Orange and Rockland Utilities, Inc.
Second Quarter 2011 Financial Statements and Notes

Financial Statements (Unaudited)

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
	(Millions of Dollars)			
OPERATING REVENUES				
Electric	$ 141	$ 153	$ 289	$ 314
Gas	37	35	130	125
TOTAL OPERATING REVENUES	178	188	419	439
OPERATING EXPENSES				
Purchased power	56	72	123	158
Gas purchased for resale	13	15	53	58
Other operations and maintenance	70	64	141	133
Depreciation and amortization	12	11	24	22
Taxes, other than income taxes	12	12	25	25
TOTAL OPERATING EXPENSES	163	174	366	396
OPERATING INCOME	15	14	53	43
OTHER INCOME (DEDUCTIONS)				
Investment and other income	-	(1)	1	(1)
Allowance for equity funds used during construction	1	1	1	1
TOTAL OTHER INCOME (DEDUCTIONS)	1	-	2	-
INCOME BEFORE INTEREST AND INCOME TAX EXPENSE	16	14	55	43
INTEREST EXPENSE				
Interest on long-term debt	8	8	16	16
Other interest	2	-	5	1
Allowance for borrowed funds used during construction	-	-	(1)	(1)
NET INTEREST EXPENSE	10	8	20	16
INCOME BEFORE INCOME TAX EXPENSE	6	6	35	27
INCOME TAX EXPENSE	2	2	12	9
NET INCOME	$ 4	$ 4	$ 23	$ 18

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

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

	For the Six Months Ended June 30, 2011	2010
	(Millions of Dollars)	
OPERATING ACTIVITIES		
Net income	$ 23	$ 18
PRINCIPAL NON-CASH CHARGES/(CREDITS) TO INCOME		
Depreciation and amortization	24	22
Deferred income taxes	13	(17)
Other non-cash items (net)	-	14
CHANGES IN ASSETS AND LIABILITIES		
Accounts receivable - customers, less allowance for uncollectibles	10	(12)
Accounts receivable from affiliated companies	15	(15)
Materials and supplies, including gas in storage	8	10
Prepayments, other receivables and other current assets	9	16
Recoverable energy costs	3	(4)
Accounts payable	(23)	(10)
Accounts payable to affiliated companies	(18)	(12)
Pensions and retiree benefits	32	29
Accrued taxes	-	3
Accrued interest	-	(1)
Accrued wages	(4)	3
Deferred charges, deferred derivative losses, noncurrent assets and other regulatory assets	27	(52)
Deferred credits and other regulatory liabilities	(1)	20
Superfund and other environmental costs	(2)	32
Other liabilities	3	(6)
NET CASH FLOWS FROM OPERATING ACTIVITIES	119	38
INVESTING ACTIVITIES		
Utility construction expenditures	(48)	(51)
Increase in restricted cash	-	(1)
Cost of removal less salvage	(3)	(1)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(51)	(53)
FINANCING ACTIVITIES		
Net proceeds from short-term debt	-	87
Retirement of long-term debt	(1)	(100)
Dividend to parent	(16)	(16)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	(17)	(29)
CASH AND TEMPORARY CASH INVESTMENTS:		
NET CHANGE FOR THE PERIOD	51	(44)
BALANCE AT BEGINNING OF PERIOD	38	52
BALANCE AT END OF PERIOD	$ 89	$ 8
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid/(refunded) during the period for:		
Interest	$15	$17
Income taxes	$(12)	$23

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

	June 30, 2011	December 31, 2010
	(Millions of Dollars)	
ASSETS		
CURRENT ASSETS		
Cash and temporary cash investments	$ 89	$ 38
Accounts receivable - customers, less allowance for uncollectible accounts of $6 and $5 in 2011 and 2010, respectively	61	71
Accrued unbilled revenue	29	46
Other receivables, less allowance for uncollectible accounts of $1 in 2011 and 2010	14	11
Accounts receivable from affiliated companies	14	29
Gas in storage, at average cost	19	28
Materials and supplies, at average cost	10	9
Prepayments	22	17
Deferred derivative losses	24	39
Other current assets	25	28
TOTAL CURRENT ASSETS	307	316
INVESTMENTS	10	10
UTILITY PLANT, AT ORIGINAL COST		
Electric	1,195	1,117
Gas	507	499
General	170	165
Total	1,872	1,781
Less: Accumulated depreciation	510	494
Net	1,362	1,287
Construction work in progress	67	113
NET UTILITY PLANT	1,429	1,400
DEFERRED CHARGES, REGULATORY ASSETS AND NONCURRENT ASSETS		
Regulatory assets	534	585
Other deferred charges and noncurrent assets	21	26
TOTAL DEFERRED CHARGES, REGULATORY ASSETS AND NONCURRENT ASSETS	555	611
TOTAL ASSETS	$ 2,301	$ 2,337

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

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

	June 30, 2011	December 31, 2010
	(Millions of Dollars)	
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES		
Long-term debt due within one year	$ 3	$ 3
Accounts payable	67	88
Accounts payable to affiliated companies	16	34
Customer deposits	13	13
Accrued interest	9	9
Accrued wages	5	9
Fair value of derivative liabilities	18	22
Other current liabilities	65	65
TOTAL CURRENT LIABILITIES	196	243
NONCURRENT LIABILITIES		
Provision for injuries and damages	7	7
Pensions and retiree benefits	383	387
Superfund and other environmental costs	118	120
Fair value of derivative liabilities	16	24
Other noncurrent liabilities	2	3
TOTAL NONCURRENT LIABILITIES	526	541
DEFERRED CREDITS AND REGULATORY LIABILITIES		
Deferred income taxes and investment tax credits	313	308
Regulatory liabilities	115	105
Other deferred credits	4	3
TOTAL DEFERRED CREDITS AND REGULATORY LIABILITIES	432	416
LONG-TERM DEBT	609	610
SHAREHOLDER'S EQUITY		
Total common shareholder's equity (See Statement of Common Shareholder's Equity)	538	527
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$ 2,301	$ 2,337

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

Orange and Rockland Utilities, Inc.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
	(Millions of Dollars)			
NET INCOME	$ 4	$ 4	$ 23	$ 18
OTHER COMPREHENSIVE INCOME, NET OF TAXES				
Pension plan liability adjustments, net of $1 and $3 taxes in 2011, $1 and $3 taxes in 2010, respectively	1	2	4	5
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAXES	1	2	4	5
COMPREHENSIVE INCOME	$ 5	$ 6	$ 27	$ 23

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, 2009	1,000	$ -	$ 304	$ 239	$ (37)	$ 506
Net income				13		13
Common stock dividend to parent				(8)		(8)
Other comprehensive income					3	3
BALANCE AS OF MARCH 31, 2010	1,000	$ -	$ 304	$ 244	$ (34)	$ 514
Net income				4		4
Common stock dividend to parent				(8)		(8)
Other comprehensive income					2	2
BALANCE AS OF JUNE 30, 2010	1,000	$ -	$ 304	$ 240	$ (32)	$ 512
BALANCE AS OF DECEMBER 31, 2010	1,000	$ -	$ 304	$ 256	$ (33)	$ 527
Net income				19		19
Common stock dividend to parent				(8)		(8)
Other comprehensive income					3	3
BALANCE AS OF MARCH 31, 2011	1,000	$ -	$ 304	$ 267	$ (30)	$ 541
Net income				4		4
Common stock dividend to parent				(8)		(8)
Other comprehensive income					1	1
BALANCE AS OF JUNE 30, 2011	1,000	$ -	$ 304	$ 263	$ (29)	$ 538

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

Notes to the Financial Statements (Unaudited)

General

These notes accompany and form an integral part of the consolidated financial statements of Orange and Rockland Utilities, Inc., a New York corporation, and its subsidiaries (the Company or O&R). The Company is a regulated utility, the equity of which is owned entirely by Consolidated Edison, Inc. (Con Edison). O&R has two regulated utility subsidiaries: Rockland Electric Company (RECO) and Pike County Light & Power Company (Pike). For the six months ended June 30, 2011 and 2010, operating revenues for RECO and Pike were 23.1 percent and 0.9 percent and 24.3 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 (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 State Public Service Commission (NYSPSC), the New Jersey Board of Public Utilities (NJBPU) and the Pennsylvania Public Utility Commission (PAPUC) with respect to rates and accounting.

The interim consolidated financial statements as of June 30, 2011 and 2010 and for the three and six month periods ended June 30, 2011 and 2010 (the Second Quarter Financial Statements) are unaudited but, in the opinion of the Company's management, reflect all adjustments (which include only normally recurring adjustments) necessary for a fair presentation of the results for the interim periods presented. The Second Quarter Financial Statements should be read together with the audited consolidated financial statements of the Company, as of December 31, 2010 and 2009 and for each of the three years in the period ended December 31, 2010, including the notes thereto (the 2010 Annual Financial Statements). Information in the notes to the 2010 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. Certain prior period amounts have been reclassified to conform to the current period presentation.

The Company has, pursuant to the accounting rules for subsequent events, evaluated events or transactions that occurred after June 30, 2011 through the posting on its website (August 12, 2011) of the Second Quarter Financial Statements for potential recognition or disclosure in the Second Quarter Financial Statements.

Note A – Regulatory Matters

Rate Agreements

Reference is made to Note B to the 2010 Annual Financial Statements.

Electric

In June 2011, the NYSPSC adopted an order granting the Company an electric rate increase, effective July 1, 2011, of $26.6 million. The NYSPSC ruling reflects the following major items:

- a weighted average cost of capital of 7.22 percent, reflecting:
  - a return on common equity of 9.2 percent, assuming achievement by the Company of $825,000 of austerity measures;
  - cost of long-term debt of 5.50 percent; and
  - common equity ratio of 48 percent.
- continuation of a revenue decoupling mechanism;
- a provision for reconciliation of certain differences in actual average net utility plant to the amount reflected in rates ($718 million) and continuation of rate provisions under which pension and other post-retirement benefit expenses, environmental remediation expenses, tax-exempt debt costs and certain other expenses are reconciled to amounts for those expenses reflected in rates;
- continuation of the rate provisions pursuant to which the Company recovers its purchased power costs from customers;
- discontinuation of the provisions under which property taxes were reconciled to amounts reflected in rates;
- discontinuation of the inclusion in rates of funding for the Company's annual incentive plan for non-officer management employees;
- continuation of provisions for potential operations penalties of up to $3 million annually if certain customer service and system reliability performance targets are not met; and
- the Company is directed to produce a report detailing its implementation plans for the recommendations made in connection with a NYSPSC management audit of Con Edison's other utility subsidiary, Consolidated Edison Company of New York, Inc. (CECONY), with a forecast of costs to achieve and expected savings.

On July 29, 2011, O&R filed a request with the NYSPSC for an increase in the rates it charges for electric service rendered in New York, effective July 1, 2012, of $17.7 million. The filing reflects a return on common equity of 10.75 percent and a common equity ratio of 49.4 percent. Among other things, the filing proposes continuation of the current provisions with respect to recovery from customers of the cost of purchased power and with respect to the deferral of differences between actual expenses allocable to the electric business for pensions and other postretirement benefits, environmental, and research and developmental costs to the amounts for such costs reflected in electric rates. The filing also includes an alternative proposal for a three-year electric rate plan with annual rate increases of $17.6 million effective July 2012, 2013 and 2014. The multi-year filing reflects a return on common equity of 11.25 percent.

Other Regulatory Matters

In February 2011, the NYSPSC initiated a proceeding to examine the existing mechanisms pursuant to which utilities recover site investigation and remediation costs and possible alternatives. See Note G to the 2010 Annual Financial Statements and Note E to the Second Quarter Financial Statements.

Regulatory Assets and Liabilities

Regulatory assets and liabilities at June 30, 2011 and December 31, 2010 were comprised of the following items:

(Millions of Dollars)	2011	2010
Regulatory assets		
Unrecognized pension and other postretirement costs	$193	$219
Environmental remediation costs	118	122
Future federal income tax	71	78
Transition bond charges	47	48
Pension and other postretirement benefits deferrals	43	49
Property tax reconciliation	12	7
Storm reserve	12	14
Deferred losses on interest rate swap	10	10
Surcharge for New York state assessment	7	9
Deferred derivative losses	7	15
Other	14	14
Regulatory assets – long – term	534	585
Deferred derivative losses - current	24	39
Recoverable energy costs - current	9	13
Regulatory assets - current	33	52
Total Regulatory Assets	$567	$637
Regulatory liabilities		
Allowance for cost of removal less salvage	$74	$72
Carrying charges on T&D net plant	29	23
Other	12	10
Regulatory liabilities	115	105
Refundable energy costs – current	25	26
Deferred derivative gains – current	2	1
Regulatory liabilities - current	27	27
Total Regulatory Liabilities	$142	$132

Note B – Short-Term Borrowing

Reference is made to Note D to the 2010 Annual Financial Statements.

At June 30, 2011 and December 31, 2010, O&R had no commercial paper outstanding. At June 30, 2011 and December 31, 2010, $38 million and $37 million of letters of credit, respectively, and no borrowings were outstanding for O&R under the Credit Agreement.

Note C – Pension Benefits

Reference is made to Note E to the 2010 Annual Financial Statements.

Net Periodic Benefit Cost

The components of the Company's net periodic benefit costs for the three and six months ended June 30, 2011 and 2010 were as follows:

	For the Three Months Ended June 30,	
(Millions of Dollars)	2011	2010
Service cost – including administrative expenses	$3	$3
Interest cost on projected benefit obligation	9	9
Expected return on plan assets	(9)	(9)
Amortization of net actuarial loss	7	6
NET PERIODIC BENEFIT COST	$10	$9
Cost capitalized	(3)	(3)
Cost charged/(deferred)	1	(1)
Cost charged to operating expenses	$8	$5

	For the Six Months Ended June 30,	
(Millions of Dollars)	2011	2010
Service cost – including administrative expenses	$6	$6
Interest cost on projected benefit obligation	18	18
Expected return on plan assets	(18)	(18)
Amortization of net actuarial loss	14	12
Amortization of prior service costs	1	-
NET PERIODIC BENEFIT COST	$21	$18
Cost capitalized	(7)	(5)
Cost charged/(deferred)	2	(3)
Cost charged to operating expenses	$16	$10

Note D – Other Postretirement Benefits

Reference is made to Note F to the 2010 Annual Financial Statements.

Net Periodic Benefit Cost

The components of the Company's net periodic postretirement benefit costs for three and six months ended June 30, 2011 and 2010 were as follows:

(Millions of Dollars)	For the Three Months Ended June 30, 2011	2010
Service cost	$1	$1
Interest cost on accumulated other postretirement benefit obligation	3	3
Expected return on plan assets	(2)	(3)
Amortization of net actuarial loss	2	2
Amortization of prior service costs	1	1
NET PERIODIC POSTRETIREMENT BENEFIT COST	$5	$4
Cost capitalized	(1)	(2)
Cost deferred	-	1
Cost charged to operating expenses	$4	$3

(Millions of Dollars)	For the Six Months Ended June 30, 2011	2010
Service cost	$2	$2
Interest cost on accumulated other postretirement benefit obligation	6	6
Expected return on plan assets	(4)	(6)
Amortization of net actuarial loss	4	4
Amortization of prior service costs	1	2
NET PERIODIC POSTRETIREMENT BENEFIT COST	$9	$8
Cost capitalized	(3)	(3)
Cost deferred	2	2
Cost charged to operating expenses	$8	$7

Note E – Environmental Matters

Superfund Sites

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

The Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 and similar state statutes (Superfund) impose joint and several liability, regardless of fault, upon generators of hazardous substances for investigation and remediation costs (which include costs of demolition, removal, disposal, storage, replacement, containment, and monitoring) and natural resource damages. Liability under these laws can be material and may be imposed for contamination from past acts, even though such past acts may have been lawful at the time they occurred. The sites at which O&R has been asserted to have liability under these laws, including its manufactured gas plant sites and any neighboring areas to which contamination may have migrated, are referred to herein as "Superfund Sites."

For Superfund Sites where there are other potentially responsible parties and O&R is not managing the site investigation and remediation, the accrued liability represents an estimate of the amount O&R will need to pay to investigate and, where determinable, discharge its related obligations. For Superfund Sites (including the manufactured gas plant sites) for which O&R is managing the investigation and remediation, the accrued liability represents an estimate of the Company's share of undiscounted cost to investigate and 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 June 30, 2011 and December 31, 2010 were as follows:

(Millions of Dollars)	2011	2010
Accrued Liabilities:		
Manufactured gas plant sites	$117	$119
Other Superfund Sites	1	1
Total	$118	$120
Regulatory assets	$118	$122

The Superfund Sites have been investigated. However, for some of the sites, the extent and associated cost of the required remediation has not yet been determined. As information pertaining to the required remediation becomes available, the Company expects that additional liability may be accrued, the amount of which is not presently determinable but may be material. 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. In February 2011, the NYSPSC initiated a proceeding to examine the existing mechanisms pursuant to which utilities recover such costs and possible alternatives.

Environmental remediation costs incurred related to Superfund Sites during the three and six months ended June 30, 2011 and 2010 were as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(Millions of Dollars)	2011	2010	2011	2010
Remediation costs incurred	$1.6	$1.3	$1.9	$1.7

Insurance recoveries related to Superfund Sites for the three and six months ended June 30, 2011 were immaterial. There were no insurance recoveries received related to Superfund Sites for the three and six months ended June 30, 2010.

In 2010, O&R estimated that for its manufactured gas plant sites, its aggregate undiscounted potential liability for the investigation and remediation of coal tar and/or other manufactured gas plant related environmental contaminants could range up to $200 million. These estimates were based on assumptions regarding the extent of contamination and the type and extent of remediation that may be required. Actual experience may be materially different.

Asbestos Proceedings

Suits have been brought in New York State and federal courts against O&R and many other defendants, wherein a large number of plaintiffs sought large amounts of compensatory and punitive damages for deaths and injuries allegedly caused by exposure to asbestos at various O&R premises. The suits that have been resolved, which are many, have been resolved without any payment by O&R, or for amounts that were not, in the aggregate, material to the Company. The amounts specified in all the remaining suits total billions of dollars, but the Company believes that these amounts are greatly exaggerated, based on the disposition of previous claims.

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

The Company's accrued liability for asbestos suits and workers' compensation proceedings (including those related to asbestos exposure) at June 30, 2011 and December 31, 2010 were as follows:

(Millions of Dollars)	2011	2010
Accrued liability – asbestos suits	$0.3	$0.3
Regulatory assets – asbestos suits	0.3	0.3
Accrued liability – workers' compensation	$4.8	$5.0
Regulatory assets – workers' compensation	0.3	0.4

Note F – Financial Information by Business Segment

Reference is made to Note K to the 2010 Annual Financial Statements.

The financial data for the business segments are as follows:

	For the Three Months Ended June 30,							
	Operating revenues		Inter-segment revenues		Depreciation and amortization		Operating income	
(Millions of Dollars)	2011	2010	2011	2010	2011	2010	2011	2010
Electric	$141	$153	$-	$-	$8	$8	$14	$15
Gas	37	35	-	-	4	3	1	(1)
Total	$178	$188	$-	$-	$12	$11	$15	$14

	For the Six Months Ended June 30,							
	Operating revenues		Inter-segment revenues		Depreciation and amortization		Operating income	
(Millions of Dollars)	2011	2010	2011	2010	2011	2010	2011	2010
Electric	$289	$314	$-	$-	$17	$16	$25	$22
Gas	130	125	-	-	7	6	28	21
Total	$419	$439	$-	$-	$24	$22	$53	$43

Note G – Derivative Instruments and Hedging Activities

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

Energy Price Hedging

The Company hedges market price fluctuations associated with physical purchases of electricity by using electric and gas derivative instruments including futures, forwards, and options. The fair values of these hedges at June 30, 2011 and December 31, 2010 were as follows:

(Millions of Dollars)	June 30, 2011	December 31, 2010
Fair value of net derivative assets/ (liabilities) – gross	$(24)	$(48)
Impact of netting of cash collateral	3	15
Fair value of net derivative assets/ (liabilities) – net	$(21)	$(33)[(a)]

(a) Includes derivative liabilities of $3 million with Con Edison's competitive energy businesses at December 31, 2010. See Note I.

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

Credit Exposure

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

The Company had $6 million of credit exposure in connection with electricity supply and hedging activities, net of collateral, at June 30, 2011. The Company's net credit exposure consisted of $5 million with investment-grade counterparties and $1 million with commodity exchange brokers.

Economic Hedges

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

The fair values of the Company's commodity derivatives at June 30, 2011 and December 31, 2010 were:

Fair Value of Commodity Derivatives [(a)]

(Millions of Dollars)	Balance Sheet Location	June 30, 2011	December 31, 2010
	Derivative Assets		
Current	Other current assets	$2	$1
Long-term	Other deferred charges and non-current assets	3	3
Total derivative assets		$5	$4
Impact of netting		(2)	(1)
Net derivative assets		$3	$3
	Derivative Liabilities		
Current	Fair value of derivative liabilities	$21	$37
Long-term	Fair value of derivative liabilities	8	15
Total derivative liabilities		$29	$52
Impact of netting		(5)	(16)
Net derivative liabilities		$24	$36[(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 $3 million with Con Edison's competitive energy businesses at December 31, 2010. See Note I.

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 2010 Annual Financial Statements. In accordance with the accounting rules for regulated operations, the Company records a regulatory asset or liability to defer recognition of unrealized gains and losses on its commodity derivatives. As gains and losses are realized in future periods, they will be recognized as purchased power and gas purchased for resale 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 six months ended June 30, 2011 and 2010:

Realized and Unrealized Gains/(Losses) on Commodity Derivatives[a]

(Millions of Dollars)	Balance Sheet Location	Deferred for the Three Months Ended June 30, 2011	Deferred for the Three Months Ended June 30, 2010
Pre-tax gains/(losses) deferred in accordance with the accounting rules for regulated operations:			
Current	Deferred derivative losses	$6	$17
Current	Recoverable energy costs[b]	(18)	(21)
Long-term	Regulatory assets	3	13
Total deferred gain/(losses)		$(9)	$9

(a) Qualifying derivative contracts, which have been designated as normal purchases or normal sales contracts, are not reported at fair value under the accounting rules for derivatives and hedging and, therefore, are excluded from the table.
(b) Includes payments of $4 million and $8 million to Con Edison's competitive energy businesses for the three months ended June 30, 2011 and 2010, respectively. See Note I.

Realized and Unrealized Gains/(Losses) on Commodity Derivatives[a]

(Millions of Dollars)	Balance Sheet Location	Deferred for the Six Months Ended June 30, 2011	Deferred for the Six Months Ended June 30, 2010
Pre-tax gains/(losses) deferred in accordance with the accounting rules for regulated operations:			
Current	Deferred derivative gains	$1	$-
Long-term	Regulatory liabilities	-	-
Total deferred gains		$1	$-
Current	Deferred derivative losses	$15	$(6)
Current	Recoverable energy costs[b]	(32)	(41)
Long-term	Regulatory assets	8	(5)
Total deferred losses		$(9)	$(52)
Net deferred losses		$(8)	$(52)

(a) Qualifying derivative contracts, which have been designated as normal purchases or normal sales contracts, are not reported at fair value under the accounting rules for derivatives and hedging and, therefore, are excluded from the table.
(b) Includes payments of $11 million and $16 million to Con Edison's competitive energy businesses for the six month ended June 30, 2011 and 2010, respectively. See Note I.

As of June 30, 2011, the Company had 106 electric or gas derivative contracts hedging electric energy or capacity market prices, which were considered to be derivatives under the accounting rules for derivatives and hedging (excluding qualifying derivative contracts, which have been designated as normal purchases or normal sales contracts). The following table presents the number of contracts by commodity type:

Electric Derivatives				Gas Derivatives		
Number of Energy Contracts[(a) (c)]	MWHs[(b) (c)]	Number of Capacity Contracts[(a)]	MWs[(b)]	Number of Contracts[(a)]	DTHs[(b)]	Total Number Of Contracts[(a)]
9	2,589,403	1	1,054	96	6,180,000	106

(a) Qualifying derivative contracts, which have been designated as normal purchases or normal sales contracts, are not reported at fair value under the accounting rules for derivative and hedging and, therefore, are excluded from the table.
(b) Volumes are reported net of long and short positions.
(c) Includes one contract of 23,325 MWhs with Con Edison's competitive energy businesses. See Note I.

The collateral requirements associated with, and settlement of, derivative transactions are included in net cash flows from operating activities in the Company's consolidated statement of cash flows. Most derivative instrument contracts contain provisions that may require the Company to provide collateral on derivative instruments in net liability positions. The Utilities enter into separate derivative instruments for electric energy or capacity, and CECONY enters into derivative instruments in connection with the Utilities' joint gas supply arrangements (See Note I). The amount of collateral to be provided will depend on the fair value of the derivative instruments and the Utilities' credit ratings.

The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a net liability position, and collateral posted at June 30, 2011, 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)]	$27
Collateral posted[(b)]	$8
Additional collateral[(c)] (downgrade one level from current rating[(d)])	$4
Additional collateral[(c)] (downgrade to below investment grade from current rating[(d)])	$24[(e)]

(a) Non-derivative transactions for the purchase and sale of electricity and qualifying derivative instruments, which have been designated as normal purchases or normal sales, are excluded from the table. These transactions primarily include purchases of electricity from independent system operators. 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 June 30, 2011, the Utilities posted combined collateral of $39 million, including the collateral posted that is estimated to be attributable to O&R shown above.
(c) The additional collateral amounts shown above are based upon the estimated O&R allocation of the Utilities' collateral requirements. The Utilities measure the collateral requirements by taking into consideration the fair value amounts of derivative instruments that contain credit-risk-related contingent features that are in a net liability position plus amounts owed to counterparties for settled transactions and amounts required by counterparties for minimum financial security. The fair value amounts represent unrealized losses, net of any unrealized gains where the Utilities have a legally enforceable right of setoff.
(d) The current long-term ratings of O&R are Baa1/A-/A- by Moody's, S&P, and Fitch, respectively. Credit ratings assigned by rating agencies are expressions of opinions that are subject to revision or withdrawal at any time by the assigning rating agency.
(e) Derivative instruments that are net assets have been excluded from the table. At June 30, 2011, if O&R had been downgraded to below investment grade, it would have been required to post additional collateral for such derivative instruments of not more than $1 million.

Interest Rate Swaps

O&R has an interest rate swap pursuant to which it pays a fixed-rate of 6.09 percent and receives a LIBOR-based variable rate. The fair value of this interest rate swap at June 30, 2011 was an unrealized loss of $10 million, which has been included in the Company's consolidated balance sheet as a noncurrent liability/fair value of derivative liabilities and a regulatory asset. The increase in the fair value of the swap for the three and six months ended June 30, 2011 was less than $1 million. In the event O&R's credit rating was downgraded to BBB- or lower by S&P or Baa3 or lower by Moody's, the swap counterparty could elect to terminate the agreement and, if it did so, the parties would then be required to settle the transaction.

Note H – Fair Value Measurements

Reference is made to Note O to the 2010 Annual Financial Statements.

Assets and liabilities measured at fair value on a recurring basis as of June 30, 2011 are summarized below.

(Millions of Dollars)	Level 1	Level 2	Level 3	Netting Adjustments [4]	Total
Derivative assets:					
Commodity [1]	$-	$1	$4	$(1)	$4
Other assets [3]	-	-	10	-	10
Total	$-	$1	$14	$(1)	$14
Derivative liabilities:					
Commodity [1]	$-	$-	$29	$(4)	$25[4]
Interest rate contract [2]	-	-	10	-	10
Total	$-	$-	$39	$(4)	$35

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

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2010 are summarized below.

(Millions of Dollars)	Level 1	Level 2	Level 3	Netting Adjustments [4]	Total
Derivative assets:					
Commodity [1]	$-	$2	$2	$(1)	$3
Other assets [3]	1	-	9	-	10
Total	$1	$2	$11	$(1)	$13
Derivative liabilities:					
Commodity [1]	$-	$-	$51 [5]	$(15)	$36[4]
Interest rate contract [2]	-	-	10	-	10
Total	$-	$-	$61	$(15)	$46

(1) A significant portion of the commodity derivative contracts categorized in Level 3 is valued using either an industry acceptable model or an internally developed model with observable inputs. The models also include some less readily observable inputs resulting in the classification of the respective contract as Level 3. See Note G.
(2) See Note G.
(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 Companies to net gain and loss positions and cash collateral held or placed with the same counterparties.
(5) Includes derivative liabilities of $3 million with Con Edison's competitive energy businesses. See Note N to the 2010 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 six months ended June 30, 2011 and classified as Level 3 in the fair value hierarchy below.

(Millions of Dollars)	For the Three Months Ended June 30, 2011							
	Beginning Balance as of April 1, 2011	Total Gains/(Losses) – Realized and Unrealized		Purchases	Issuances	Sales	Settlements	Ending Balance as of June 30, 2011
		Included in Earnings	Included in Regulatory Assets and Liabilities					
Derivatives:								
Commodity	$(35)	$(12)	$10	$-	$-	$-	$12	$(25)
Interest rate contract	(10)	(1)	-	-	-	-	1	(10)
Other assets	10	-	-	-	-	-	-	10
Total	$(35)	$(13)	$10	$-	$-	$-	$13	$(25)

(Millions of Dollars)	For the Six Months Ended June 30, 2011							
	Beginning Balance as of January 1, 2011	Total Gains/(Losses) – Realized and Unrealized		Purchases	Issuances	Sales	Settlements	Ending Balance as of June 30, 2011
		Included in Earnings	Included in Regulatory Assets and Liabilities					
Derivatives:								
Commodity	$(49)	$(23)	$24	$-	$-	$-	$23	$(25)
Interest rate contract	(10)	(2)	-	-	-	-	2	(10)
Other assets	9	-	1	-	-	-	-	10
Total	$(50)	$(25)	$25	$-	$-	$-	$25	$(25)

The table listed below provides a reconciliation of the beginning and ending net balances for assets and liabilities measured at fair value for the three and six months ended June 30, 2010 and classified as Level 3 in the fair value hierarchy below.

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

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

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

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

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

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

Realized gains and losses on Level 3 commodity derivative assets and liabilities are reported as part of purchased power costs. The Company generally recovers these costs in accordance with rate provisions approved by the applicable state public utilities commissions. See Note A to the 2010 Annual Financial Statements. Unrealized gains and losses for commodity derivatives are generally deferred on the consolidated balance sheet in accordance with the accounting rules for regulated operations.

Note I – Related Party Transactions

Reference is made to Note N to the 2010 Annual Financial Statements.

The Company provides and receives administrative and other services to and from Con Edison and its subsidiaries pursuant to cost allocation procedures developed in accordance with rules approved by the NYSPSC and/or other regulatory authorities, as applicable. The services received include substantial administrative support operations, such as corporate secretarial and associated ministerial duties, accounting, treasury, investor relations, information resources, legal, human resources, fuel supply, and energy management services. The costs of administrative and other services provided by the Company, and received from Con Edison and its other subsidiaries for the three and six months ended June 30, 2011 and 2010 were as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(Millions of Dollars)	2011	2010	2011	2010
Cost of services provided	$5	$4	$10	$9
Cost of services received	$10	$9	$19	$20

In addition, CECONY and O&R have joint gas supply arrangements, in connection with which O&R purchased from CECONY $22 million and $20 million of natural gas for the three months ended June 30, 2011 and 2010, respectively. These amounts are net of the effect of related hedging transactions. At June 30, 2011 and December 31, 2010, O&R's net payable to CECONY associated with these gas purchases was $7 million and $11 million, respectively.

RECO purchased from Consolidated Edison Energy, Inc. $4 million and $8 million of electricity for the three months ended June 30, 2011and 2010, respectively, and $11 million and $16 million of electricity for the six months ended June 30, 2011 and 2010, respectively, pursuant to energy auctions.

At June 30, 2011 and December 31, 2010, the Company's receivable from Con Edison for income taxes was $11 million and $27 million, respectively. See Note A to the 2010 Annual Financial Statements.

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

Note J – New Financial Accounting Standards

Reference is made to Note P to the 2010 Annual Financial Statements.

In May 2011, the Financial Accounting Standards Board (FASB) issued amendments to the guidance for fair value measurement through Accounting Standards Update (ASU) No. 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." The amendments expand Accounting Standard Codification 820's existing disclosure requirements for fair value measurements and makes other amendments. Many of these amendments were made to eliminate unnecessary wording differences between U.S. generally accepted accounting principles and International Financial Reporting Standards. For nonpublic entities, the amendments are effective prospectively for annual periods beginning after December 15, 2011. Early application is permitted, but no earlier than for interim periods beginning after December 15, 2011. The application of this guidance is not expected to have a material impact on the company's financial position, results of operations and liquidity.

In June 2011, the FASB issued new guidance for presentation of comprehensive income through ASU No. 2011−05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income." The amendments require that the comprehensive income be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. The amendments in this update are applicable retrospectively for nonpublic entities for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. Early adoption is permitted. The application of this guidance does not have a material impact on the company's financial position, results of operations and liquidity.