

Orange and Rockland Utilities, Inc.
Financial Statements (Unaudited)
Third Quarter 2017



Report of Independent Auditors

To the Board of Directors of Orange and Rockland Utilities, Inc.:

We have reviewed the accompanying consolidated interim financial information of Orange and Rockland Utilities, Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheet as of September 30, 2017, and the related consolidated statements of income, comprehensive income, cash flows, and of shareholder's equity for the three-month and nine-month periods ended September 30, 2017 and 2016.

Management's Responsibility for the Consolidated Interim Financial Information

The Company's management is responsible for the preparation and fair presentation of the consolidated interim financial information in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of the consolidated interim financial information in accordance with accounting principles generally accepted in the United States of America.

Auditors' Responsibility

Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information taken as a whole. Accordingly, we do not express such an opinion.

Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial information for it to be in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet and related consolidated statement of capitalization of the Company as of December 31, 2016, and the related consolidated statements of income, comprehensive income, cash flows, and of shareholder's equity for the year then ended (not presented herein), and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated March 7, 2017. In our opinion, the information set forth in the accompanying consolidated balance sheet information and consolidated statement of shareholder's equity as of December 31, 2016, is consistent, in all material respects, with the audited consolidated balance sheet from which it has been derived.

November 13, 2017

PricewaterhouseCoopers LLP

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
<i>(Millions of Dollars)</i>				
OPERATING REVENUES				
Electric	\$206	\$213	\$495	\$497
Gas	28	27	172	133
TOTAL OPERATING REVENUES	234	240	667	630
OPERATING EXPENSES				
Purchased power	60	69	148	154
Gas purchased for resale	10	8	52	32
Other operations and maintenance	80	77	236	220
Depreciation and amortization	18	17	53	50
Taxes, other than income taxes	21	21	62	60
TOTAL OPERATING EXPENSES	189	192	551	516
OPERATING INCOME	45	48	116	114
OTHER INCOME				
Investment and other income	—	1	—	1
TOTAL OTHER INCOME	—	1	—	1
INCOME BEFORE INTEREST AND INCOME TAX EXPENSE	45	49	116	115
INTEREST EXPENSE				
Interest on long-term debt	9	9	27	28
Other interest	—	—	1	1
Allowance for borrowed funds used during construction	—	—	(1)	(1)
NET INTEREST EXPENSE	9	9	27	28
INCOME BEFORE INCOME TAX EXPENSE	36	40	89	87
INCOME TAX EXPENSE	14	13	36	32
NET INCOME	\$22	\$27	\$53	\$55

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

Orange and Rockland Utilities, Inc.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
	<i>(Millions of Dollars)</i>			
NET INCOME	\$22	\$27	\$53	\$55
OTHER COMPREHENSIVE INCOME, NET OF TAXES				
Pension and other postretirement benefit plan liability adjustments, net of taxes	1	1	1	2
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAXES	1	1	1	2
COMPREHENSIVE INCOME	\$23	\$28	\$54	\$57

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

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

For the Nine Months
 Ended September 30,

	2017	2016
	<i>(Millions of Dollars)</i>	
OPERATING ACTIVITIES		
Net income	\$53	\$55
PRINCIPAL NON-CASH CHARGES/(CREDITS) TO INCOME		
Depreciation and amortization	53	50
Deferred income taxes	22	4
Rate case amortizations	14	13
Other non-cash items, net	4	(13)
CHANGES IN ASSETS AND LIABILITIES		
Accounts receivable - customers	(10)	(11)
Accounts receivable from affiliated companies	(1)	10
Materials and supplies, including gas in storage	(4)	—
Prepayments, other receivables and other current assets	(13)	(28)
Accounts payable	29	45
Accounts payable to affiliated companies	(8)	3
Pensions and retiree benefits obligations, net	31	25
Pensions and retiree benefits contributions	(46)	(38)
Accrued taxes to affiliated companies	7	22
Accrued interest	1	2
System benefit charge	18	16
Superfund and environmental remediation costs, net	(2)	(7)
Deferred charges, noncurrent assets and other regulatory assets	2	1
Deferred credits and other regulatory liabilities	12	8
Other current and noncurrent liabilities	2	(14)
NET CASH FLOWS FROM OPERATING ACTIVITIES	164	143
INVESTING ACTIVITIES		
Utility construction expenditures	(129)	(116)
Cost of removal less salvage	(6)	(2)
Proceeds from sale of Pike	—	15
Other investing activities	—	10
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(135)	(93)
FINANCING ACTIVITIES		
Net issuance/(payment) of short-term debt	(1)	10
Retirement of long-term debt	(3)	(3)
Capital contribution by parent	—	20
Dividend to parent	(33)	(32)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	(37)	(5)
CASH AND TEMPORARY CASH INVESTMENTS:		
NET CHANGE FOR THE PERIOD	(8)	45
BALANCE AT BEGINNING OF PERIOD	47	45
BALANCE AT END OF PERIOD	39	90
LESS: CHANGE IN CASH BALANCES HELD FOR SALE	—	(4)
BALANCE AT END OF PERIOD EXCLUDING HELD FOR SALE	\$39	\$94
SUPPLEMENTAL DISCLOSURE OF CASH INFORMATION		
Cash paid/(received) during the period for:		
Interest	\$26	\$27
Income taxes	\$8	\$(4)
SUPPLEMENTAL DISCLOSURE OF NON-CASH INFORMATION		
Construction expenditures in accounts payable	\$13	\$13

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

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

	September 30, 2017	December 31, 2016
	<i>(Millions of Dollars)</i>	
ASSETS		
CURRENT ASSETS		
Cash and temporary cash investments	\$39	\$47
Accounts receivable – customers, less allowance for uncollectible accounts of \$4 in 2017 and 2016	71	61
Other receivables, less allowance for uncollectible accounts of \$1 in 2017 and 2016	7	4
Accrued unbilled revenue	29	48
Accounts receivable from affiliated companies	4	3
Gas in storage, at average cost	14	10
Materials and supplies, at average cost	18	18
Prepayments	42	27
Regulatory assets	9	10
Restricted cash	2	2
Other current assets	15	1
TOTAL CURRENT ASSETS	250	231
INVESTMENTS	29	27
UTILITY PLANT, AT ORIGINAL COST		
Electric	1,664	1,625
Gas	743	710
General	252	229
TOTAL	2,659	2,564
Less: Accumulated depreciation	734	704
Net	1,925	1,860
Construction work in progress	88	71
NET UTILITY PLANT	2,013	1,931
OTHER NONCURRENT ASSETS		
Regulatory assets	521	552
Other deferred charges and noncurrent assets	19	17
TOTAL OTHER NONCURRENT ASSETS	540	569
TOTAL ASSETS	\$2,832	\$2,758

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

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

	September 30, 2017	December 31, 2016
	<i>(Millions of Dollars)</i>	
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES		
Long-term debt due within one year	\$54	\$4
Notes payable	69	70
Accounts payable	93	75
Accounts payable to affiliated companies	10	18
Customer deposits	12	15
Accrued taxes	3	3
Accrued taxes to affiliated companies	9	2
Accrued interest	9	8
Accrued wages	10	10
Fair value of derivative liabilities	8	5
Regulatory liabilities	20	38
System benefit charge	54	36
Other current liabilities	15	15
TOTAL CURRENT LIABILITIES	366	299
NONCURRENT LIABILITIES		
Provision for injuries and damages	6	6
Pensions and retiree benefits	294	304
Superfund and other environmental costs	97	98
Deferred income taxes and unamortized investment tax credits	557	536
Regulatory liabilities	200	194
Other deferred credits and noncurrent liabilities	38	15
TOTAL NONCURRENT LIABILITIES	1,192	1,153
LONG-TERM DEBT	608	661
SHAREHOLDER'S EQUITY (See Statement of Shareholder's Equity)	666	645
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	\$2,832	\$2,758

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

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

<i>(In Millions/Except Share Data)</i>	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
	Shares	Amount				
BALANCE AS OF DECEMBER 31, 2015	1,000	\$—	\$304	\$325	\$(24)	\$605
Net income				26		26
Common stock dividend to parent				(11)		(11)
Other comprehensive income					—	—
BALANCE AS OF MARCH 31, 2016	1,000	\$—	\$304	\$340	\$(24)	\$620
Net income				2		2
Common stock dividend to parent				(10)		(10)
Capital contribution by parent			20			20
Other comprehensive income					1	1
BALANCE AS OF JUNE 30, 2016	1,000	\$—	\$324	\$332	\$(23)	\$633
Net income				27		27
Common stock dividend to parent				(11)		(11)
Other comprehensive income					1	1
BALANCE AS OF SEPTEMBER 30, 2016	1,000	\$—	\$324	\$348	\$(22)	\$650
BALANCE AS OF DECEMBER 31, 2016	1,000	\$—	\$324	\$342	\$(21)	\$645
Net income				26		26
Common stock dividend to parent				(11)		(11)
Other comprehensive loss					(1)	(1)
BALANCE AS OF MARCH 31, 2017	1,000	\$—	\$324	\$357	\$(22)	\$659
Net income				5		5
Common stock dividend to parent				(11)		(11)
Capital contribution by parent						—
Other comprehensive income					1	1
BALANCE AS OF JUNE 30, 2017	1,000	\$—	\$324	\$351	\$(21)	\$654
Net income				22		22
Common stock dividend to parent				(11)		(11)
Other comprehensive income					1	1
BALANCE AS OF SEPTEMBER 30, 2017	1,000	\$—	\$324	\$362	\$(20)	\$666

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 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 one regulated utility subsidiary: Rockland Electric Company (RECO). For the nine months ended September 30, 2017 and 2016, operating revenues for RECO were 20.3 percent and 23.5 percent, respectively, of O&R's consolidated operating revenues. O&R, along with RECO, provides electric service in southeastern New York and adjacent areas of northern New Jersey and gas service in southeastern New York. RECO has a subsidiary, Rockland Electric Company Transition Funding LLC (Transition Funding), which was formed in 2004 in connection with the securitization of certain purchased power costs. See "Long-Term Debt" in Note C.

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

The interim consolidated financial statements as of September 30, 2017 and for the three and nine month periods ended September 30, 2017 and 2016 (the Third Quarter Financial Statements) are unaudited but, in the opinion of the Company's management, reflect all adjustments (which include only normally recurring adjustments) necessary for a fair presentation of the results for the interim periods presented. The Third Quarter Financial Statements should be read together with the audited consolidated financial statements of the Company, as of December 31, 2016 and 2015 and for each of the three years ended December 31, 2016, including the notes thereto and their separate unaudited financial statements, including the notes thereto, for the quarterly periods ended March 31, 2017 and June 30, 2017. 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 September 30, 2017 through the posting on its website (November 13, 2017) of the Third Quarter Financial Statements for potential recognition or disclosure in the Third Quarter Financial Statements.

Notes to the Financial Statements (Unaudited) - continued

Note A – Summary of Significant Accounting Policies

Changes in Accumulated Other Comprehensive Income/(Loss) by Component

For the three and nine months ended September 30, 2017 and 2016, changes to accumulated other comprehensive income/(loss) (OCI) are as follows:

<i>(Millions of Dollars)</i>	For the Three Months Ended September 30,	
	2017	2016
Beginning balance, accumulated OCI, net of taxes (a)	\$(21)	\$(23)
Amounts reclassified from accumulated OCI related to pension plan liabilities, net of tax of \$(1) in 2017 and 2016 (a)(b)	1	1
Current period OCI, net of taxes	1	1
Ending balance, accumulated OCI, net of taxes	\$(20)	\$(22)

<i>(Millions of Dollars)</i>	For the Nine Months Ended September 30,	
	2017	2016
Beginning balance, accumulated OCI, net of taxes (a)	\$(21)	\$(24)
OCI before reclassifications, net of tax of \$1 in 2017 and 2016	(2)	(1)
Amounts reclassified from accumulated OCI related to pension plan liabilities, net of tax of \$(2) in 2017 and 2016 (a)(b)	3	3
Current period OCI, net of taxes	1	2
Ending balance, accumulated OCI, net of taxes	\$(20)	\$(22)

- (a) Only RECO's portion of unrecognized pension and other postretirement benefit costs are recorded into, and amortized out of, OCI. All other such costs are recorded through regulatory assets. The net actuarial losses and prior service costs recognized during the period are included in the computation of total periodic pension and other postretirement benefit cost.
- (b) Tax reclassified from accumulated OCI is reported in the income tax expense line item of the consolidated income statement.

Note B – Regulatory Matters

Rate Plan

In September 2017, RECO, the New Jersey Division of Rate Counsel and the NJPBPU entered into a settlement agreement, which is subject to FERC approval, that increases RECO's annual transmission revenue requirement from \$11.8 million to \$17.7 million, effective April 2017. The filing reflects a return on common equity of 10.0 percent.

Notes to the Financial Statements (Unaudited) - continued

Regulatory Assets and Liabilities

Regulatory assets and liabilities at September 30, 2017 and December 31, 2016 were comprised of the following items:

<i>(Millions of Dollars)</i>	2017	2016
Regulatory assets		
Unrecognized pension and other postretirement costs	\$149	\$144
Future income tax	111	114
Environmental remediation costs	113	112
Deferred storm costs	43	53
Property tax reconciliation	29	37
Pension and other postretirement benefits deferrals	25	30
Revenue taxes	16	15
Transition bond charges	10	15
Deferred derivative losses	10	6
Surcharge for New York State assessment	1	2
Other	14	24
Regulatory assets – noncurrent	521	552
Deferred derivative losses	6	5
Recoverable energy costs	3	5
Regulatory assets – current	9	10
Total Regulatory Assets	\$530	\$562
Regulatory liabilities		
Allowance for cost of removal less salvage	\$126	\$114
Pension and other postretirement benefit deferrals	28	31
Carrying charges on deferred tax liability	14	16
Earnings sharing - electric and gas	9	10
Long-term debt interest reconciliation	4	7
Other	19	16
Regulatory liabilities – noncurrent	200	194
Refundable energy costs	19	24
Revenue decoupling mechanism	0	10
Deferred derivative gains	1	4
Regulatory liabilities – current	20	38
Total Regulatory Liabilities	\$220	\$232

Note C – Capitalization

Long-Term Debt

The carrying amounts and fair values of long-term debt at September 30, 2017 and December 31, 2016 were:

<i>(Millions of Dollars)</i>	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-Term Debt (including current portion) (a)	\$662	\$754	\$665	\$751

(a) Amounts shown are net of unamortized debt expense and unamortized debt discount of \$6 million.

Fair values of long-term debt have been estimated primarily using available market information and are classified as Level 2 liabilities (see Note K).

Notes to the Financial Statements (Unaudited) - continued

Long-term debt included \$8 million and \$11 million at September 30, 2017 and December 31, 2016, respectively, of Transition Bonds issued by Transition Funding in July 2004. The proceeds from the Transition Bonds were used to purchase from RECO the right to be paid a Transition Bond Charge and associated tax charges by its customers relating to previously deferred purchased power costs for which the NJBPU had authorized recovery.

Note D – Short-Term Borrowing

At September 30, 2017 and December 31, 2016, O&R had \$69 million and \$70 million of commercial paper outstanding, respectively. The weighted average interest rate at September 30, 2017 and December 31, 2016 was 1.4 percent and 1.1 percent, respectively. At September 30, 2017 and December 31, 2016, an immaterial amount of letters of credit were outstanding for O&R under the Credit Agreement.

Note E – Pension Benefits

Total Periodic Benefit Cost

The components of the Company's total periodic benefit costs for the three and nine months ended September 30, 2017 and 2016 were as follows:

<i>(Millions of Dollars)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Service cost – including administrative expenses	\$4	\$4	\$13	\$13
Interest cost on projected benefit obligation	9	9	28	27
Expected return on plan assets	(12)	(12)	(37)	(36)
Recognition of net actuarial loss	8	8	23	23
Recognition of prior service costs	—	1	1	2
TOTAL PERIODIC BENEFIT COST	\$9	\$10	\$28	\$29
Cost capitalized	(3)	(2)	(10)	(8)
Reconciliation to rate level	2	(4)	5	(5)
Cost charged to operating expenses	\$8	\$4	\$23	\$16

Expected Contributions

Based on estimates as of September 30, 2017, O&R expects to make contributions to the pension plans during 2017 of \$38 million. O&R's policy is to fund the total periodic benefit cost of the qualified plan to the extent tax deductible and to also contribute to the non-qualified plan. During the first nine months of 2017, the Company contributed \$38 million to the pension plans.

Notes to the Financial Statements (Unaudited) - continued

Note F – Other Postretirement Benefits

Total Periodic Benefit Cost

The components of the Company's total periodic other postretirement benefit costs for the three and nine months ended September 30, 2017 and 2016 were as follows:

<i>(Millions of Dollars)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Service cost – including administrative expenses	\$1	\$1	\$4	\$4
Interest cost on projected other postretirement benefit obligation	2	2	6	6
Expected return on plan assets	(2)	(2)	(6)	(7)
Recognition of net actuarial loss	1	1	4	2
Recognition of prior service costs	(1)	(2)	(4)	(5)
TOTAL PERIODIC OTHER POSTRETIREMENT BENEFIT COST	\$1	\$—	\$4	\$—
Cost capitalized	(1)	—	(1)	—
Reconciliation to rate level	—	—	(2)	—
Cost charged to operating expenses	\$—	\$—	\$1	\$—

Contributions

The Company made a contribution of \$8 million to the other postretirement benefit plans in 2017. O&R's policy is to fund the total periodic benefit cost of the plans to the extent tax deductible.

Note G – 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 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 the undiscounted cost to investigate and remediate

Notes to the Financial Statements (Unaudited) - continued

the sites. Remediation costs are estimated in light of the information available, applicable remediation standards and experience with similar sites.

The accrued liabilities and regulatory assets related to Superfund Sites at September 30, 2017 and December 31, 2016 were as follows:

<i>(Millions of Dollars)</i>	2017	2016
Accrued Liabilities:		
Manufactured gas plant sites	\$96	\$97
Other Superfund Sites	1	1
Total	\$97	\$98
Regulatory assets	\$113	\$112

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. The Company is unable to estimate the time period over which the remaining accrued liability will be incurred because, among other things, the required remediation has not been determined for some of the sites.

Under its current electric and gas rate plans, the Company is permitted to recover or defer as regulatory assets (for subsequent recovery through rates) prudently incurred site investigation and remediation costs. The amount of site investigation and remediation costs to be recovered is reduced by, among other things, insurance recoveries. Under the Company's current electric and gas rate plans, the NYSPSC may consider and address the amount of any claims for site investigation and remediation costs under third-party liability policies denied by an insurer with which O&R was then engaged in litigation. The insurer has denied coverage of claims submitted by O&R for approximately \$15 million of site investigation and remediation costs (which costs have been deferred as regulatory assets). In September 2015, the New York State Court of Appeals denied O&R's motion for leave to appeal adverse coverage determinations by lower courts. In December 2015, at the NYSPSC's direction, O&R made a filing explaining why the site investigation and remediation costs that were the subject of the litigation over insurance coverage should be recovered through rates.

Environmental remediation costs incurred related to Superfund Sites for the three and nine months ended September 30, 2017 and 2016 were as follows:

<i>(Millions of Dollars)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Remediation costs incurred	\$2	\$3	\$5	\$10

No insurance recoveries were received by the Company for the nine months ended September 30, 2017 and 2016.

Notes to the Financial Statements (Unaudited) - continued

In 2016, 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 coal tar and/or other environmental contaminants could range up to \$151 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; however, the Company believes that these amounts are greatly exaggerated, based on the disposition of previous claims. At September 30, 2017 and December 31, 2016, the Company had accrued its estimated aggregate undiscounted potential liability for these suits and additional suits that may be brought over the next 15 years as shown in the following table. The estimates were based upon a combination of modeling, historical data analysis and risk factor assessment. Courts have begun, and unless otherwise determined on appeal may continue, to apply different standards for determining liability in asbestos suits than the standard that applied historically. As a result, the Company currently believes that there is a reasonable possibility of an exposure to loss in excess of the liability accrued for the suits. The Company is unable to estimate the amount or range of such loss. 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) and the amounts deferred as regulatory assets for the Company at September 30, 2017 and December 31, 2016 were as follows:

<i>(Millions of Dollars)</i>	2017	2016
Accrued liability – asbestos suits	\$0.4	\$0.4
Regulatory assets – asbestos suits	0.4	0.4
Accrued liability – workers' compensation	\$4.0	\$4.4

Note H – Income Tax

O&R's income tax expense increased to \$14 million for the three months ended September 30, 2017, from \$13 million for the three months ended September 30, 2016. The effective tax rate for the three months ended September 30, 2017 and 2016 was 38 percent and 33 percent, respectively. The increase in O&R's effective tax rate is primarily related to a nonrecurring tax benefit in 2016 from a corporate-owned life insurance policy.

Notes to the Financial Statements (Unaudited) - continued

O&R's income tax expense increased to \$36 million for the nine months ended September 30, 2017, from \$32 million for the nine months ended September 30, 2016. The effective tax rate for the nine months ended September 30, 2017 and 2016 was 40 percent and 37 percent, respectively. The increase in O&R's effective tax rate is primarily related to a nonrecurring tax benefit in 2016 from a corporate-owned life insurance policy.

Uncertain Tax Positions

At September 30, 2017, the estimated liability for uncertain tax positions for O&R was \$3 million. O&R does not expect to resolve any of its uncertain tax positions within the next twelve months. The total amount of unrecognized tax benefits, if recognized, that would reduce O&R's effective tax rate is \$3 million (\$2 million, net of federal taxes).

O&R recognizes interest on liabilities for uncertain tax positions in interest expense and would recognize penalties, if any, in operating expenses in O&R's consolidated income statement. In the three and nine months ended September 30, 2017, O&R recognized an immaterial amount of interest expense and no penalties for uncertain tax positions in its consolidated income statement. At September 30, 2017 and December 31, 2016, O&R recognized an immaterial amount of accrued interest on its consolidated balance sheet.

Note I – Financial Information by Business Segment

O&R's principal business segments are its regulated electric and gas utility activities. The financial data for the business segments are as follows:

<i>(Millions of Dollars)</i>	For the Three Months Ended September 30,					
	Operating revenues		Depreciation and amortization		Operating income	
	2017	2016	2017	2016	2017	2016
Electric	\$206	\$213	\$13	\$12	\$56	\$55
Gas	28	27	5	5	(11)	(7)
Total	\$234	\$240	\$18	\$17	\$45	\$48

<i>(Millions of Dollars)</i>	For the Nine Months Ended September 30,					
	Operating revenues		Depreciation and amortization		Operating income	
	2017	2016	2017	2016	2017	2016
Electric	\$495	\$497	\$38	\$37	\$83	\$86
Gas	172	133	15	13	33	28
Total	\$667	\$630	\$53	\$50	\$116	\$114

Notes to the Financial Statements (Unaudited) - continued

Note J – Derivative Instruments and Hedging Activities

The Company hedges market price fluctuations associated with physical purchases and sales of electricity, natural gas and, to a lesser extent, refined fuels by using derivative instruments including futures, forwards and options. Derivatives are recognized on the consolidated balance sheet at fair value (see Note K), unless an exception is available under the accounting rules for derivatives and hedging. Qualifying derivative contracts that have been designated as normal purchases or normal sales contracts are not reported at fair value under the accounting rules.

The fair values of the Company's commodity derivatives including the offsetting of assets and liabilities on the consolidated balance sheet at September 30, 2017 and December 31, 2016 were:

<i>(Millions of Dollars)</i>	2017			2016		
Balance Sheet Location	Gross Amounts of Recognized Assets/ (Liabilities)	Gross Amounts Offset	Net Amounts of Assets/ (Liabilities) (a)	Gross Amounts of Recognized Assets/ (Liabilities)	Gross Amounts Offset	Net Amounts of Assets/ (Liabilities) (a)
Fair value of derivative assets						
Current	\$6	\$(6)	\$—	\$8	\$(8)	\$—
Noncurrent	5	(5)	—	7	(7)	—
Total fair value of derivative assets	\$11	\$(11)	\$—	\$15	\$(15)	\$—
Fair value of derivative liabilities						
Current	\$(13)	\$5	\$(8)	\$(9)	\$4	\$(5)
Noncurrent	(14)	4	(10)	(13)	7	(6)
Total fair value of derivative liabilities	\$(27)	\$9	\$(18)	\$(22)	\$11	\$(11)
Net fair value derivative assets/(liabilities)	\$(16)	\$(2)	\$(18)	\$(7)	\$(4)	\$(11)

(a) Derivative instruments and collateral were offset on the consolidated balance sheet as applicable under the accounting rules. The Company enters into master agreements for its commodity derivatives. These agreements typically provide offset in the event of contract termination. In such case, generally the non-defaulting party's payable will be offset by the defaulting party's payable. The non-defaulting party will customarily notify the defaulting party within a specific time period and come to an agreement on the early termination amount.

The Company generally recovers its prudently incurred purchased power and gas costs, including hedging gains and losses, in accordance with rate provisions approved by the applicable state utility regulators. 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 electric and gas derivatives. As gains and losses are realized in future periods, they will be recognized as purchased power, gas and fuel costs in the Company's consolidated income statements.

O&R and Consolidated Edison Company of New York, Inc. (CECONY, and 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 L.

Notes to the Financial Statements (Unaudited) - continued

The following table presents the realized and unrealized gains or losses on commodity derivatives that have been deferred for the three and nine months ended September 30, 2017 and 2016:

<i>(Millions of Dollars)</i>	Balance Sheet Location	For the Three Months Ended September 30,	
		2017	2016
Pre-tax gains/(losses) deferred in accordance with accounting rules for regulated operations:			
Current	Deferred derivative gains	\$(1)	\$2
Noncurrent	Deferred derivative gains	—	(2)
Total deferred gains/(losses)		\$(1)	\$—
Current	Deferred derivative losses	\$(1)	\$(1)
Current	Recoverable energy costs	(2)	(3)
Noncurrent	Deferred derivative losses	(4)	(3)
Total deferred gains/(losses)		\$(7)	\$(7)
Net deferred gains/(losses)		\$(8)	\$(7)

<i>(Millions of Dollars)</i>	Balance Sheet Location	For the Nine Months Ended September 30,	
		2017	2016
Pre-tax gains/(losses) deferred in accordance with accounting rules for regulated operations:			
Current	Deferred derivative gains	\$(3)	\$4
Noncurrent	Deferred derivative gains	—	—
Total deferred gains/(losses)		\$(3)	\$4
Current	Deferred derivative losses	\$(1)	\$3
Current	Recoverable energy costs	(9)	(15)
Noncurrent	Deferred derivative losses	(4)	(3)
Total deferred gains/(losses)		\$(14)	\$(15)
Net deferred gains/(losses)		\$(17)	\$(11)

The following table presents the hedged volume of the Company's derivative transactions at September 30, 2017:

Electric Energy (MWh) (a)	Capacity (MW) (a)	Natural Gas (Dt) (a)
2,245,295	4,560	6,390,000

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

The Company is exposed to credit risk related to transactions entered into primarily for the various electric supply and hedging activities. Credit risk relates to the loss that may result from a counterparty's nonperformance. 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 measures credit risk exposure as the replacement cost for open energy commodity and derivative positions plus amounts owed from counterparties for settled transactions. The replacement cost of open positions represents unrealized gains, net of any unrealized losses where the Company has a legally enforceable right of offset.

At September 30, 2017, the Company had an immaterial amount of credit exposure in connection with energy supply and hedging activities, net of collateral.

Notes to the Financial Statements (Unaudited) - continued

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 a party to provide collateral on its derivative instruments that are in a net liability position. The amount of collateral to be provided will depend on the fair value of the derivative instruments and the party's credit ratings.

The following table presents the aggregate fair value of the Company's derivative instruments with credit-risk-related contingent features that are in a net liability position, the collateral posted for such positions 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 at September 30, 2017:

(Millions of Dollars)

Aggregate fair value – net liabilities (a)	\$17
Collateral posted	5
Additional collateral (b) (downgrade one level from current ratings)	2
Additional collateral (b) (downgrade to below investment grade from current ratings)	12 (c)

- (a) Non-derivative transactions for the purchase and sale of electricity, gas and qualifying derivative instruments, which have been designated as normal purchases or normal sales, are excluded from the table. These transactions primarily include purchases of electricity from independent system operators. In the event the Company was no longer extended unsecured credit for such purchases, the Company would not be required to post collateral at September 30, 2017. 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) 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 liabilities 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 Company has a legally enforceable right of offset.
- (c) Derivative instruments that are net assets have been excluded from the table. At September 30, 2017, if the Company had been downgraded to below investment grade, it would not have been required to post additional collateral.

Note K – Fair Value Measurements

The accounting rules for fair value measurements and disclosures define 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.

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

Notes to the Financial Statements (Unaudited) - continued

the fair value hierarchy. The Company classifies fair value balances based on the fair value hierarchy defined by the accounting rules for fair value measurements and disclosures as follows:

- Level 1 – Consists of assets or liabilities whose value is based on unadjusted quoted prices in active markets at the measurement date. An active market is one in which transactions for assets or liabilities occur with sufficient frequency and volume to provide pricing information on an ongoing basis. This category includes contracts traded on active exchange markets valued using unadjusted prices quoted directly from the exchange.
- Level 2 – Consists of assets or liabilities valued using industry standard models and based on prices, other than quoted prices within Level 1, that are either directly or indirectly observable as of the measurement date. The industry standard models consider observable assumptions including time value, volatility factors, and current market and contractual prices for the underlying commodities, in addition to other economic measures. This category includes contracts traded on active exchanges or in over-the-counter markets priced with industry standard models.
- Level 3 – Consists of assets or liabilities whose fair value is estimated based on internally developed models or methodologies using inputs that are generally less readily observable and supported by little, if any, market activity at the measurement date. Unobservable inputs are developed based on the best available information and subject to cost benefit constraints. This category includes contracts priced using models that are internally developed and contracts placed in illiquid markets. It also includes contracts that expire after the period of time for which quoted prices are available and internal models are used to determine a significant portion of the value.

Assets and liabilities measured at fair value on a recurring basis as of September 30, 2017 and December 31, 2016 are summarized below.

<i>(Millions of Dollars)</i>	2017					2016				
	Level 1	Level 2	Level 3	Netting Adjustment (e)	Total	Level 1	Level 2	Level 3	Netting Adjustment (e)	Total
Derivative assets:										
Commodity (a)(b)(c)	\$—	\$1	\$—	\$—	\$1	\$—	\$—	\$3	\$(3)	\$—
Other (a)(b)(d)	23	5	—	—	28	22	5	—	—	27
Total assets	\$23	\$6	\$—	\$—	\$29	\$22	\$5	\$3	\$(3)	\$27
Derivative liabilities:										
Commodity (a)(b)(c)	\$—	\$10	\$7	\$1	\$18	\$—	\$8	\$2	\$1	\$11

- (a) The Company's policy is to review the fair value hierarchy and recognize transfers into and transfers out of the levels at the end of each reporting period. There were no transfers between levels 1, 2 and 3 for the nine months ended September 30, 2017 and the year ended December 31, 2016.
- (b) Level 2 assets and liabilities include investments held in the deferred compensation plan and/or non-qualified retirement plans, exchange-traded contracts where there is insufficient market liquidity to warrant inclusion in Level 1 and certain over-the-counter derivative instruments for electricity and natural gas. Derivative instruments classified as Level 2 are valued using industry standard models that incorporate corroborated observable inputs; such as pricing services or prices from similar instruments that trade in liquid markets, time value and volatility factors.
- (c) The accounting rules for fair value measurements and disclosures require consideration of the impact of nonperformance risk (including credit risk) from a market participant perspective in the measurement of the fair value of assets and liabilities. At September 30, 2017 and December 31, 2016, the Company determined that nonperformance risk would have no material impact on its financial position or results of operation.
- (d) Other assets are comprised of assets such as life insurance contracts within the deferred compensation plan and non-qualified retirement plans.
- (e) 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.

Notes to the Financial Statements (Unaudited) - continued

CECONY's risk management group develops and maintains the valuation policies and procedures for, and verifies pricing and fair value valuation of, commodity derivatives for the Utilities. Under CECONY's policies and procedures, multiple independent sources of information are obtained for forward price curves used to value commodity derivatives. Fair value and changes in fair value of commodity derivatives are reported on a monthly basis to the Utilities' risk committees, comprised of officers and employees of the Utilities that oversee energy hedging. The risk management group reports to CECONY's Vice President and Treasurer.

Commodity	Fair Value of Level 3 at September 30, 2017 (Millions of Dollars)	Valuation Techniques	Unobservable Inputs	Range
	Electricity	\$(7)	Discounted Cash Flow	Forward energy prices (a)
		Discounted Cash Flow	Forward capacity prices (a)	\$1.26-\$8.40 per KW-month

(a) Generally, increases/(decreases) in this input in isolation would result in a higher/(lower) fair value measurement.

The table listed below provides a reconciliation of the beginning and ending net balances for assets and liabilities measured at fair value for the three and nine months ended September 30, 2017 and 2016 and classified as Level 3 in the fair value hierarchy:

(Millions of Dollars)	For The Three Months Ended September 30,	
	2017	2016
Beginning balance as of July 1,	\$(1)	\$4
Included in earnings	2	—
Included in regulatory assets and liabilities	(5)	(2)
Settlements	(3)	—
Ending balance as of September 30,	\$(7)	\$2

(Millions of Dollars)	For The Nine Months Ended September 30,	
	2017	2016
Beginning balance as of January 1,	\$1	\$1
Included in earnings	4	—
Included in regulatory assets and liabilities	(7)	1
Settlements	(5)	—
Ending balance as of September 30,	\$(7)	\$2

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 regulators. Unrealized gains and losses for commodity derivatives are generally deferred on the consolidated balance sheet in accordance with the accounting rules for regulated operations.

Notes to the Financial Statements (Unaudited) - continued

Note L – Related Party Transactions

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 managerial duties, accounting, treasury, investor relations, information resources, legal, human resources, fuel supply and energy management services. The costs of administrative and other services provided by the Company, and received from Con Edison and its other subsidiaries for the three and nine months ended September 30, 2017 and 2016 were as follows:

<i>(Millions of Dollars)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Cost of services provided	\$4	\$4	\$13	\$12
Cost of services received	\$12	\$12	\$38	\$34

At September 30, 2017 and December 31, 2016, O&R's payable to Con Edison and its other subsidiaries associated with these services was \$4 million.

In addition, CECONY and O&R have joint gas supply arrangements, in connection with which O&R purchased from CECONY \$12 million and \$9 million of natural gas for the three months ended September 30, 2017 and 2016, respectively, and \$47 million and \$32 million for the nine months ended September 30, 2017 and 2016, respectively. These amounts are net of the effect of related hedging transactions. At September 30, 2017 and December 31, 2016, O&R's net payable to CECONY associated with these gas purchases was \$3 million and \$11 million, respectively.

At September 30, 2017 and December 31, 2016, the Company's net payable to Con Edison for income taxes was \$8 million and \$2 million, respectively.

FERC has authorized CECONY through 2017 to periodically lend funds to O&R, for periods of not more than 12 months, in amounts not to exceed \$250 million outstanding at any time, at prevailing market rates. At September 30, 2017 and December 31, 2016, there were no loans outstanding for O&R.

Note M – New Financial Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board jointly issued a revenue recognition standard that will supersede the revenue recognition requirements within Accounting Standards Codification Topic 605, "Revenue Recognition," and most industry-specific guidance under the Codification through Accounting Standards Update (ASU) No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." The purpose of the new guidance is to create a consistent framework for revenue recognition. The guidance clarifies how to measure and recognize revenue arising from customer

Notes to the Financial Statements (Unaudited) - continued

contracts to depict the transfer of goods or services in an amount that reflects the consideration the entity expects to receive. Amendments were issued subsequently to clarify key areas including principal/agent considerations, performance obligations, licensing, sales taxes, noncash consideration, and contracts. The new standard is effective for reporting periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019 through ASU No. 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date." Early adoption is permitted for reporting periods beginning after December 15, 2016, however, the Company plans to adopt the new standard for reporting periods beginning after December 15, 2017.

Under the new standard, companies may use either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a modified retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). The Company anticipates using the modified retrospective approach.

The Company is currently in the process of evaluating the impact of the new standard on its various revenue streams. The majority of the Company's sales are derived from tariffs to provide electric and gas service to customers. For such tariffs, the Company expects that the revenue from contracts with the customer under ASU 2014-09 will be equivalent to the electricity or gas supplied in that period which is consistent with current practice. Consequently, the Company does not anticipate that the new standard will significantly impact the amount and/or timing of such revenues. The Company will continue to review the potential impacts of other revenue on the Company's financial position, results of operations and liquidity as well as the additional disclosures required under the new standard.

In February 2016, the FASB issued amendments on financial reporting of leasing transactions through ASU No. 2016-02, "Leases (Topic 842)." The amendments require lessees to recognize assets and liabilities on the balance sheet and disclose key information about leasing arrangements. Lessees will need to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). Lessor accounting is similar to the current model, but updated to align with certain changes to the lessee model. For income statement purposes, the pattern of expense recognition will be dependent on whether transactions are designated as operating leases or finance leases. The amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. The amendments must be adopted using a modified retrospective transition and provide for certain practical expedients. Based on the existing portfolio of leases at implementation, for leases currently classified as operating leases, the Company expects to recognize on the statements of financial position right-of-use assets and lease liabilities. The Company is in the process of evaluating the potential impact of the new guidance on the Company's financial position, results of operations and liquidity.

Notes to the Financial Statements (Unaudited) - continued

In January 2017, the FASB issued amendments to the guidance for business combinations through ASU 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business." The amendments in this update clarify the definition of a business and provide guidance on evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. 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 January 2017, the FASB issued amendments to the guidance for the subsequent measurement of goodwill through ASU 2017-04, "Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." The amendments in this update simplify goodwill impairment testing by eliminating Step 2 of the goodwill impairment test wherein an entity has to compute the implied fair value of goodwill by performing procedures to determine the fair value of its assets and liabilities. Under the new guidance, an entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value up to the total amount of goodwill allocated to that reporting unit. The amendments are effective for fiscal years beginning after December 15, 2021. Early adoption is permitted. 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 February 2017, the FASB issued amendments to the guidance for other income through ASU 2017-05, "Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets." The amendments in this update clarify the scope of assets within Subtopic 610-20 and add guidance for partial sales of nonfinancial assets. The amendments are effective upon the adoption of ASU 2014-09, and therefore will be effective for reporting periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. The Company is in the process of evaluating the potential impact of the new guidance on the Company's financial position, results of operations and liquidity.

In March 2017, the FASB issued amendments to the guidance for the retirement benefits through ASU 2017-07, "Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." The amendments in this update modify the presentation of net benefit cost, where the service component must be disaggregated from the other components of net benefit cost and be presented in the same line item as current employee compensation costs. The remaining components of the net benefit cost should be presented outside of income from operations. Additionally, the update allows only the service cost component to be eligible for capitalization. The amendments are effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted. The Company is in the process of evaluating the potential impact of the new guidance on the Company's financial position, results of operations and liquidity.

Notes to the Financial Statements (Unaudited) - continued

In March 2017, the FASB issued amendments to the guidance for debt securities through ASU 2017-08, "Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities." The amendments in this update shorten the amortization period for certain callable debt securities held at a premium. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments are effective for annual periods beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2020. Early adoption is permitted. 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 May 2017, the FASB issued amendments to the guidance for stock compensation through ASU 2017-09, "Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting." The amendments in this update specify that changes to value, vesting conditions, or classification of an existing share-based payment award require application of modification accounting in Topic 718. The amendments are effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted. 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 August 2017, the FASB issued amendments to the guidance for derivatives and hedging through ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." The amendments in this update provide greater clarification on hedge accounting for risk components, presentation and disclosure of hedging instruments, and overall targeted improvements to simplify hedge accounting. The amendments are effective for annual periods beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2020. Early adoption is permitted. The Company is in the process of evaluating the potential impact of the new guidance on the Company's financial position, results of operations and liquidity.