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

Financial Statements (Unaudited)

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

	June 30, 2009	December 31, 2008
	(Millions of Dollars)	
ASSETS		
UTILITY PLANT, AT ORIGINAL COST		
Electric	$ 1,049	$ 1,023
Gas	432	424
General	152	148
Total	1,633	1,595
Less: Accumulated depreciation	453	443
Net	1,180	1,152
Construction work in progress	55	58
NET UTILITY PLANT	1,235	1,210
CURRENT ASSETS		
Cash and temporary cash investments	8	17
Restricted cash	1	1
Accounts receivable - customers, less allowance for uncollectible accounts of $6 in 2009 and $4 in 2008	64	87
Accrued unbilled revenue	36	47
Other receivables, less allowance for uncollectible accounts of $2 in 2009 and 2008	13	5
Accounts receivable from affiliated companies	23	25
Gas in storage, at average cost	31	60
Materials and supplies, at average cost	10	9
Prepayments	24	12
Deferred derivative losses	56	42
Recoverable energy costs	36	26
Other Current Assets	4	3
TOTAL CURRENT ASSETS	306	334
INVESTMENTS	9	8
DEFERRED CHARGES, REGULATORY ASSETS AND NONCURRENT ASSETS		
Regulatory assets	551	573
Other deferred charges and noncurrent assets	38	37
TOTAL DEFERRED CHARGES, REGULATORY ASSETS AND NONCURRENT ASSETS	589	610
TOTAL ASSETS	$ 2,139	$ 2,162

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

Orange and Rockland Utilities, Inc.

CONSOLIDATED BALANCE SHEET

(Unaudited)

	June 30, 2009	December 31, 2008
	(Millions of Dollars)	
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION		
Common shareholder's equity (See Statement of Common Shareholder's Equity)	$ 485	$ 455
Long-term debt	425	416
TOTAL CAPITALIZATION	910	871
NONCURRENT LIABILITIES		
Provision for injuries and damages	7	7
Pensions and retiree benefits	462	453
Superfund and other environmental costs	53	53
Fair value of derivative liabilities	43	40
Uncertain income taxes	9	9
TOTAL NONCURRENT LIABILITIES	574	562
CURRENT LIABILITIES		
Long-term debt due within one year	58	3
Notes payable	14	-
Accounts payable	69	95
Accounts payable to affiliated companies	29	181
Customer deposits	15	15
Accrued taxes	2	-
Accrued interest	11	11
Fair value of derivative liabilities	56	27
Deferred income taxes - recoverable energy costs	15	11
Other current liabilities	26	30
TOTAL CURRENT LIABILITIES	295	373
DEFERRED CREDITS AND REGULATORY LIABILITIES		
Deferred income taxes and investment tax credits	228	216
Regulatory liabilities	129	137
Other deferred credits	3	3
TOTAL DEFERRED CREDITS AND REGULATORY LIABILITIES	360	356
TOTAL CAPITALIZATION AND LIABILITIES	$2,139	$ 2,162

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

	For the Three Months Ended June 30, 2009	For the Three Months Ended June 30, 2008	For the Six Months Ended June 30, 2009	For the Six Months Ended June 30, 2008
	(Millions of Dollars)			
OPERATING REVENUES				
Electric	$ 144	$ 180	$ 289	$ 338
Gas	39	43	145	148
TOTAL OPERATING REVENUES	183	223	434	486
OPERATING EXPENSES				
Purchased power	72	109	150	204
Gas purchased for resale	20	25	85	90
Other operations and maintenance	59	57	117	111
Depreciation and amortization	11	10	21	20
Taxes, other than income taxes	11	11	23	22
Income taxes	1	1	9	9
TOTAL OPERATING EXPENSES	174	213	405	456
OPERATING INCOME	9	10	29	30
OTHER INCOME (DEDUCTIONS)				
Investment and other income	1	-	1	1
INTEREST EXPENSE				
Interest on long-term debt	7	6	14	13
Other interest	1	1	2	2
NET INTEREST EXPENSE	8	7	16	15
NET INCOME	$ 2	$ 3	$ 14	$ 16

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Orange and Rockland Utilities, Inc.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
	(Millions of Dollars)			
NET INCOME	$ 2	$ 3	$ 14	$ 16
OTHER COMPREHENSIVE INCOME/(LOSS), NET OF TAXES				
Pension plan liability adjustments, net of $(1) taxes in 2009	1	1	2	1
Unrealized losses on derivatives qualified as cash flow hedges, net of $(1) taxes in 2008	-	-	-	(1)
Less: Reclassification adjustment for unrealized losses included in regulatory assets, net of $(5) taxes in 2008	-	-	-	(8)
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAXES	1	1	2	8
COMPREHENSIVE INCOME	$ 3	$ 4	$ 16	$ 24

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Orange and Rockland Utilities, Inc.

CONSOLIDATED STATEMENT OF COMMON SHAREHOLDER'S EQUITY

(Unaudited)

(Millions of Dollars/Except Share Data)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
BALANCE AS OF DECEMBER 31, 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
BALANCE AS OF DECEMBER 31, 2008	1,000	$ -	$ 274	$ 228	$ (47)	$ 455
Net income				12		12
Common stock dividend to parent				(8)		(8)
Capital contribution by parent			20			20
Other comprehensive income					1	1
BALANCE AS OF MARCH 31, 2009	1,000	$ -	$ 294	$ 232	$ (46)	$ 480
Net Income				2		2
Common stock dividend to parent				(8)		(8)
Capital contribution by parent			10			10
Other comprehensive income					1	1
BALANCE AS OF JUNE 30, 2009	1,000	$ -	$ 304	$ 226	$ (45)	$ 485

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, 2009	2008
	(Millions of Dollars)	
OPERATING ACTIVITIES		
Net income	$ 14	$ 16
PRINCIPAL NON-CASH CHARGES/(CREDITS) TO INCOME		
Depreciation and amortization	21	20
Deferred income taxes	8	(1)
Other non-cash items (net)	6	12
CHANGES IN ASSETS AND LIABILITIES		
Accounts receivable - customers, less allowance for uncollectibles	23	(14)
Accounts receivable from affiliated companies	6	(27)
Materials and supplies, including gas in storage	28	(5)
Prepayments, other receivables and other current assets	(10)	(6)
Recoverable energy costs	(19)	9
Accounts payable	39	(46)
Accounts payable to affiliated companies	(27)	22
Pensions and retiree benefits	23	10
Accrued taxes	2	4
Accrued interest	-	-
Deferred charges, noncurrent assets and other regulatory assets	(9)	(143)
Deferred credits and other regulatory liabilities	21	163
Other liabilities	(4)	(1)
NET CASH FLOWS FROM OPERATING ACTIVITIES	122	13
INVESTING ACTIVITIES		
Utility construction expenditures	(42)	(37)
Cost of removal less salvage	(3)	(2)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(45)	(39)
FINANCING ACTIVITIES		
Net proceeds from short-term debt	14	32
Retirement of long-term debt	(1)	(2)
Capital contribution by parent	30	29
Dividend to parent	(16)	(16)
Retirement of loan from affiliate	(113)	(55)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	(86)	(12)
CASH AND TEMPORARY CASH INVESTMENTS:		
NET CHANGE FOR THE PERIOD	(9)	(38)
BALANCE AT BEGINNING OF PERIOD	17	60
BALANCE AT END OF PERIOD	$ 8	$ 22
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	$ 14	$ 13
Income Taxes	$ 1	$ 23

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

Notes to the Financial Statements (Unaudited)

General

These notes accompany and form an integral part of the consolidated financial statements of Orange and Rockland Utilities, Inc., a New York corporation, and its subsidiaries (the Company or O&R). The Company is a regulated utility, the equity of which is owned entirely by Consolidated Edison, Inc. (Con Edison). O&R has two regulated utility subsidiaries: Rockland Electric Company (RECO) and Pike County Light & Power Company (Pike). For the six months ended June 30, 2009 and 2008, operating revenues for RECO and Pike were 23.8 percent and 0.8 percent and 21.2 percent and 0.9 percent, respectively, of O&R's consolidated operating revenues. O&R, along with its regulated utility subsidiaries, provides electric service in southeastern New York and adjacent areas of northern New Jersey and eastern Pennsylvania and gas service in southeastern New York and adjacent areas of eastern Pennsylvania. RECO owns Rockland Electric Company Transition Funding LLC (Transition Funding), which was formed in 2004 in connection with the securitization of certain purchased power costs. Certain prior period amounts have been reclassified to conform to the current period presentation.

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 and accounting.

The interim consolidated financial statements as of June 30, 2009 and 2008 and for the three and six-month periods ended June 30, 2009 and 2008 (the Second Quarter Financial Statements) are unaudited but, in the opinion of the Company's management, reflect all adjustments (which include only normally recurring adjustments) necessary for a fair presentation of the results for the interim periods presented. The Second Quarter Financial Statements should be read together with the audited consolidated financial statements of the Company, as of December 31, 2008 and 2007 and for each of the three years in the period ended December 31, 2008, including the notes thereto (the 2008 Annual Financial Statements). Information in the notes to the 2008 Annual Financial Statements referred to in these notes is incorporated by reference herein. The use of terms such as "see" or "refer to" shall be deemed to incorporate by reference into these notes the information to which reference is made.

The Company has, pursuant to Statement of Financial Accounting Standard (SFAS) No. 165 "Subsequent Events" (which is effective for periods ending after June 15, 2009), evaluated events or transactions that occurred after June 30, 2009 through the posting on its website of the Second Quarter Financial Statements (on August 10, 2009) for potential recognition or disclosure in the Second Quarter Financial Statements.

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

Note A – Regulatory Matters

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

Rate Agreements

O&R – Electric

In June 2009, the Company submitted an austerity program to the PSC regarding the Company's actions to reduce its costs. The Company plans to reduce its costs to provide electric service in New York by approximately $7.6 million during the July 2009 to June 2010 period by, among other things, reducing employee benefits and expenditures for capital projects and operating and maintenance programs. The Company has proposed that the benefits of these cost reductions be provided to customers in accordance with its current rate plan for electric service in New York, including the rate plan's earnings sharing and reconciliation provisions. The Company's austerity measures relating to its provision of gas service in New York have been reflected in the June 2009settlement agreement, discussed in the next paragraph.

O&R - Gas

In June 2009, O&R entered into a joint proposal with the staff of the PSC and other parties. The joint proposal, which is subject to PSC approval, establishes a rate plan that covers the three-year period November 1, 2009 through October 31, 2012. The rate plan provides two rate increase alternatives for consideration by the PSC. The first alternative is for increases in base rates of $12.8 million in the first year, $5.2 million in the second year and $4.5 million in the third year. The second alternative is for increases in base rates of $9 million in each of the first two years and $4.6 million in the third year, with an additional $4.3 million to be collected though a surcharge in the third rate year.

The rate plan reflects the following major items:

- an annual return on common equity of 10.4 percent;
- most of any actual earnings above an 11.4 percent annual return on common equity (based upon the actual average common equity ratio, subject to a maximum 50 percent of capitalization) are to be applied to reduce regulatory assets;
- deferral as a regulatory asset or liability, as the case may be, of differences between the actual level of certain expenses, including expenses for pension and other postretirement benefits, environmental remediation, property taxes and taxable and tax-exempt long-term debt, and amounts for those expenses reflected in rates;

- deferral as a regulatory liability of the revenue requirement impact (i.e., return on investment, depreciation and income taxes) of the amount, if any, by which average gas net plant balances are less than balances reflected in rates;

- deferral as a regulatory asset of increases, if any, over the course of the rate plan, in certain expenses above a 4 percent annual inflation rate, but only if the actual annual return on common equity is less than 10.4 percent;

- implementation of a revenue decoupling mechanism;

- continuation of the provisions pursuant to which the Company recovers its cost of purchasing gas and the provisions pursuant to which the effects of weather on gas income are moderated; and

- potential negative earnings adjustments of up to $1.4 million annually if certain operations and customer service requirements are not met.

Regulatory Assets and Liabilities

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

(Millions of Dollars)	2009	2008
Regulatory assets		
Unrecognized pension and other post-retirement costs	$253	$267
Environmental remediation costs	60	63
Future federal income tax	60	58
Transition bond charges	58	59
Pension and other postretirement benefits deferrals	56	55
Deferred derivative losses	30	26
Interest rate swap	12	15
Other	22	30
Regulatory assets	551	573
Deferred derivative losses – current	56	42
Recoverable energy costs – current	36	26
Total regulatory assets	$643	$641
Regulatory liabilities		
Allowance for cost of removal less salvage	$66	$65
Refundable energy costs	48	57
NYS tax law changes	1	1
Other	14	14
Total regulatory liabilities	$129	$137

Note B – Capitalization

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

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

Note C – Short-Term Borrowing

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

At June 30, 2009, O&R had $14 million of commercial paper outstanding at a weighted average interest rate of 0.40 percent. At December 31, 2008, O&R had no commercial paper outstanding. At June 30, 2009 and December 31, 2008, no loans and $15 million and $10 million of letters of credit, respectively, were outstanding for O&R under the Amended and Restated Credit Agreement to which it is a party, Outstanding loans to O&R from Con Edison of New York amounted to $113 million and $0 at December 31, 2008 and June 30, 2009, respectively. See Note J for information about short-term borrowing between related parties.

Note D – Pension Benefits

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

Net Periodic Benefit Cost

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

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

	For the Six Months Ended June 30,	
(Millions of Dollars)	2009	2008
Service cost – including administrative expenses	$6	$5
Interest cost on projected benefit obligation	16	17
Expected return on plan assets	(16)	(16)
Amortization of net actuarial loss	14	11
NET PERIODIC BENEFIT COST	$20	$17
Cost capitalized	(4)	(5)
Cost deferred	(5)	3
Cost charged to operating expenses	$11	$15

Expected Contributions

Based on current estimates, the Company is not required under funding regulations and laws to make any contributions to the pension plan during 2009. The Company's policy is to fund its accounting cost to the extent tax deductible; therefore, O&R expects to make a discretionary contribution of $38 million to the pension plan during 2009. The Company is continuing to monitor changes to funding and tax laws that may impact future pension plan funding requirements.

Note E – Other Post-Retirement Benefits

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

Net Periodic Benefit Cost

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

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

	For the Six Months Ended June 30,	
(Millions of Dollars)	2009	2008
Service cost	$2	$2
Interest cost on accumulated other postretirement benefit obligation	6	5
Expected return on plan assets	(2)	(4)
Amortization of net actuarial loss	4	5
Amortization of prior service costs	-	1
NET PERIODIC POSTRETIREMENT BENEFIT COST	$10	$9
Cost capitalized	(3)	(3)
Cost deferred	1	(2)
Cost charged to operating expenses	$8	$4

Expected Contributions

Based on current estimates, O&R expects to make contributions of $13 million to the other postretirement benefit plan in 2009.

Note F – Environmental Matters

Superfund Sites

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

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

For Superfund Sites where there are other potentially responsible parties and O&R is not managing the site investigation and remediation, the accrued liability represents an estimate of the amount O&R will need to pay to discharge its related obligations. For Superfund Sites (including the manufactured gas plant sites) for which O&R is managing the investigation and remediation, the accrued liability represents an estimate of the company’s share of undiscounted cost to investigate the sites and, for sites that have been investigated in whole or in part, the cost to remediate the sites. Remediation costs are estimated in light of the information available, applicable remediation standards, and experience with similar sites.

The accrued liabilities and regulatory assets related to Superfund Sites at June 30, 2009 and December 31, 2008 were as follows:

(Millions of Dollars)	2009	2008
Accrued Liabilities:		
Manufactured gas plant sites	$52	$52
Other Superfund Sites	1	1
Total	$53	$53
Regulatory assets	$60	$63

Most of the accrued Superfund Site liability relates to sites that have been investigated, in whole or in part. As investigations progress on these and other sites, O&R expects that additional liability will be accrued, the amount of which is not presently determinable but may be material. Under its current rate plans for provision of electric and gas service in New York, O&R is permitted to recover or defer as regulatory assets (for subsequent recovery through rates) certain site investigation and remediation costs.

There were no insurance recoveries received related to Superfund Sites for the three months ended June 30, 2009 and 2008. Environmental remediation costs incurred related to Superfund Sites during the three and six months ended June 30, 2009 and 2008 were as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(Millions of Dollars)	2009	2008	2009	2008
Remediation costs incurred	$1.0	$1.0	$1.0	$1.0

In 2007, O&R estimated that for its manufactured gas plant sites, each of which has been investigated, the aggregate undiscounted potential liability for the remediation of such contaminants could range up to $115 million. These estimates were based on assumptions regarding the extent of contamination and the type and extent of remediation that may be required. Actual experience may be materially different.

Asbestos Proceedings

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

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

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

Note G – Financial Information by Business Segment

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

The financial data for the business segments are as follows:

	For the Three Months Ended June 30,							
	Operating revenues		Inter-segment revenues		Depreciation and amortization		Operating income	
(Millions of Dollars)	2009	2008	2009	2008	2009	2008	2009	2008
O&R								
Electric	$144	$180	$-	$-	$8	$7	$8	$10
Gas	39	43	-	-	3	3	1	-
Total O&R	$183	$223	$-	$-	$11	$10	$9	$10

	For the Six Months Ended June 30,							
	Operating revenues		Inter-segment revenues		Depreciation and amortization		Operating income	
(Millions of Dollars)	2009	2008	2009	2008	2009	2008	2009	2008
O&R								
Electric	$289	$338	$-	$-	$15	$14	$14	$15
Gas	145	148	-	-	6	6	15	15
Total O&R	$434	$486	$-	$-	$21	$20	$29	$30

Note H – Derivative Instruments and Hedging Activities

Derivative instruments and hedging activities are accounted for in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended (SFAS No. 133). Under SFAS No. 133, derivatives are recognized on the balance sheet at fair value, unless an exception is available under the standard. Certain qualifying derivative contracts have been designated as normal purchases or normal sales contracts. These contracts are not reported at fair value under SFAS No. 133.

Effective January 1, 2009, the Company adopted SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities” (SFAS No. 161). SFAS No. 161 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.

Energy Price Hedging

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

The fair values of the Company’s electric hedges at June 30, 2009 and December 31, 2008 were as follows:

(Millions of Dollars)	2009	2008
Fair value of net derivative assets/ (liabilities) – gross	$(86)[(a)]	$(63)[(a)]
Impact of netting of cash collateral	-	-
Fair value of net derivative assets/ (liabilities) - net	$(86)[(a)]	$(63)[(a)]

(a) Includes derivative liabilities of $17 million and $13 million with Con Edison’s competitive energy businesses at June 30, 2009 and December 31, 2008, respectively. See Note J.

Credit Exposure

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

The Company did not have any credit exposure in connection with electricity supply and hedging activities at June 30, 2009.

Economic Hedges

The Company enters into derivative instruments that do not qualify or are not designated as hedges under SFAS No. 133. However, management believes these instruments represent economic hedges that mitigate exposure to fluctuations in electric prices.

Notes to the Financial Statements (Unaudited) - Continued

The fair values of the Company's electric derivatives at June 30, 2009 were:

(Millions of Dollars)	Balance Sheet Location	Fair Value of Electric Derivatives [(a)]
	Asset Derivatives	
Current	Fair value of derivative assets	$103
Long term	Other deferred charges and non-current assets	98
Total assets derivatives		$201
Impact of netting		(201)
Net assets derivatives		$-
	Liability Derivatives	
Current	Fair value of derivative liabilities	$159
Long term	Fair value of derivative liabilities	128
Total liability derivatives		$287
Impact of netting		(201)
Net liability derivatives		$86[(b)]

(a) Qualifying derivative contracts, which have been designated as normal purchases or normal sales contracts, are not reported at fair value under SFAS No. 133 and, therefore, are excluded from the table.

(b) Includes derivative liabilities of $17 million with Con Edison's competitive energy businesses. See Note J.

The Company generally recovers all of its prudently incurred, purchased power and gas costs, including hedging gains and losses, in accordance with rate provisions approved by the applicable state utility commissions. See "Recoverable Energy Costs" in Note A to the 2008 Annual Financial Statements. In accordance with SFAS No. 71, the Company records a regulatory asset or liability to defer recognition of unrealized gains and losses on its electric derivatives. As gains and losses on the Company's electric derivatives are realized in future periods, they will be recognized as purchased power costs in the Company's consolidated income statement.

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

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

(Millions of Dollars)	Balance Sheet Location	Deferred for the Three Months Ended June 30, 2009
Pre-tax gain/(losses) deferred in accordance with SFAS No. 71		
Current	Deferred derivative losses	$(1)
Current	Recoverable energy costs[(b)]	(30)
Long term	Regulatory assets	10
Total deferred losses		$(21)

(a) Qualifying derivative contracts, which have been designated as normal purchases or normal sales contracts, are not reported at fair value under SFAS No. 133 and, therefore, are excluded from the table.

(b) Includes recoverable energy losses of $10 million with Con Edison's competitive energy businesses.

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

(Millions of Dollars)	Balance Sheet Location	Deferred for the Six Months Ended June 30, 2009
Pre-tax gain/(losses) deferred in accordance with SFAS No. 71		
Current	Deferred derivative losses	$(14)
Current	Recoverable energy costs[(b)]	(64)
Long term	Regulatory assets	(4)
Total deferred losses		$(82)

(a) Qualifying derivative contracts, which have been designated as normal purchases or normal sales contracts, are not reported at fair value under SFAS No. 133 and, therefore, are excluded from the table.

(b) Includes recoverable energy losses of $19 million with Con Edison's competitive energy businesses.

As of June 30, 2009, the Company had 9 contracts hedging electric energy or capacity market prices, which were considered to be derivatives under SFAS No. 133 (excluding qualifying derivative contracts, which have been designated as normal purchases or normal sales contracts).

Number of Energy Contracts[a]	MWhs[b]	Number of Capacity Contracts[a]	MWs[b]	Total Number of Contracts[a]
8	3,679,942	1	569	9

(a) Qualifying derivative contracts, which have been designated as normal purchases or normal sales contracts, are not reported at fair value under SFAS No. 133 and, therefore, are excluded from the table.
(b) Volumes are reported net of long and short positions.

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

The aggregate fair value of all of the Company's electric derivative instruments with credit-risk-related contingent features that are in a net liability position, and the amount of collateral posted at June 30, 2009 and the additional collateral that would have been required to be posted had the lowest applicable credit rating been reduced one level and to below investment grade were:

(Millions of Dollars)	
Aggregate fair value – net liabilities[a]	$69
Collateral posted[b]	$41
Additional Collateral[b] (downgrade one level from current rating[c])	$12
Additional Collateral[b] (downgrade to below investment grade from current rating[c])	$36

(a) Non-derivative transactions for the purchase and sale of electricity and qualifying derivative instruments, which have been designated as normal purchases or normal sales are excluded from the table. These transactions primarily include purchases of electricity from independent system operators. In the event the Company was no longer extended unsecured credit for such purchases, the Company would be required to post collateral, which at June 30, 2009, would have amounted to an estimated $8 million. For certain other such non-derivative transactions, the Company could be required to post collateral under certain circumstances, including in the event counterparties had reasonable grounds for insecurity.
(b) Across the Utilities' energy derivative positions, credit limits for the same counterparties are generally integrated. At June 30, 2009, all collateral for these positions was posted by Con Edison of New York, including the collateral posted that is estimated to be attributable to O&R shown above. The additional collateral amounts shown above are based upon the estimated O&R allocation of the Utilities' collateral requirements. The Utilities measure the collateral requirements by taking into consideration the fair value amounts of derivative instruments that contain credit-risk-related contingent features that are in a net liability position plus amounts owed to counterparties for settled transactions and amounts required by counterparties for minimum financial security. The fair value amounts represent unrealized losses, net of any unrealized gains where the Utilities have a legally enforceable right of setoff.
(c) The current long-term ratings of O&R are Baa1/A-/A by Moody's Investors Service, Standard & Poor's Rating Services and Fitch Ratings, respectively. Credit ratings assigned by rating agencies are expressions of opinions that are subject to revision or withdrawal at any time by the assigning rating agency.

Interest Rate Swaps

O&R has an interest rate swap related to its Series 1994A Debt. See Note B. O&R pays a fixed-rate of 6.09 percent and receives a LIBOR-based variable rate. The fair value of this interest rate swap at June 30, 2009 was an unrealized loss of $12 million, which has been included in the consolidated balance sheet as a regulatory asset and a fair value of derivative liabilities – noncurrent liabilities. The increase in the fair value of the swap for the three and six months ended June 30, 2009 was $2 million and $3 million, respectively. In the event O&R's credit rating was downgraded to BBB-/Baa3 or lower, the swap counterparty could elect to terminate the agreement and O&R would be required to settle immediately.

Note I – Fair Value Measurements

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

FASB Statement No. 157, "Fair Value Measurements" (SFAS No. 157) defines fair value, establishes a framework for measuring fair value and expands the disclosures about fair value measurements.

SFAS No. 157 establishes a three-level hierarchy and defines the levels within the hierarchy as follows:

- Level 1 – Consists of assets or liabilities whose value is based on unadjusted quoted prices in active markets at the measurement date.
- Level 2 – Consists of assets or liabilities valued using industry standard models and based on prices, other than quoted prices within Level 1, that are either directly or indirectly observable as of the measurement date.
- Level 3 – Consists of assets or liabilities whose fair value is estimated based on internally developed models or methodologies using inputs that are generally less readily observable and supported by little, if any, market activity at the measurement date.

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

(Millions of Dollars)	Level 1	Level 2	Level 3	Total
Other assets [3]	$-	$-	$8	$8
Total	$-	$-	$8	$8
Derivative liabilities:				
Energy [1]	$-	$-	$86[4]	$86[4]
Financial & other [2]	-	-	12	12
Total	$-	$-	$98	$98

(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 respective contract as Level 3. See Note H.
(2) Includes an interest rate swap. See Note H.
(3) Other assets are comprised of assets such as life insurance contracts within the Supplemental Employee Retirement Plan, held in a rabbi trust.
(4) Includes derivative liabilities of $17 million with Con Edison's competitive energy businesses. See Note J.

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

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

(1) A significant portion of the energy derivative contracts categorized in Level 3 is valued using either an industry acceptable model or an internally developed model with observable inputs. The models also include some less readily observable inputs resulting in the classification of the respective contract as Level 3. See Note H.
(2) Includes an interest rate swap. See Note H.
(3) Other assets are comprised of assets such as life insurance contracts within the Supplemental Employee Retirement Plan, held in a rabbi trust.
(4) Includes derivative liabilities of $13 million with Con Edison's competitive energy businesses. See Note N to the 2008 Annual Financial Statements.

The table listed below provides a reconciliation of the beginning and ending net balances for assets and liabilities measured at fair value for the three and six months ended June 30, 2009 and classified as Level 3 in the fair value hierarchy:

	For the Three Months Ended June 30, 2009					
	Beginning Balance as of April 1, 2009	Total Gains/(Losses) – Realized and Unrealized		Purchases, Issuances, Sales and Settlements	Transfer In/Out of Level 3	Ending Balance as of June 30, 2009
(Millions of Dollars)		Included in Earnings	Included in Regulatory Assets and Liabilities			
Derivatives:						
Energy	$(96)	$(32)	$10	$32	$-	$(86)[1]
Financial & other	(14)	-	2	-	-	(12)
Other	7	-	1	-	-	8
Total	$(103)	$(32)	$13	$32	$-	$(90)

(1) Includes derivative liabilities of $17 million with Con Edison's competitive energy businesses. See Note J.

	For the Six Months Ended June 30, 2009					
	Beginning Balance as of January 1, 2009	Total Gains/(Losses) – Realized and Unrealized		Purchases, Issuances, Sales and Settlements	Transfer In/Out of Level 3	Ending Balance as of June 30, 2009
(Millions of Dollars)		Included in Earnings	Included in Regulatory Assets and Liabilities			
Derivatives:						
Energy	$(53)	$(45)	$(33)	$45	$-	$(86)[1]
Financial & other	(15)	-	3	-	-	(12)
Other	8	-	-	-	-	8
Total	$(60)	$(45)	$(30)	$45	$-	$(90)

(1) Includes derivative liabilities of $17 million with Con Edison's competitive energy businesses. See Note J.

The table listed below provides a reconciliation of the beginning and ending net balances for assets and liabilities measured at fair value for the three and six months ended June 30, 2008 and classified as Level 3 in the fair value hierarchy:

	For the Three Months Ended June 30, 2008					
	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
(Millions of Dollars)		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					
	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
(Millions of Dollars)		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. See Note A to the 2008 Annual Financial Statements. Unrealized gains and losses for energy derivatives are generally deferred on the consolidated balance sheet in accordance with SFAS No. 71.

Realized and unrealized losses on Level 3 financial and other derivatives and other assets are generally deferred on the consolidated balance sheet in accordance with SFAS No. 71.

Note J - Related Party Transactions

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

The Company provides and receives administrative and other services to and from Con Edison and its subsidiaries pursuant to cost allocation procedures developed in accordance with rules approved by the PSC and/or other regulatory authorities, as applicable. The services received include substantial administrative support operations, such as corporate secretarial and associated ministerial duties, accounting, treasury, investor relations, information resources, legal, human resources, fuel supply, and energy management services. The costs of administrative and other services provided by the Company, and received from Con Edison and its other subsidiaries for the three and six months ended June 30, 2009 and 2008 were as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(Millions of Dollars)	2009	2008	2009	2008
Cost of services provided	$4	$5	$9	$10
Cost of services received	$10	$9	$19	$17

In addition, Con Edison of New York and O&R have joint gas supply arrangements, in connection with which O&R purchased from Con Edison of New York $26 million and $54 million of natural gas for the three months ended June 30, 2009 and 2008, respectively, and $74 million and $99 million of natural gas for the six months ended June 30, 2009 and 2008, respectively. These amounts are net of the effect of related hedging transactions.

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

At June 30, 2009 and December 31, 2008, the Company's receivable from Con Edison for income taxes was $19 million and $24 million, respectively. See Note A to the 2008 Annual Financial Statements.

FERC has authorized Con Edison of New York through January 2010 to lend funds to O&R from time to time, for periods of not more than 12 months, in amounts not to exceed $200 million outstanding at any time, at prevailing market rates. Con Edison of New York's outstanding loans to O&R amounted to $113 million and $0 at December 31, 2008 and June 30, 2009, respectively.

Note K – New Financial Accounting Standards

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

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

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

The Company is currently evaluating the impact of this Standard on its financial position, results of operations and liquidity.

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