Debt resulted in a non-cash reclassification from long-term debt to accounts payable. The portions of the Series 1994A Debt and Series 1995A Debt that had not been tendered and O&R’s obligation to reimburse the bank for the Series 1995A Debt were included as long-term debt. In April 2008, O&R reimbursed the bank for the funds used to purchase Series 1994A Debt, together with interest thereon with commercial paper funds. Also in April 2008, the bank was reimbursed for funds used to purchase Series 1995A Debt with proceeds from the remarketing of the debt to new bondholders and O&R reimbursed the bank for interest on such funds.

Note C – Short-Term Borrowing and Credit Agreements

Reference is made to Note D to the 2007 Annual Financial Statements.

At March 31, 2008 and March 31, 2007, there was $45.5 million and $4.5 million of commercial paper outstanding, at a weighted average interest rate of 3.6 percent and 5.5 percent, respectively. At March 31, 2008 and 2007, $30 million of letters of credit at each period were outstanding under the agreements.

Note D – Pension Benefits

Reference is made to Note E to the 2007 Annual Financial Statements.

Net Periodic Benefit Cost

The components of the Company's net periodic benefit costs for the three months ended March 31, 2008 and 2007 were as follows:

(Millions of Dollars)	2008	2007
Service cost – including administrative expenses	$3	$3
Interest cost on projected benefit obligation	9	8
Expected return on plan assets	(8)	(7)
Amortization of net actuarial loss	5	5
NET PERIODIC BENEFIT COST	$9	$9
Cost capitalized	(2)	(2)
Cost deferred	1	(2)
Cost charged to operating expenses	$8	$5

In the first quarter of 2008, in accordance with Statement of Financial Accounting Standards (SFAS) No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of Financial Accounting Standards Board (FASB) Statements No. 87, 88, 106 and 132(R)" (SFAS No. 158) and based on the final actuarial valuation as of December 31, 2007, O&R adjusted the estimated amounts recorded under SFAS No. 158 by increasing its pension liability by $4 million and the related regulatory asset by $3 million and recognizing a charge of $1 million (net of taxes) to other comprehensive income (OCI).

Note E – Other Postretirement Benefits

Reference is made to Note F to the 2007 Annual Financial Statements.

Net Periodic Benefit Cost

The components of the Company's net periodic postretirement benefit costs for the three months ended March 31, 2008 and 2007 were as follows:

(Millions of Dollars)	2008	2007
Service cost	$1	$1
Interest cost on accumulated other postretirement benefit obligation	3	3
Expected return on plan assets	(2)	(2)
Amortization of net actuarial loss	2	2
NET PERIODIC POSTRETIREMENT BENEFIT COST	$4	$4
Cost capitalized	(2)	(1)
Cost deferred	-	(2)
Cost charged to operating expenses	$2	$1

In the first quarter of 2008, in accordance with SFAS No. 158 and based on the final actuarial valuation as of December 31, 2007, O&R adjusted the estimated amounts recorded under SFAS No. 158 by decreasing its liability for other postretirement benefits by $2 million and the related regulatory asset by $2 million.

Note F – Environmental Matters

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

MGP Sites

The New York State Department of Environmental Conservation (DEC) requires O&R to develop and implement remediation programs for its MGP Sites. O&R has investigated and detected soil and/or groundwater contamination to varying degrees at its MGP Sites. Remediation has been completed at one MGP site and is currently underway at another MGP site. Additional investigation will be required for three of the remaining MGP sites and remediation required at all of them. At March 31, 2008 and December 31, 2007, O&R had an accrued liability of $56 million for its MGP Sites.

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.

O&R is permitted under its New York rate agreements to recover or defer as regulatory assets (for subsequent recovery through rates) certain site investigation and remediation costs. At March 31, 2008 and December 31, 2007, O&R's regulatory asset for recovery of these costs was $65 million. The environmental remediation costs for the three months ended March 31, 2008 and 2007 were approximately $0.5 million and $1 million, respectively. There were no insurance recoveries during these periods.

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; however, 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) costs incurred for asbestos claims by employees and third-party contractors relating to its divested generating plants.

The Company's accrued liability for asbestos suits and workers' compensation proceedings (including those related to asbestos exposure) was $6 million and $5 million at March 31, 2008 and December 31, 2007, respectively.

Note G – Closure of Lovett Generating Station

In June 1999, O&R sold its electric generating assets, including the Lovett generating station. The generating station includes pollution control facilities that were financed by O&R with the proceeds of $99 million of tax-exempt debt. See Note B. The owner of the generating station has discontinued all operations at the station as of April 19, 2008 and is in the process of demolition. Certain O&R equipment that had been permitted to remain on the site and in the generation facilities following the sale are in the process of being relocated to an onsite O&R substation. O&R does not expect that the closure of the station will have a material adverse effect on its financial position, results of operations or liquidity.

Note H –Stock-Based Compensation

For a description of stock-based compensation, including stock options, restricted stock units (RSUs), including performance based-restricted stock units and the stock purchase plan, reference is made to Note L to the 2007 Annual Financial Statements.

In accordance with SFAS No. 123(R), "Share-Based Payment," the Company has recognized the cost of stock-based compensation as an expense using a fair value measurement method. The following table summarizes stock-based compensation expense recognized by the Company in the three months ended March 31, 2008 and 2007:

(Thousands of Dollars)	2008	2007
Stock options	$18	$23
Restricted stock units	22	-
Performance-based restricted stock	(152)	56
Total	$(112)	$79

Stock Options

A summary of changes in the status of stock options for O&R during the three months ended March 31, 2008 and 2007 were as follows:

	Shares	Weighted Average Exercise Price
Outstanding at 12/31/06	614,850	$41.946
Granted	-	-
Exercised	(28,650)	38.752
Forfeited	-	-
Outstanding at 3/31/07	586,200	$42.102
Outstanding at 12/31/07	548,200	$42.266
Granted	-	-
Exercised	4,500	41.693
Forfeited	-	-
Outstanding at 3/31/08	543,700	$42.271

The change in the fair value of all outstanding options from their grant dates to March 31, 2008 and 2007 (aggregate intrinsic value) for O&R was $(1.4) million and $5 million, respectively. The aggregate intrinsic value of options exercised by employees of Con Edison's affiliates, including O&R, in the period ended March 31, 2008 and 2007 was $0.2 million and $7 million, respectively, and the cash received by Con Edison for payment of the exercise price was $1.1 million and $40 million, respectively. The weighted average remaining contractual life of options outstanding is five years as of March 31, 2008.

The following table summarizes O&R employees' stock options outstanding at March 31, 2008 for each plan year:

Plan Year	Remaining Contractual Life	Options Outstanding	Weighted Average Exercise Price	Options Exercisable
2006	9	124,000	45.599	-
2005	8	105,000	43.031	58,000
2004	7	83,500	43.754	83,500
2003	6	79,700	39.938	79,700
2002	5	85,500	42.510	85,500
2001	4	37,000	37.750	37,000
2000	3	29,000	32.500	29,000
Total		543,700	$42.271	372,700

There were no awards granted in 2008 and 2007. The total expense to be recognized in future periods for the unvested stock options outstanding as of March 31, 2008 is $36 thousand for O&R.

Restricted Stock Units

At March 31, 2008 and 2007, there were 36,200 and 35,000 units outstanding for O&R, respectively. The weighted average fair value as of the grant date of the outstanding units for March 31, 2008 and 2007 was $35.322 and $34.783 per unit for O&R.

A summary of changes in the status of the Performance RSUs' Total Shareholder Return (TSR) portion during the three months ended March 31, 2008 and 2007 is as follows:

	Units	Weighted Average Fair Value*
Non-vested at 12/31/06	8,575	$18.58
Granted	10,250	45.73
Vested and Exercised	-	-
Forfeited	-	-
Non-vested at 3/31/07	18,825	$36.12
Non-vested at 12/31/07	17,625	$33.10
Granted	19,150	36.27
Vested and Exercised	(5)	31.37
Forfeited	(70)	-
Non-vested at 3/31/08	36,700	$21.65

* Fair value is determined using the Monte Carlo simulation.

A summary of changes in the status of the Performance RSUs' Executive Incentive Plan (EIP) portion during the three months ended March 31, 2008 and 2007 is as follows:

	Units	Weighted Average Price
Non-vested at 12/31/06	8,575	$48.07
Granted	10,250	47.53
Vested and Exercised	-	-
Forfeited	-	-
Non-vested at 3/31/07	18,825	$51.06
Non-vested at 12/31/07	17,625	$48.85
Granted	19,150	46.44
Vested and Exercised	(20)	43.57
Forfeited	(55)	-
Non-vested at 3/31/08	36,700	$39.70

The total expense to be recognized by O&R in future periods for unvested Performance RSUs outstanding as of March 31, 2008 is $1.7 million.

Note I – Financial Information By Business Segment

Reference is made to Note M to the 2007 Annual Financial Statements.

The financial data for the business segments are as follows:

	For the Three Months Ended March 31,							
	Operating Revenues		Inter-segment Revenues		Depreciation and Amortization		Operating Income	
(Millions of Dollars)	2008	2007	2008	2007	2008	2007	2008	2007
Electric	$158	$144	$-	$-	$7	$6	$5	$10
Gas	105	113	-	-	3	3	14	16
Total	$263	$257	$-	$-	$10	$9	$19	$26

Note J – Derivative Instruments and Hedging Activities

Reference is made to Note N to the 2007 Annual Financial Statements.

The Company follows FIN No. 39, "Offsetting Amounts Related to Certain Contracts," and offsets assets and liabilities in the consolidated balance sheet provided that the legal right of offset exists.

In April 2007, the FASB issued FASB Staff Position (FSP) FIN No. 39-1, "Amendment of FASB Interpretation No. 39." This FSP permits a reporting entity to offset fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) against fair value amounts recognized for derivative instruments that have been offset provided that the receivable or payable arises from the same master netting agreement with the same counterparty as the derivative instruments. On January 1, 2008, the Company adopted the netting provisions of FSP FIN No. 39-1. The adoption of FSP FIN No. 39-1 did not have a material impact on the Company’s financial position, results of operations or liquidity.

Energy Price Hedging

The Company hedges market price fluctuations associated with physical purchases and sales of electricity and natural gas by using derivative instruments including futures, forwards, basis swaps, or options. The fair values of these hedges at March 31, 2008 and December 31, 2007 were as follows:

(Millions of Dollars)	2008	2007
Fair value of net assets - gross	$65	$14
Impact of netting of cash collateral	(3)	-
Fair value of net assets - net	$62	$14

The Company is permitted by its regulators to reflect in rates all reasonably incurred gains and losses on these instruments. See “Recoverable Energy Costs” in Note A to the 2007 Annual Financial Statements.

Generally, 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.

Credit Exposure

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

The Company had $85 million of credit exposure in connection with energy supply and hedging activities, net of collateral and reserves, at March 31, 2008. The Company's entire credit exposure was with investment-grade counterparties.

Interest Rate Swap

O&R has an interest rate swap related to its Series 1994A Debt. See Note B. At December 31, 2007, the swap was designated as a cash flow hedge, the fair value of which was an unrealized loss of $11 million that was recorded in OCI. In February 2008, the swap counterparty changed the method of calculating its payments under the swap and, as a result, the swap no longer qualified as a hedge under SFAS No. 133. In accordance with O&R's April 2008 electric rate Joint Proposal (see Note A), O&R is to defer as a regulatory asset or liability the difference between its actual interest and swap costs relating to its tax-exempt debt and the amount for such costs reflected in rates. Similar treatment is expected in O&R's other services. The fair value of this interest rate swap at March 31, 2008 was an unrealized loss of $13 million, which has been deferred as a regulatory asset.

Note K – Related Party Transactions

Reference is made to Note P to the 2007 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 O&R, and received from Con Edison and its other subsidiaries, for the three months ended March 31, 2008 and 2007 were as follows:

(Millions of Dollars)	2008	2007
Cost of services provided	$5	$4
Cost of services received	$8	$7

In addition, O&R purchased from Con Edison of New York $45 million and $49 million of natural gas for the three months ended March 31, 2008 and 2007, respectively. These amounts are net of the effect of related hedging transactions.

Electric hedging transactions executed by Con Edison of New York on behalf of O&R resulted in a credit to purchased power of $46 thousand for the three months ended March 31, 2008 and a charge to purchase power of $1.8 million for the three months ended 2007.

At March 31, 2008 and December 31, 2007, the Company has a net payable to Con Edison of New York associated with derivatives for energy price hedging of $47 thousand and $4 million, respectively.

As of March 31, 2008, the Company's payable to Con Edison for income taxes was $7 million and as of December 31, 2007, the Company's receivable for income taxes was $2 million. See Note A to the 2007 Financial Statements.

In December 2006, the FERC authorized Con Edison of New York to lend funds to O&R, for periods of not more than 12 months, in amounts not to exceed $200 million outstanding at any time, at prevailing market rates. In December 2007, Con Edison of New York loaned O&R $55 million, which was repaid in January 2008.

Note L – Fair Value Measurements

Effective January 1, 2008, the Company adopted FASB Statement No. 157, "Fair Value Measurements" (SFAS No. 157). This Statement defines fair value, establishes a framework for measuring fair value and expands the disclosures about fair value measurements.

SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in a principal or most advantageous market. Fair value is a market-based measurement that is determined based on inputs, which refer broadly to assumptions that market participants use in pricing assets or liabilities. These inputs can be readily observable, market corroborated, or generally unobservable firm inputs. The Company often makes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, and the risks inherent in the inputs to valuation techniques. The Company uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

SFAS No. 157 established a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value in three broad levels. The standard requires that assets and liabilities be classified in their entirety based on the level of input that is significant to the fair value measurement. Assessing the significance of a particular input may require judgment considering factors specific to the asset or liability, and may affect the valuation of the asset or liability and their placement within the fair value hierarchy. The Company classifies fair value balances based on the fair value hierarchy defined by SFAS No. 157 as follows:

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

- Level 2 – Consists of assets or liabilities valued using industry standard models and based on prices, other than quoted prices within Level 1, that are either directly or indirectly observable as of the measurement date.

  The industry standard models consider observable assumptions including time value, volatility factors, and current market and contractual prices for the underlying commodities, in addition to other economic measures. This category includes contracts traded on active exchanges or in over-the-counter markets priced with industry standard models.

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

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

(Millions of Dollars)	Level 1	Level 2	Level 3	Netting Adjustments (4)	Total
Derivative assets:					
Energy (1)	$1	$11	$54	$(4)	$62
Financial & other	-	-	-	-	-
Other assets (3)	-	-	11	-	11
Total	$1	$11	$65	$(4)	$73
Derivative liabilities:					
Energy (1)	$-	$-	$1	$(1)	$-
Financial & other (2)	-	-	13	-	13
Other liabilities	-	-	-	-	-
Total	$-	$-	$14	$(1)	$13

(1) See Note J.
(2) Includes an interest rate swap. See Note J.
(3) Other assets are comprised of assets such as life insurance contracts within the Supplemental Employee Retirement Plan, held in a rabbi trust.
(4) Amounts represent the impact of legally-enforceable master netting agreements that allow the Company to net gain and loss positions and cash collateral held or placed with the same counterparties.

The table listed below provides a reconciliation of the beginning and ending net balances for assets and liabilities measured at fair value and classified as Level 3 in the fair value hierarchy:

(Millions of Dollars)	Beginning Balance as of January 1, 2008	Total Gains/(Losses) – Realized and Unrealized: Included in Earnings	Total Gains/(Losses) – Realized and Unrealized: Included in Regulatory Assets and Liabilities	Purchases, Issuances, Sales and Settlements	Transfer In/Out of Level 3	Ending Balance as of March 31,2008
Derivatives:						
Energy	$16	$-	$38	$(1)	$-	$53
Financial & other	(11)	-	(3)	1	-	(13)
Other	12	(1)	-	-	-	11
Total	$17	$(1)	$35	$-	$-	$51

Realized gains and losses on Level 3 energy derivative assets and liabilities are reported as part of purchased power and gas costs. The Company generally recovers these costs in accordance with rate provisions approved by the applicable state public utilities commissions. Reference is made to Note A to the 2007 Annual Financial Statements. Unrealized gains and losses for energy derivatives are generally deferred on the consolidated balance sheet in accordance with SFAS No. 71.

Pursuant to FSP No. FAS 157-2, "Effective Date of FASB Statement No. 157," the Company will delay the adoption of SFAS No. 157 for its nonfinancial assets and liabilities that are recognized on a nonrecurring basis, including goodwill and intangibles and asset retirement obligations.

Note M – New Financial Accounting Standards

Reference is made to Note Q to the 2007 Annual Financial Statements.

In March 2008, the FASB issued Statement No. 161, "Disclosures about Derivative Instruments and Hedging Activities." This Statement amends and expands the disclosure requirements of Statement 133 with the intent 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 Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The Statement requires 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. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the impact of this Statement on its disclosures of financial position, results of operations and liquidity.

In February 2008, the FASB issued FSP No. 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements that Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13," and FSP No. FAS 157-2, "Effective Date of FASB Statement No. 157." FSP No. 157-1 amends FASB Statement No. 157 to exclude FASB Statement No. 13, "Accounting for

Leases," and other accounting pronouncements that address fair value measurements for purposes of lease classification and measurement under Statement No. 13. This FSP is effective upon the initial adoption of SFAS 157. FSP No. FAS 157-2 delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years for items within the scope of this FSP. The adoption of both FSP No. 157-1 and FSP No. FAS 157-2 did not have a material impact on the Company's financial position, results of operations or liquidity.

In January 2008, the FASB issued Statement 133 Implementation Issue No. E23, "Hedging—General: Issues Involving the Application of the Shortcut Method under Paragraph 68." Issue E23 amends paragraph 68 of SFAS 133 with respect to the conditions that must be met in order to apply the shortcut method for assessing hedge effectiveness. The implementation guidance in this Issue is effective for hedging relationships designated on or after January 1, 2008. The adoption of Issue E23 did not have a material impact on the Company's financial position, results of operations or liquidity.