

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

Financial Statements (Unaudited)

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

	June 30, 2008	December 31, 2007
	(Millions of Dollars)	
ASSETS		
UTILITY PLANT, AT ORIGINAL COST		
Electric	\$ 990	\$ 952
Gas	411	403
General	139	133
Total	1,540	1,488
Less: Accumulated depreciation	436	423
Net	1,104	1,065
Construction work in progress	38	55
NET UTILITY PLANT	1,142	1,120
CURRENT ASSETS		
Cash and temporary cash investments	22	60
Restricted cash	1	1
Accounts receivable - customers, less allowance for uncollectible accounts of \$3 and \$3 in 2008 and 2007, respectively	68	54
Accrued unbilled revenue	39	42
Other receivables, less allowance for uncollectible accounts of \$2 and \$1 in 2008 and 2007, respectively	22	26
Accounts receivable from affiliated companies	32	5
Gas in storage, at average cost	47	43
Materials and supplies, at average cost	9	8
Prepayments	24	11
Fair value of derivative assets	100	4
Deferred derivative losses	1	1
Recoverable energy costs	11	23
TOTAL CURRENT ASSETS	376	278
INVESTMENTS	11	12
DEFERRED CHARGES, REGULATORY ASSETS AND NONCURRENT ASSETS		
Regulatory assets	402	408
Other deferred charges and noncurrent assets	99	44
TOTAL DEFERRED CHARGES, REGULATORY ASSETS AND NONCURRENT ASSETS	501	452
TOTAL ASSETS	\$ 2,030	\$ 1,862

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

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

	June 30, 2008	December 31, 2007
(Millions of Dollars)		
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION		
Common shareholder's equity (See Statement of Common Shareholder's Equity)	\$ 454	\$ 416
Long-term debt	382	433
TOTAL CAPITALIZATION	836	849
NONCURRENT LIABILITIES		
Provision for injuries and damages	7	6
Pensions and retiree benefits	309	299
Superfund and other environmental costs	56	56
Hedges on variable rate long-term debt	7	10
Uncertain income taxes	12	12
TOTAL NONCURRENT LIABILITIES	391	383
CURRENT LIABILITIES		
Long-term debt due within one year	3	3
Notes payable	77	45
Accounts payable	98	95
Accounts payable to affiliated companies	61	94
Customer deposits	15	15
Accrued taxes	5	1
Accrued interest	12	12
Deferred derivative gains	109	5
Deferred income taxes - recoverable energy costs	4	9
Other current liabilities	18	20
TOTAL CURRENT LIABILITIES	402	299
DEFERRED CREDITS AND REGULATORY LIABILITIES		
Deferred income taxes and investment tax credits	218	207
Regulatory liabilities	180	121
Other deferred credits	3	3
TOTAL DEFERRED CREDITS AND REGULATORY LIABILITIES	401	331
TOTAL CAPITALIZATION AND LIABILITIES	\$2,030	\$ 1,862

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
	(Millions of Dollars)			
OPERATING REVENUES				
Electric	\$ 180	\$ 165	\$ 338	\$ 309
Gas	43	45	148	158
TOTAL OPERATING REVENUES	223	210	486	467
OPERATING EXPENSES				
Purchased power	109	97	204	180
Gas purchased for resale	25	28	90	99
Other operations and maintenance	57	45	111	91
Depreciation and amortization	10	10	20	18
Taxes, other than income taxes	11	11	22	21
Income taxes	1	3	9	16
TOTAL OPERATING EXPENSES	213	194	456	425
OPERATING INCOME	10	16	30	42
OTHER INCOME (DEDUCTIONS)				
Investment and other income	-	-	1	-
INTEREST EXPENSE				
Interest on long-term debt	6	6	13	12
Other interest	1	4	2	5
NET INTEREST EXPENSE	7	10	15	17
NET INCOME	\$ 3	\$ 6	\$ 16	\$ 25

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		For the Six Months	
	Ended June 30, 2008	2007	Ended June 30, 2008	2007
	(Millions of Dollars)			
NET INCOME	\$ 3	\$ 6	\$ 16	\$ 25
OTHER COMPREHENSIVE INCOME/(LOSS), NET OF TAXES				
Pension plan liability adjustments, net of \$1, \$1, \$1 and \$2 taxes in 2008 and 2007, respectively	1	1	1	3
Unrealized gains/(losses) 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/(LOSS), NET OF TAXES	1	1	8	4
COMPREHENSIVE INCOME	\$ 4	\$ 7	\$ 24	\$ 29

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	Retained	Accumulated Other Comprehensive	Total
	Shares	Amount	Paid-In Capital	Earnings	Income/(Loss)	
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
Net Income				6		6
Common stock dividend to parent				(8)		(8)
Other comprehensive income					1	1
Capital contribution by parent			40			40
BALANCE AS OF JUNE 30, 2007	1,000	\$ -	\$ 234	\$ 209	\$ (30)	\$ 413
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

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,	
	2008	2007
	(Millions of Dollars)	
OPERATING ACTIVITIES		
Net income	\$ 16	\$ 25
PRINCIPAL NON-CASH CHARGES/(CREDITS) TO INCOME		
Depreciation and amortization	20	18
Deferred income taxes	(1)	(3)
Other non-cash items (net)	12	11
CHANGES IN ASSETS AND LIABILITIES		
Accounts receivable - customers, less allowance for uncollectibles	(14)	(7)
Accounts receivable from affiliated companies	(27)	(6)
Materials and supplies, including gas in storage	(5)	21
Prepayments, other receivables and other current assets	(6)	18
Recoverable energy costs	9	(6)
Accounts payable	(46)	(1)
Accounts payable to affiliated companies	22	(21)
Pensions and retiree benefits	10	8
Accrued taxes	4	(1)
Accrued interest	-	1
Deferred charges, noncurrent assets and other regulatory assets	(143)	(9)
Deferred credits and other regulatory liabilities	163	-
Other liabilities	(1)	(15)
NET CASH FLOWS FROM OPERATING ACTIVITIES	13	33
INVESTING ACTIVITIES		
Utility construction expenditures	(37)	(39)
Cost of removal less salvage	(2)	(2)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(39)	(41)
FINANCING ACTIVITIES		
Net proceeds from/(payments of) short-term debt	32	(7)
Retirement of long-term debt	(2)	(21)
Capital contribution from parent	29	40
Dividend to parent	(16)	(16)
Retirement of loan from affiliate	(55)	-
NET CASH FLOWS USED IN FINANCING ACTIVITIES	(12)	(4)
CASH AND TEMPORARY CASH INVESTMENTS:		
NET CHANGE FOR THE PERIOD	(38)	(12)
BALANCE AT BEGINNING OF PERIOD	60	21
BALANCE AT END OF PERIOD	\$ 22	\$ 9
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	\$ 13	\$ 13
Income Taxes	\$ 23	\$ 11

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 six months ended June 30, 2008 and 2007, operating revenues for RECO and Pike were 21.2 percent and 0.9 percent and 19.8 percent and 0.8 percent, respectively, of O&R's consolidated operating revenues. O&R, along with its regulated utility subsidiaries, provides electric service in southeastern New York and adjacent areas of northern New Jersey and eastern Pennsylvania and gas service in southeastern New York and adjacent areas of eastern Pennsylvania. RECO owns Rockland Electric Company Transition Funding LLC, 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

O&R Electric

In July 2008, the PSC approved a Joint Proposal among O&R, 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 rate plan approved 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 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

Notes to the Financial Statements (Unaudited) - Continued

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 negative earnings adjustments 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.

RECO

In August 2008, the NJBPU directed RECO to enter into 15-year contracts to purchase solar renewable energy certificates from solar electric generation projects. RECO will be required to enter these contracts during the period 2009-2012.

Pike

In July 2008, Pike County Light & Power Company filed electric and gas base rate cases with the PPUC. Pike is seeking an electric base rate increase of approximately \$1.2 million and a gas rate increase of approximately \$0.4 million. The rate requests were based on a requested return on equity of 10.0 percent. Pike has not requested an electric base rate increase in over 15 years. Gas rates were last increased in June 2005. Based on a normal review and litigation schedule, it is anticipated that the rate increase granted would become effective in April 2009.

Notes to the Financial Statements (Unaudited) - Continued

Regulatory Assets and Liabilities

Regulatory assets and liabilities at June 30, 2008 and December 31, 2007 were comprised of the following items:

(Millions of Dollars)	2008	2007
Regulatory assets		
Unrecognized pension and other postretirement costs	\$138	\$150
Environmental remediation costs	66	65
Transition bond charges	61	63
Pension and other postretirement benefits deferrals	55	56
Future federal income tax	57	55
Other	25	19
Regulatory assets	402	408
Deferred derivative losses - current	1	1
Recoverable energy costs - current	11	23
Total regulatory assets	\$414	\$432
Regulatory liabilities		
Allowance for cost of removal less salvage	\$62	\$61
Refundable energy costs	26	29
Unrealized gains on hedging	73	13
NYS tax law changes	1	2
Other	18	16
Regulatory liabilities	180	121
Deferred derivative gains - current	109	5
Total regulatory liabilities	\$289	\$126

Note B – Capitalization

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

In April 2008 and July 2008, Con Edison invested \$29 million and \$10 million, respectively, in O&R's common shareholder's equity. The cash was used to reduce short-term borrowings and for other corporate purposes.

At June 30, 2008, \$49 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 \$1 million of the \$44 million of such debt insured by Ambac Assurance Corporation (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. O&R reimbursed the bank for the funds used to purchase the tendered bonds, together with interest thereon.

Note C – Short-Term Borrowing and Credit Agreements

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

At June 30, 2008 and December 31, 2007, there was \$77 million and \$45 million of commercial paper outstanding, at a weighted average interest rate of 3.0 percent and 5.6 percent, respectively. At June 30, 2008 and December 31, 2007, \$33 million and \$25 million of letters of credit were outstanding under the Company's credit agreement, respectively.

Notes to the Financial Statements (Unaudited) - Continued

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 and six months ended June 30, 2008 and 2007 were as follows:

(Millions of Dollars)	For the Three Months Ended June 30,	
	2008	2007
Service cost – including administrative expenses	\$2	\$2
Interest cost on projected benefit obligation	8	8
Expected return on plan assets	(8)	(7)
Amortization of net actuarial loss	6	6
NET PERIODIC BENEFIT COST	\$8	\$9
Cost capitalized	(3)	(3)
Cost deferred	2	(2)
Cost charged to operating expenses	\$7	\$4

(Millions of Dollars)	For the Six Months Ended June 30,	
	2008	2007
Service cost – including administrative expenses	\$5	\$5
Interest cost on projected benefit obligation	17	16
Expected return on plan assets	(16)	(14)
Amortization of net actuarial loss	11	11
NET PERIODIC BENEFIT COST	\$17	\$18
Cost capitalized	(5)	(5)
Cost deferred	3	(4)
Cost charged to operating expenses	\$15	\$9

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).

Notes to the Financial Statements (Unaudited) - Continued

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 and six months ended June 30, 2008 and 2007 were as follows:

(Millions of Dollars)	For the Three Months Ended June 30,	
	2008	2007
Service cost	\$1	\$1
Interest cost on accumulated other postretirement benefit obligation	2	2
Expected return on plan assets	(2)	(1)
Amortization of net actuarial loss	3	2
Amortization of prior service costs	1	-
NET PERIODIC POSTRETIREMENT BENEFIT COST	\$5	\$4
Cost capitalized	(1)	(2)
Cost deferred	(2)	-
Cost charged to operating expenses	\$2	\$2

(Millions of Dollars)	For the Six Months Ended June 30,	
	2008	2007
Service cost	\$2	\$2
Interest cost on accumulated other postretirement benefit obligation	5	5
Expected return on plan assets	(4)	(3)
Amortization of net actuarial loss	5	4
Amortization of prior service costs	1	-
NET PERIODIC POSTRETIREMENT BENEFIT COST	\$9	\$8
Cost capitalized	(3)	(3)
Cost deferred	(2)	(2)
Cost charged to operating expenses	\$4	\$3

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 June 30, 2008 and December 31, 2007, O&R had an accrued liability of \$56 million for its MGP Sites.

Notes to the Financial Statements (Unaudited) - Continued

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 June 30, 2008 and December 31, 2007, O&R's regulatory asset for recovery of these costs was \$66 million and \$65 million, respectively. The environmental remediation costs were approximately \$1 million for both the three and six months ended June 30, 2008, and approximately \$1 million and \$2 million for the three and six months ended June 30, 2007, 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 \$5 million at June 30, 2008 and December 31, 2007.

Note G – Other Material Contingencies

Closure of Lovett 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.

Notes to the Financial Statements (Unaudited) - Continued

Uncertain Tax Positions

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

In July 2008, the Internal Revenue Service (IRS) entered into a closing agreement with Con Edison covering the use of the "simplified service cost method" (SSCM) to determine the extent to which construction-related costs could be deducted in 2002 through 2004. The closing agreement does not cover 2005, the last year for which SSCM is an uncertain tax position. The Company does not expect the required repayment, with interest, to the IRS of its SSCM tax benefits for 2002 through 2005 to exceed the \$13 million paid to the IRS in June 2007 as a deposit for the repayment.

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 (benefit) recognized by the Company in the three and six months ended June 30, 2008 and 2007:

(Thousands of Dollars)	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2008	2007	2008	2007
Stock options	\$8	\$(5)	\$26	\$18
Restricted stock units	26	(139)	47	(138)
Performance-based restricted stock	110	37	(41)	93
Total	\$144	\$(107)	\$32	\$(27)

Notes to the Financial Statements (Unaudited) - Continued

Stock Options

A summary of changes in the status of stock options for O&R during the three and six months ended June 30, 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
Granted	-	-
Exercised	(13,500)	41.223
Forfeited	-	-
Outstanding at 6/30/07	572,700	\$42.123
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
Granted	-	-
Exercised	-	-
Forfeited	(500)	42.180
Outstanding at 6/30/08	543,200	\$42.271

The change in the fair value of all outstanding options from their grant dates to June 30, 2008 and 2007 (aggregate intrinsic value) for O&R was (\$2) million and \$2 million, respectively. The aggregate intrinsic value of options exercised by employees of Con Edison's affiliates, including O&R, in the period ended June 30, 2008 and 2007 was \$0.2 million and \$6 million, respectively, and the cash received by Con Edison for payment of the exercise price was \$1.2 million and \$30 million, respectively. The weighted average remaining contractual life of options outstanding is five years as of June 30, 2008.

The following table summarizes O&R employees' stock options outstanding at June 30, 2008 for each plan year:

Plan Year	Remaining Contractual Life	Options Outstanding	Weighted Average Exercise Price	Options Exercisable
2006	8	124,000	\$45.599	-
2005	7	104,500	43.035	104,500
2004	6	83,500	43.754	83,500
2003	5	79,700	39.938	79,700
2002	4	85,500	42.510	85,500
2001	3	37,000	37.750	37,000
2000	2	29,000	32.500	29,000
Total		543,200	\$42.271	419,200

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 June 30, 2008 is \$27 thousand for O&R.

Notes to the Financial Statements (Unaudited) - Continued

Restricted Stock Units

At June 30, 2008 and 2007, there were 37,100 and 36,200 units outstanding for O&R, respectively. The weighted average fair value as of the grant date of the outstanding units for June 30, 2008 and 2007 was \$35.40 and \$35.32 per unit for O&R.

A summary of changes in the status of the Performance RSUs' Total Shareholder Return (TSR) portion during the three and six months ended June 30, 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
Granted	2,475	48.06
Vested and Exercised	-	-
Forfeited	-	-
Non-vested at 6/30/07	21,300	\$19.97
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
Granted	2,860	25.98
Vested and Exercised	-	-
Forfeited	(2,025)	-
Non-vested at 6/30/08	37,535	\$15.47

* 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 and six months ended June 30, 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
Granted	2,475	51.06
Vested and Exercised	-	-
Forfeited	-	-
Non-vested at 6/30/07	21,300	\$45.12
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
Granted	2,860	39.70
Vested and Exercised	-	-
Forfeited	(2,025)	-
Non-vested at 6/30/08	37,535	\$39.09

Notes to the Financial Statements (Unaudited) - Continued

The total expense to be recognized by O&R in future periods for unvested Performance RSUs outstanding as of June 30, 2008 is \$1.4 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:

(Millions of Dollars)	For the Three Months Ended June 30,							
	Operating Revenues		Inter-segment Revenues		Depreciation and Amortization		Operating Income	
	2008	2007	2008	2007	2008	2007	2008	2007
Electric	\$180	\$165	\$ -	\$ -	\$7	\$7	\$10	\$15
Gas	43	45	-	-	3	3	-	1
Total	\$223	\$210	\$ -	\$ -	\$10	\$10	\$10	\$16

(Millions of Dollars)	For the Six Months Ended June 30,							
	Operating Revenues		Inter-segment Revenues		Depreciation and Amortization		Operating Income	
	2008	2007	2008	2007	2008	2007	2008	2007
Electric	\$338	\$309	\$ -	\$ -	\$14	\$13	\$15	\$25
Gas	148	158	-	-	6	5	15	17
Total	\$486	\$467	\$ -	\$ -	\$20	\$18	\$30	\$42

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.

Notes to the Financial Statements (Unaudited) - Continued

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 June 30, 2008 and December 31, 2007 were as follows:

(Millions of Dollars)	2008	2007
Fair value of net assets - gross	\$186	\$14
Impact of netting of cash collateral	(5)	-
Fair value of net assets - net	\$181	\$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 \$140 million of credit exposure in connection with energy supply and hedging activities, net of collateral and reserves of \$78 million, at June 30, 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 July 2008 electric rate plan (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 June 30, 2008 was an unrealized loss of \$11 million, which has been deferred as a regulatory asset.

Notes to the Financial Statements (Unaudited) - Continued

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 and six months ended June 30, 2008 and 2007 were as follows:

(Millions of Dollars)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
Cost of services provided	\$5	\$4	\$10	\$8
Cost of services received	\$9	\$8	\$17	\$15

In addition, O&R purchased from Con Edison of New York \$54 million and \$37 million of natural gas for the three months ended June 30, 2008 and 2007, respectively, and \$99 million and \$87 million of natural gas for the six months ended June 30, 2008 and 2007, respectively. These amounts are net of the effect of related hedging transactions.

At June 30, 2008, the Company's net receivable from Con Edison of New York associated with derivatives for energy price hedging was \$14 million. At December 31, 2007, the Company's net payable to Con Edison of New York associated with derivatives for energy price hedging was \$4 million.

As of June 30, 2008 and December 31, 2007, the Company's receivable from Con Edison for income taxes was \$14 million and \$2 million, respectively. See Note A to the 2007 Annual 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.

Notes to the Financial Statements (Unaudited) - Continued

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.

Notes to the Financial Statements (Unaudited) - Continued

Assets and liabilities measured at fair value on a recurring basis as of June 30, 2008 are summarized below:

(Millions of Dollars)	Level 1	Level 2	Level 3	Netting Adjustments (4)	Total
Derivative assets:					
Energy (1)	-	25	162	(5)	182
Other assets (3)	-	-	12	-	12
Total	-	25	174	(5)	194
Derivative liabilities:					
Energy (1)	-	-	1	-	1
Financial & other (2)	-	-	11	-	11
Total	-	-	12	-	12

- (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 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:

For the Three Months Ended June 30, 2008						
(Millions of Dollars)	Beginning Balance as of April 1, 2008	Total Gains/(Losses) – Realized and Unrealized		Purchases, Issuances, Sales and Settlements	Transfer In/Out of Level 3	Ending Balance as of June 30, 2008
		Included in Earnings	Included in Regulatory Assets and Liabilities			
Derivatives:						
Energy	53	9	108	(9)	-	161
Financial & other	(13)	-	3	(1)	-	(11)
Other	11	-	1	-	-	12
Total	51	9	112	(10)		162

For the Six Months Ended June 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 June 30, 2008
		Included in Earnings	Included in Regulatory Assets and Liabilities			
Derivatives:						
Energy	16	10	145	(10)	-	161
Financial & other	(11)	-	-	-	-	(11)
Other	12	(1)	1	-	-	12
Total	17	9	146	(10)		162

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, and therefore have no impact on earnings. 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.

Notes to the Financial Statements (Unaudited) - Continued

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 May 2008, the FASB issued Statement No. 162, "The Hierarchy of Generally Accepted Accounting Principles." This Statement identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. This Statement is effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." The Board does not expect that this Statement will result in a change in current practice. The adoption of this Statement is not expected to have a material impact on the Company's financial position, results of operations or liquidity.

In May 2008, the FASB issued FSP APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)." This FSP applies to convertible debt instruments that may be settled in cash, or other assets, upon conversion and are not addressed by APB Opinion No. 14 "Accounting for Convertible Debt Instruments and Debt Issued with Stock Purchase Warrants." If the embedded conversion option is required to be separately accounted for as a derivative, then such convertible debt instruments should be accounted for under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" and this FSP does not apply. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. This FSP is not expected to have a material impact on the Company's financial position, results of operations or liquidity.

In April 2008, the FASB issued FSP No. 142-3, "Determination of the Useful Life of Intangible Assets." This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, "Goodwill and Other Intangible Assets." The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under Statement 142 and the period of expected cash flows used to measure the fair value of the asset under FASB Statement No. 141 (revised 2007), "Business Combinations," and other U.S. generally accepted accounting principles. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The Company is currently evaluating the impact of this FSP on its financial position, results of operations and liquidity.

Notes to the Financial Statements (Unaudited) - Continued

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.