# Orange and Rockland Utilities, Inc.
# Third Quarter 2006 Financial Statements and Notes

Financial Statements (Unaudited)

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

| | September 30, 2006 | December 31, 2005 |
|---|---|---|
| | (Millions of Dollars) | |
| ASSETS | | |
| UTILITY PLANT, AT ORIGINAL COST | | |
| Electric | $ 883 | $ 846 |
| Gas | 377 | 361 |
| General | 124 | 123 |
| Total | 1,384 | 1,330 |
| Less: Accumulated depreciation | 407 | 395 |
| Net | 977 | 935 |
| Construction work in progress | 40 | 32 |
| NET PLANT | 1,017 | 967 |
| CURRENT ASSETS | | |
| Cash and temporary cash investments | 6 | 9 |
| Restricted cash | 2 | 2 |
| Accounts receivable - customers, less allowance for uncollectible accounts of $2 in 2006 and 2005 | 51 | 61 |
| Accrued unbilled revenue | 23 | 29 |
| Other receivables, less allowance for uncollectible accounts of $2 in 2006 and 2005 | 49 | 39 |
| Accounts receivable from affiliated companies | 16 | 30 |
| Gas in storage, at average cost | 60 | 62 |
| Materials and supplies, at average cost | 7 | 6 |
| Prepayments | 19 | 11 |
| Fair value of derivative assets | 3 | 50 |
| Deferred derivative losses | 21 | - |
| Recoverable energy costs | 20 | 29 |
| Other current assets | 12 | 11 |
| TOTAL CURRENT ASSETS | 289 | 339 |
| DEFERRED CHARGES, REGULATORY ASSETS AND NONCURRENT ASSETS | | |
| Regulatory assets | 254 | 244 |
| Other deferred charges and noncurrent assets | 17 | 38 |
| TOTAL DEFERRED CHARGES, REGULATORY ASSETS AND NONCURRENT ASSETS | 271 | 282 |
| TOTAL ASSETS | $ 1,577 | $ 1,588 |

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

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

| | September 30, 2006 | December 31, 2005 |
|---|---|---|
| | (Millions of Dollars) | |
| CAPITALIZATION AND LIABILITIES | | |
| CAPITALIZATION | | |
| Common shareholder's equity (See Statement of Common Shareholder's Equity) | $ 378 | $ 369 |
| Long-term debt | 362 | 384 |
| TOTAL CAPITALIZATION | 740 | 753 |
| NONCURRENT LIABILITIES | | |
| Provision for injuries and damages | 6 | 6 |
| Pensions and retiree benefits | 98 | 101 |
| Superfund and other environmental costs | 46 | 53 |
| Hedges on variable rate long-term debt | 15 | 14 |
| TOTAL NONCURRENT LIABILITIES | 165 | 174 |
| CURRENT LIABILITIES | | |
| Long-term debt due within one year | 22 | 2 |
| Notes payable | 111 | 101 |
| Accounts payable | 81 | 81 |
| Accounts payable to affiliated companies | 63 | 33 |
| Customer deposits | 14 | 14 |
| Accrued taxes | 3 | 4 |
| Accrued interest | 10 | 6 |
| Deferred derivative gains | 3 | 54 |
| Deferred income taxes - recoverable energy costs | 8 | 12 |
| Other current liabilities | 25 | 12 |
| TOTAL CURRENT LIABILITIES | 340 | 319 |
| DEFERRED CREDITS AND REGULATORY LIABILITIES | | |
| Deferred income taxes and investment tax credits | 212 | 194 |
| Regulatory liabilities | 113 | 138 |
| Other deferred credits | 7 | 10 |
| TOTAL DEFERRED CREDITS AND REGULATORY LIABILITIES | 332 | 342 |
| TOTAL CAPITALIZATION AND LIABILITIES | $ 1,577 | $ 1,588 |

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

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | (Millions of Dollars) | | | |
| OPERATING REVENUES | | | | |
| Electric | $ 205 | $ 201 | $ 455 | $ 446 |
| Gas | 26 | 23 | 166 | 154 |
| TOTAL OPERATING REVENUES | 231 | 224 | 621 | 600 |
| OPERATING EXPENSES | | | | |
| Purchased power | 108 | 110 | 236 | 228 |
| Gas purchased for resale | 15 | 13 | 108 | 95 |
| Other operations and maintenance | 53 | 44 | 143 | 129 |
| Depreciation and amortization | 9 | 9 | 26 | 26 |
| Taxes, other than income taxes | 12 | 12 | 36 | 36 |
| Income taxes | 10 | 13 | 20 | 29 |
| TOTAL OPERATING EXPENSES | 207 | 201 | 569 | 543 |
| OPERATING INCOME | 24 | 23 | 52 | 57 |
| OTHER INCOME (DEDUCTIONS) | | | | |
| Investment and other income | 1 | 1 | 2 | 1 |
| Income taxes | - | - | (1) | - |
| TOTAL OTHER INCOME (DEDUCTIONS) | 1 | 1 | 1 | 1 |
| INTEREST EXPENSE | | | | |
| Interest on long-term debt | 6 | 5 | 16 | 15 |
| Other interest | 2 | 1 | 5 | 2 |
| NET INTEREST EXPENSE | 8 | 6 | 21 | 17 |
| NET INCOME | $ 17 | $ 18 | $ 32 | $ 41 |

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, 2006 | 2005 | For the Nine Months Ended September 30, 2006 | 2005 |
|---|---|---|---|---|
| | (Millions of Dollars) | | | |
| NET INCOME | $ 17 | $ 18 | $ 32 | $ 41 |
| OTHER COMPREHENSIVE INCOME/(LOSS), NET OF TAXES | | | | |
| Supplemental pension plan minimum liability adjustments, net of taxes | - | - | (1) | - |
| Unrealized gains/(losses) on derivatives qualified as cash flow hedges, net of $(1), $4, $(2) and $4, taxes in 2006 and 2005, respectively | (1) | 5 | (2) | 5 |
| Less: Reclassification adjustment gains/(losses) included in net income, net of $0, $0, $(1) and $0, taxes in 2005 and 2006, respectively | - | 1 | (1) | 1 |
| TOTAL OTHER COMPREHENSIVE INCOME/(LOSS), NET OF TAXES | (1) | 4 | (2) | 4 |
| COMPREHENSIVE INCOME | $ 16 | $ 22 | $ 30 | $ 45 |

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

# Orange and Rockland Utilities, Inc.

## CONSOLIDATED STATEMENT OF COMMON SHAREHOLDER'S EQUITY

### FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

### (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, 2004 | 1,000 | $ - | $ 194 | $ 204 | $ (10) | $ 388 |
| Net Income | | | | 17 | | 17 |
| Common stock dividend to parent | | | | (7) | | (7) |
| Other comprehensive income | | | | | 2 | 2 |
| BALANCE AS OF MARCH 31, 2005 | 1,000 | $ - | $ 194 | $ 214 | $ (8) | $ 400 |
| Net Income | | | | 6 | | 6 |
| Common stock dividend to parent | | | | (50) | | (50) |
| Other comprehensive loss | | | | | (2) | (2) |
| BALANCE AS OF JUNE 30, 2005 | 1,000 | $ - | $ 194 | $ 170 | $ (10) | $ 354 |
| Net Income | | | | 18 | | 18 |
| Common stock dividend to parent | | | | (7) | | (7) |
| Other comprehensive income | | | | | 4 | 4 |
| BALANCE AS OF SEPTEMBER 30, 2005 | 1,000 | $ - | $ 194 | $ 181 | $ (6) | $ 369 |
| | | | | | | |
| BALANCE AS OF DECEMBER 31, 2005 | 1,000 | $ - | $ 194 | $ 183 | $ (8) | $ 369 |
| Net Income | | | | 12 | | 12 |
| Common stock dividend to parent | | | | (7) | | (7) |
| Other comprehensive loss | | | | | (2) | (2) |
| BALANCE AS OF MARCH 31, 2006 | 1,000 | $ - | $ 194 | $ 188 | $ (10) | $ 372 |
| Net Income | | | | 3 | | 3 |
| Common stock dividend to parent | | | | (7) | | (7) |
| Other comprehensive income | | | | | 1 | 1 |
| BALANCE AS OF JUNE 30, 2006 | 1,000 | $ - | $ 194 | $ 184 | $ (9) | $ 369 |
| Net Income | | | | 17 | | 17 |
| Common stock dividend to parent | | | | (7) | | (7) |
| Other comprehensive loss | | | | | (1) | (1) |
| BALANCE AS OF SEPTEMBER 30, 2006 | 1,000 | $ - | $ 194 | $ 194 | $ (10) | $ 378 |

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, 2006 | 2005 |
|---|---|---|
| | (Millions of Dollars) | |
| OPERATING ACTIVITIES | | |
| Net income | $ 32 | $ 41 |
| PRINCIPAL NON-CASH CHARGES/(CREDITS) TO INCOME | | |
| Depreciation and amortization | 26 | 26 |
| Deferred income taxes | 12 | (3) |
| Other non-cash items (net) | - | 1 |
| CHANGES IN ASSETS AND LIABILITIES | | |
| Accounts receivable - customers, less allowance for uncollectibles | 10 | (30) |
| Accounts receivable from affiliated companies | (2) | (7) |
| Materials and supplies, including gas in storage | 1 | (16) |
| Prepayments, other receivables and other current assets | (12) | (1) |
| Recoverable energy costs | (1) | (8) |
| Accounts payable | - | 32 |
| Accounts payable to affiliated companies | 17 | (7) |
| Pensions and retiree benefits | (3) | (2) |
| Accrued taxes | (1) | 14 |
| Accrued interest | 4 | 1 |
| Deferred charges and other regulatory assets | - | (15) |
| Deferred credits and regulatory liabilities | (2) | (1) |
| Other assets | (1) | 6 |
| Other liabilities | 6 | (6) |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | 86 | 25 |
| INVESTING ACTIVITIES | | |
| Utility construction expenditures | (74) | (54) |
| Cost of removal less salvage | (2) | (2) |
| NET CASH FLOWS USED IN INVESTING ACTIVITIES | (76) | (56) |
| FINANCING ACTIVITIES | | |
| Net proceeds from short-term debt | 10 | 70 |
| Issuance of long-term debt | - | 40 |
| Retirement of long-term debt | (2) | (1) |
| Dividend to parent | (21) | (64) |
| NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES | (13) | 45 |
| CASH AND TEMPORARY CASH INVESTMENTS: | | |
| NET CHANGE FOR THE PERIOD | (3) | 14 |
| BALANCE AT BEGINNING OF PERIOD | 9 | 12 |
| BALANCE AT END OF PERIOD | $ 6 | $ 26 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash paid during the period for: | | |
| Interest | $ 15 | $ 14 |
| Income Taxes | $ 21 | $ 20 |

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 interim financial statements of Orange and Rockland Utilities, Inc., a New York corporation, and its subsidiaries (the Company or O&R). The Company is a regulated utility, the equity of which is owned entirely by Consolidated Edison, Inc. (Con Edison). O&R has two regulated utility subsidiaries: Rockland Electric Company (RECO) and Pike County Light & Power Company (Pike). For the nine months ended September 30, 2006 and 2005, operating revenues for RECO and Pike were 22.1 and 1.3 percent, respectively, for both periods, of O&R's consolidated operating revenues. O&R, along with its regulated utility subsidiaries, provides electric service in southeastern New York and adjacent areas of northern New Jersey and eastern Pennsylvania and gas service in southeastern New York and adjacent areas of eastern Pennsylvania. RECO owns Rockland Electric Company Transition Funding LLC, which was formed in 2004 in connection with the securitization of certain purchased power costs.

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

The interim consolidated financial statements of O&R are unaudited but, in the opinion of its management, reflect all adjustments (which include only normally recurring adjustments) necessary for a fair presentation of the results for the interim periods presented. O&R's interim consolidated financial statements should be read together with its separate audited financial statements (including the notes thereto) for the year ended December 31, 2005 (2005 Annual Financial Statements). Certain prior period amounts have been reclassified to conform to the current period presentation. Results for interim periods are not necessarily indicative of results for the entire fiscal year.

## Note A – Regulatory Matters

Reference is made to "Rate and Restructuring Agreements" in Note B to the 2005 Annual Financial Statements for information pertaining to the Company's current rate agreements.

### Rate and Restructuring Agreements

#### Electric

In September 2006, in accordance with O&R's 2003 electric rate agreement, the company settled a $6 million regulatory liability against a regulatory asset. The regulatory liability settled related to a provision for refund to customers of shared earnings above the targeted level, and was credited to other operating revenue. The regulatory asset recovered was for deferred pension benefit costs, which was charged to operation and maintenance expense.

O&R continues to charge its electric service customers in New York the tariff rates prescribed by the 2003 electric rate agreement, which ended on October 31, 2006. Beginning in July 2006, the agreement's earning sharing provisions no longer applied. In November 2006, the New York State Consumer Protection Board petitioned the PSC to direct O&R to show cause why its electric delivery rates should not be reduced, the rate plan's earnings sharing provisions should not be revised and deferral for future recovery from customers of certain costs (such as for pensions benefits and other postretirement benefits) that are in excess of the amounts reflected for such costs in rates should not be prohibited.

In June 2006, RECO filed a request with the NJBPU for an increase in the rates it charges for electric service, effective April 1, 2007, of $13.2 million (7.5 percent). The filing reflected a return on common equity of 11 percent and a common equity ratio of 49.7 percent of capitalization. The NJBPU is expected to render a decision in March 2007.

The NJBPU is engaged in New Jersey's effort to issue a revised New Jersey state energy master plan by October 2007. The energy master plan will set forth objectives for a period of ten years on the production, distribution, consumption and conservation of energy in New Jersey. In addition, the plan will provide for the interim implementation of measures consistent with said objectives.

Pike bills its customers for the electricity it supplies to them based on a default service rate approved by the PPUC. Pike neither collects from nor refunds to customers differences between actual amounts billed for electric supply and electric supply costs it incurs. In January 2006, based upon the results of an auction overseen by the PPUC in which an affiliate of Con Edison was the winning bidder, an increase in the default service rate of approximately 70 percent was approved by the PPUC. In February 2006, the PPUC initiated a fact-finding investigation in the competitive electric market in Pike's service territory, which investigation is ongoing. On June 1, 2006, the Law Bureau of the PPUC issued a report that contained various recommendations for future action. The report recommended that the PPUC consider integrating Pike's energy procurement with that of either O&R, RECO or another Pennsylvania electric distribution company, having an independent study performed regarding the costs and benefits of interconnecting Pike with PJM, and having an independent study performed regarding the costs and benefits of the sale of Pike to another Pennsylvania electric distribution company or a rural electric cooperative. The PPUC has yet to act on any of these recommendations.

Approximately 50 customers of Pike have filed complaints with the PPUC regarding the increase in Pike's default service rates. The PPUC has consolidated these complaints in one administrative proceeding. Pike has moved to dismiss these complaints. Evidentiary hearings were held on November 6, 2006 and are scheduled for January 2007 to consider these complaints. The PPUC is expected to render a decision in the second quarter of 2007. O&R does not expect that the PPUC's decision on these complaints will have a material adverse effect on its financial position, results of operation or liquidity.

### Gas

In October 2006, the PSC approved the June 2006 settlement agreement among O&R, the staff of the PSC and other parties. The settlement agreement establishes a rate plan that covers the three-year period November 1, 2006 through October 31, 2009. The rate plan provides for rate increases in base rates of $12 million in the first year, $0.7 million in the second year and $1.1 million in the third year. To phase-in the effect of the increase for customers, the rate plan provides for O&R to accrue revenues for, but defer billing to customers of, $5.5 million of the first rate year rate increase by establishing a regulatory asset which, together with interest, will be billed to customers in the second and third years. As a result, O&R's billings to customers will increase $6.5 million in each of the first two years and $6.3 million in the third year. The first year rate increase includes $2.3 million relating to a change in the way customers are provided the benefit of non-firm revenue from sales of pipeline transportation capacity. Under the prior rate plan, base rates were reduced to reflect the assumption that the company would realize these revenues. Under the new rate plan, such revenues will be used to offset the cost of gas to be recovered from customers. The rate plan continues the provisions pursuant to which the company recovers its cost of purchasing gas.

The rate plan provides that if the actual amounts of pension or other postretirement benefit costs, environmental remediation costs, property taxes and certain other costs vary from the respective amounts for each such cost reflected in gas rates, the company will defer recognition of the variation in income and, as the case may be, establish a regulatory asset or liability for recovery from, or refund to, customers of the variation (86 percent of the variation, in the case of property tax differences due to assessment changes).

The company may earn more in a rate year than the 9.8 percent return on common equity reflected in the rate plan pursuant to the plan's earnings sharing provisions. Earnings attributable to its gas business, excluding any penalties, (O&R Adjusted Earnings) up to an 11 percent annual return on common equity (based upon the actual average common equity ratio, subject to a maximum 50 percent of capitalization) are retained by the company. O&R Adjusted Earnings above an 11 percent return are to be used to offset up to one-half of any regulatory asset resulting from the cost reconciliations (discussed in the preceding paragraph). One-half of any remaining O&R Adjusted Earnings between 11 and 12 percent return are retained by the company, with the balance being deferred for the benefit of customers. Thirty-five percent of any remaining O&R Adjusted Earnings between a 12 and 14 percent return are retained by the company, with the balance deferred for the benefit of customers. Any remaining O&R Adjusted Earnings above a 14 percent return are to be deferred for the benefit of customers. The earnings sharing thresholds will each be reduced by 20 basis points if certain objectives relating to the company's retail choice program (to be set in an ongoing PSC proceeding) are not met.

The rate plan also includes up to $1 million of potential penalties in the first year of the agreement, increasing up to $1.2 million in the third year, if the company does not comply with certain requirements regarding safety and customer service.

## Regulatory Assets and Liabilities

Regulatory assets and liabilities at September 30, 2006 and December 31, 2005 were comprised of the following items:

| (Millions of Dollars) | 2006 | 2005 |
|---|---|---|
| Regulatory assets | | |
| Transition bond charges | $68 | $70 |
| Environmental remediation costs | 59 | 59 |
| Pension and other postretirement benefits deferrals | 55 | 50 |
| Future federal income tax | 53 | 50 |
| Other | 19 | 15 |
| Regulatory assets | 254 | 244 |
| Deferred derivative losses - current | 21 | - |
| Recoverable energy costs - current | 20 | 29 |
| Total regulatory assets | $295 | $273 |
| | | |
| Regulatory liabilities | | |
| Allowance for cost of removal less salvage | $58 | $57 |
| Refundable energy costs | 30 | 40 |
| NYS tax law changes | 12 | 12 |
| Unrealized gains on hedging | - | 16 |
| Earnings sharing reserve | - | 2 |
| Other | 13 | 11 |
| Regulatory liabilities | 113 | 138 |
| Deferred derivative gains – current | 3 | 54 |
| Total regulatory liabilities | $116 | $192 |

## Note B – Long-Term Debt

Reference is made to Note C to the 2005 Annual Financial Statements.

In October 2006, the Company issued $75 million of 5.45 percent, 10-year debentures.

## Note C – Short-Term Borrowing and Credit Agreements

Reference is made to Note D to the 2005 Annual Financial Statements.

In June 2006, O&R along with Con Edison and its other regulated utility subsidiary, Consolidated Edison Company of New York, Inc. (Con Edison of New York), entered into an Amended and Restated Credit Agreement (the Credit Agreement). The Credit Agreement terminated the three-year credit agreement that was to expire in November 2006 and amended and restated the five-year credit agreement to provide loans and letters of credit, on a revolving credit basis, in an aggregate amount of up to $2.25 billion, with a maximum of $200 million available to the Company.  The Credit Agreement, which expires in June 2011, supports O&R's commercial paper programs.

At September 30, 2006 and December 31, 2005, O&R had $111 million and $101 million of commercial paper outstanding, respectively.  At September 30, 2006 and December 31, 2005, O&R had $7.1 million and $6.1 million of letters of credit outstanding, respectively.

The weighted average interest rate of the commercial paper outstanding for the nine-month period ending September 30, 2006 and 2005 was 4.97 percent and 3.55 percent, respectively.

## Note D – Pension Benefits

Reference is made to Note E to the 2005 Annual Financial Statements.

### Net Periodic Benefit Cost

The components of the Company's net periodic benefit costs for the three and nine months ended September 30, 2006 and 2005 were as follows:

| (Millions of Dollars) | For the Three Months Ended September 30, 2006 | 2005 |
|---|---|---|
| Service cost – including administrative expenses | $2 | $2 |
| Interest cost on projected benefit obligation | 8 | 7 |
| Expected return on plan assets | (6) | (6) |
| Amortization of net actuarial loss | 5 | 5 |
| Amortization of prior service cost | - | - |
| NET PERIODIC BENEFIT COST | $9 | $8 |
| Cost capitalized | (2) | (2) |
| Cost deferred | (3) | (2) |
| Cost charged to operating expenses | $4 | $4 |

| (Millions of Dollars) | For the Nine Months Ended September 30, 2006 | 2005 |
|---|---|---|
| Service cost – including administrative expenses | $7 | $7 |
| Interest cost on projected benefit obligation | 22 | 21 |
| Expected return on plan assets | (18) | (18) |
| Amortization of net actuarial loss | 16 | 13 |
| Amortization of prior service cost | 1 | 1 |
| NET PERIODIC BENEFIT COST | $28 | $24 |
| Cost capitalized | (6) | (5) |
| Cost deferred | (10) | (9) |
| Cost charged to operating expenses | $12 | $10 |

## Note E – Other Postretirement Benefits

Reference is made to Note F to the 2005 Annual Financial Statements.

### Net Periodic Benefit Cost

The components of the Company's net periodic postretirement benefit costs for the three and nine months ended September 30, 2006 and 2005 were as follows:

| (Millions of Dollars) | For the Three Months Ended September 30, 2006 | 2005 |
|---|---|---|
| Service cost | $1 | $1 |
| Interest cost on accumulated other postretirement benefit obligation | 2 | 2 |
| Expected return on plan assets | (1) | (1) |
| Amortization of net actuarial loss | 2 | 2 |
| NET PERIODIC POSTRETIREMENT BENEFIT COST | $4 | $4 |
| Cost capitalized | (2) | (1) |
| Cost deferred | - | (1) |
| Cost charged to operating expenses | $2 | $2 |

| (Millions of Dollars) | For the Nine Months Ended September 30, 2006 | 2005 |
|---|---|---|
| Service cost | $3 | $3 |
| Interest cost on accumulated other postretirement benefit obligation | 7 | 7 |
| Expected return on plan assets | (4) | (4) |
| Amortization of net actuarial loss | 7 | 7 |
| NET PERIODIC POSTRETIREMENT BENEFIT COST | $13 | $13 |
| Cost capitalized | (4) | (3) |
| Cost deferred | (3) | (4) |
| Cost charged to operating expenses | $6 | $6 |

## Note F – Environmental Matters

Hazardous substances, such as coal tar and asbestos, 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 (the MGP Sites).

### MGP Sites

The New York State Department of Environmental Conservation (DEC) requires O&R to develop and implement remediation programs for its MGP Sites. O&R has detected soil and/or groundwater contamination to varying degrees at each of the MGP Sites. Remediation has been completed at one MGP site and is currently underway at another MGP site. Additional investigation will be required for three of the remaining MGP sites and remediation required at all of them. At September 30, 2006 and December 31, 2005, O&R had an accrued liability of $46 million and $53 million, respectively, for the MGP Sites.

In 2004, O&R estimated that the aggregate undiscounted potential liability for the remediation of the MGP Sites could range up to $87 million. This estimate was based on assumptions regarding the extent of contamination and the type and extent of remediation that may be required. Actual experience may be materially different.

O&R is permitted under its New York rate agreements to recover or defer as regulatory assets (for subsequent recovery through rates) certain site investigation and remediation costs. At September 30, 2006 and December 31, 2005, O&R's regulatory asset for recovery of these costs was $59 million. Environmental remediation payments were approximately $2 million and $7 million for the three and nine months ended September 30, 2006, respectively, and approximately $1 million and $4 million for the three and nine months ended September 30, 2005, respectively. There were no insurance recoveries during these periods.

In February 2006, a suit was brought against the Company seeking unspecified compensatory and punitive damages with respect to two people whose deaths were allegedly caused by exposure to contaminants from an O&R MGP site. The suit, entitled Fengya, et al. v. O&R and Con Edison, was brought in the Supreme Court of New York, County of Orange. The Company is in the process of investigating the allegations.

### Asbestos Proceedings

Suits have been brought against O&R and many other defendants, wherein a large number of plaintiffs sought large amounts of 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 O&R. The amounts specified in all the remaining suits total billions of dollars but O&R 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.

O&R 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. O&R's accrued liability for asbestos suits and the amounts deferred as regulatory assets at September 30, 2006 and December 31, 2005 were not material. O&R's accrued liability for workers' compensation proceedings (including those related to asbestos exposure) were $5 million at September 30, 2006 and December 31, 2005.

## Note G – Other Material Contingencies

### Timing of Deduction of Construction-Related Costs

In August 2005, the Internal Revenue Service (IRS) issued Revenue Ruling 2005-53 with respect to when federal income tax deductions can be taken for certain construction-related costs. O&R used the "simplified service cost method" (SSCM) to determine the extent to which these costs could be deducted in 2002, 2003, 2004 and 2005, and as a result reduced the Company's current tax expense by $31 million.

For 2005, the Company has agreed with the IRS to change their method of deducting these costs to a new method which the Company is developing with the IRS. The Company expects that it will be required to repay, with interest, a portion of its past SSCM tax benefits and to capitalize and depreciate over a period of years costs it previously deducted under SSCM. Interest on all past SSCM tax benefits would be approximately $6 million. In September 2006, O&R accrued interest of $3 million representing its best estimate of the interest that may be required, and subsequently deferred $2 million, the portion related to its New York operations, as a regulatory asset pending recovery through rates. Repayment of the SSCM tax benefits would not otherwise affect O&R's results of operations because deferred taxes have been previously provided for the related temporary differences between the SSCM deductions taken for federal income tax purposes and the corresponding amounts charged to expense for financial reporting purposes. See Note L for a discussion of a new accounting requirement regarding accounting for uncertainty in income taxes.

### Mirant Litigation

In June 1999, O&R completed the sale of all of its generating assets to affiliates (the Mirant Affiliates) of Mirant Corporation (formerly Southern Energy, Inc.). The total gross proceeds from the sale amounted to $343 million. In 2003, Mirant and most of its subsidiaries filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code. In January 2006, Mirant and most of its subsidiaries but not the Mirant Affiliates emerged from bankruptcy.

In May 2006, Mirant, the Mirant Affiliates and another Mirant subsidiary (the Claimants) commenced a proceeding seeking, among other things, to void the sale of the generating assets and recover the amounts paid by the Mirant Affiliates in connection with the sale (which the Claimants allege exceeded the fair value of the assets), together with interest on such amounts. In addition, the Claimants seek damages, and a declaration that O&R defend and indemnify the Mirant Affiliates, in connection with certain environmental, operational and other matters relating to some of the assets, the costs of which could be substantial. The Claimants also object to the allowance of claims totaling approximately $1 million filed by O&R in the bankruptcy proceeding.

In October 2006, the Mirant Affiliate that owns the Lovett generating units notified the PSC and O&R of its intention to retire the units in 2007 and 2008. O&R is in the process of constructing upgrades to its transmission and distribution system to meet anticipated demand growth, and believes that these upgrades will allow the system to meet existing reliability criteria in the event that the Lovett units are shut down.

O&R is unable to predict whether or not any Mirant related lawsuits or other actions will have a material adverse effect on its financial position, results of operations or liquidity.

## Note H – Stock-Based Compensation

O&R employees participate in the Con Edison stock-based compensation plans, which include stock options, restricted stock units and contributions to a discount stock purchase plan. Shares of Con Edison common stock used to satisfy the obligations with respect to such compensation may be new (authorized, but unissued) shares, treasury shares or shares purchased on the open market. The shares used during the nine months ended September 30, 2006 have been new shares.

In January 2006, O&R adopted Statement of Financial Accounting Standard (SFAS) No. 123(R), "Share-Based Payment," applying the modified prospective approach. Pursuant to SFAS No. 123(R), O&R has recognized the cost of stock-based compensation as an expense using a fair value measurement method. The following table summarizes stock-based compensation expense recognized by O&R during the three and nine months ended September 30, 2006:

| (Thousands of Dollars) | For the Three Months Ended September 30, 2006 | For the Nine Months Ended September 30, 2006 |
|---|---|---|
| Stock options | $316 | $664 |
| Restricted stock units | - | - |
| Performance-based restricted stock | 90 | 773 |

### Stock Options

For a description of the stock options, the 1996 Stock Option Plan and the Long Term Incentive Plan (LTIP) under which the stock options have been awarded, reference is made to Note L to the 2005 Annual Financial Statements. Pursuant to SFAS No. 123(R), O&R generally recognizes compensation expense (based on the fair value of stock option awards) over the continuous service period in which the options vest. Awards to employees currently eligible for retirement are expensed in the month awarded.

The outstanding options are "equity awards" because shares of Con Edison common stock are delivered upon exercise of the options. As equity awards, the fair value of the options is measured at the grant date. The weighted average fair value of options awarded in 2006 was $3.81. This value was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

| | 2006 |
|---|---|
| Risk-free interest rate | 4.62% |
| Expected term | 4.6 years |
| Expected stock volatility | 13.41% |
| Expected dividend yield | 5.06% |

The weighted average risk-free rate is calculated using the five-year U.S. Treasury securities rate on the grant date of each stock option and then weighted for the number of shares awarded. The expected life of the options is based on historical employee exercise behavior and post-vesting cancellations. The expected stock volatility is calculated using the quarterly closing prices of Con Edison stock over a period of five years, which approximates the expected term of the options. The expected dividend yield is calculated using the annualized dividend divided by the stock price on the date of grant.

A summary of changes in the status of O&R's stock options during the three and nine months ended September 30, 2006 is as follows:

| | Options | Weighted Average Exercise Price |
|---|---|---|
| Outstanding at 12/31/05 | 538,000 | $40.788 |
| Granted | 77,000 | 46.880 |
| Exercised | (1,000) | 37.750 |
| Forfeited | - | - |
| Outstanding at 3/31/06 | 614,000 | $41.557 |
| Granted | 47,000 | 43.500 |
| Exercised | (6,000) | 38.470 |
| Forfeited | - | - |
| Outstanding at 6/30/06 | 655,000 | $41.725 |
| Granted | - | - |
| Exercised | (22,900) | 37.924 |
| Forfeited | - | - |
| Outstanding at 9/30/06 | 632,100 | $41.862 |

The weighted exercise price of options awarded in 2006 is $45.60. The change in the fair value of the options from their grant dates to September 30, 2006 (aggregate intrinsic value) is $3 million for O&R. The aggregate intrinsic value of options exercised by employees of Con Edison's affiliates, including O&R, in the three months ended September 30, 2006 is $2 million and the cash received by Con Edison for payment of the exercise price was $9 million. The weighted average remaining contractual life of options outstanding is seven years as of September 30, 2006.

The following table summarizes O&R's stock options outstanding at September 30, 2006 for each plan year:

| Plan Year | Remaining Contractual Life | Options Outstanding | Weighted Average Exercise Price | Options Exercisable |
|---|---|---|---|---|
| 2006 | 10 | 124,000 | $45.600 | - |
| 2005 | 9 | 105,000 | 43.031 | - |
| 2004 | 8 | 100,500 | 43.750 | - |
| 2003 | 7 | 100,100 | 39.639 | 100,100 |
| 2002 | 6 | 99,000 | 42.510 | 99,000 |
| 2001 | 5 | 67,000 | 37.750 | 67,000 |
| 2000 | 4 | 36,500 | 32.500 | 36,500 |
| Total | | 632,100 | | 302,600 |

The total expense to be recognized in future periods for unvested stock options outstanding as of September 30, 2006 is $0.3 million for O&R.

## Restricted Stock Units

For a description of the restricted stock units, reference is made to Note L to the 2005 Annual Financial Statements. In the nine months ended September 30, 2006, annual awards of restricted stock unit awards under the LTIP were made to officers under restricted stock unit agreements that provide for adjustment of the number of units (as described in Note L to the 2005 Annual Financial Statements, performance-based restricted stock units or PBRS). No other awards of restricted stock units were made in 2006.

In accordance with SFAS No. 123(R), for outstanding restricted stock awards other than PBRS, O&R has accrued a liability based on the market value of a common share on the grant date. The awards are "liability awards" because each restricted stock unit represents the right to receive, upon vesting, one share of Con Edison common stock, the cash value of a share or a combination thereof. For the nine-month period ended September 30, 2006, there were 35,000 restricted stock units outstanding, which vested in 2005 and were expensed over the vesting period. The weighted average fair value as of the grant date of the outstanding units is $34.783 per unit.

For PBRS that are subject to adjustment based on Con Edison's total shareholder return relative to the Standard and Poor's Electric Utilities Index during a specified performance period (the TSR portion), O&R uses a Monte Carlo simulation model to estimate the fair value of the awards. The fair value is recomputed each reporting period as of the earlier of the reporting date and the vesting date. For PBRS that are subject to adjustment based on determinations made in connection with the Company's annual bonus plans (the O&R Annual Team Incentive Plan portion), the fair value of the awards is determined using the market price on the date of grant. PBRS awards are "liability awards" because each PBRS represent the right to receive, upon vesting, one share of Con Edison common stock, the cash value of a share or a combination thereof. As such, changes in the fair value of the PBRS are reflected in net income. The following table illustrates the assumptions used to calculate the fair value of the awards:

| | 2006 |
|---|---|
| Risk-free interest rate | 4.48 to 4.88% |
| Expected term | 3 years |
| Expected volatility | 13.15% |
| Expected quarterly dividends | $0.575 to $0.59 |

The risk-free rate is based on the U.S. Treasury zero-coupon yield curve on the date of grant. The expected term of the PBRS is three years, which equals the vesting period. O&R does not expect significant forfeitures to occur. The expected volatility is calculated using daily closing stock prices over a period of three years, which approximates the expected term of the awards. Expected annual escalation of dividends is based on historical trends.

A summary of changes in the status of the PBRS' TSR portion during the three and nine months ended September 30, 2006 is as follows:

| | Units | Weighted Average Fair Value* |
|---|---|---|
| Non-vested at 12/31/05 | 10,925 | $31.04 |
| Granted | 4,900 | 35.64 |
| Vested and Exercised | (3,625) | 43.06 |
| Forfeited | - | - |
| Non-vested at 3/31/06 | 12,200 | $28.78 |
| Granted | - | - |
| Vested and Exercised | - | - |
| Forfeited | - | - |
| Non-vested at 6/30/06 | 12,200 | $30.66 |
| Granted | - | - |
| Vested and Exercised | - | - |
| Forfeited | - | - |
| Non-vested at 9/30/06 | 12,200 | $24.20 |

* Fair value is determined using the Monte Carlo simulation described above.

A summary of changes in the status of the PBRS' Annual Team Incentive Plan portion during the three and nine months ended September 30, 2006 is as follows:

| | Units | Weighted Average Price |
|---|---|---|
| Non-vested at 12/31/05 | 10,925 | $43.28 |
| Granted | 4,900 | 46.88 |
| Vested and Exercised | (3,625) | 43.06 |
| Forfeited | - | - |
| Non-vested at 3/31/06 | 12,200 | $43.50 |
| Granted | - | - |
| Vested and Exercised | - | - |
| Forfeited | - | - |
| Non-vested at 6/30/06 | 12,200 | $44.44 |
| Granted | - | - |
| Vested and Exercised | - | - |
| Forfeited | - | - |
| Non-vested at 9/30/06 | 12,200 | $46.20 |

The total expense to be recognized by O&R in future periods for unvested PBRS outstanding as of September 30, 2006 is $1 million.

## Stock Purchase Plan

For a description of the Stock Purchase Plan, reference is made to Note L to the 2005 Annual Financial Statements. Participants in the plan immediately vest in shares purchased by them under the plan. The fair value of the shares of Con Edison common stock purchased under the plan was calculated using the average of the high and low composite sale prices at which shares were traded at the New York Stock Exchange on the trading day immediately preceding such purchase dates. In the three and nine months ended September 30, 2006, 127,529 and 439,646 shares were purchased under the Stock Purchase Plan at a weighted average price of $44.62 and $44.94 per share, respectively.

## Note I – Financial Information By Business Segment

Reference is made to Note M to the 2005 Annual Financial Statements.

The financial data for the business segments are as follows:

| | For the Three Months Ended September 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Operating Revenues | | Inter-segment Revenues | | Depreciation and Amortization | | Operating Income | |
| (Millions of Dollars) | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Electric | $205 | $201 | $ - | $ - | $7 | $7 | $25 | $25 |
| Gas | 26 | 23 | - | - | 2 | 2 | (1) | (2) |
| Total | $231 | $224 | $ - | $ - | $9 | $ 9 | $24 | $23 |

| | For the Nine Months Ended September 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Operating Revenues | | Inter-segment Revenues | | Depreciation and Amortization | | Operating Income | |
| (Millions of Dollars) | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Electric | $455 | $446 | $ - | $ - | $19 | $19 | $43 | $48 |
| Gas | 166 | 154 | - | - | 7 | 7 | 9 | 9 |
| Total | $621 | $600 | $ - | $ - | $26 | $26 | $52 | $57 |

## Note J – Derivative Instruments and Hedging Activities

Reference is made to Note N to the 2005 Annual Financial Statements.

### Energy Price Hedging

O&R hedges market price fluctuations associated with physical purchases and sales of electricity and natural gas by using derivative instruments including futures, forwards, financial swaps, or options. The fair values of these hedges at September 30, 2006 and December 31, 2005 were as follows:

| (Millions of Dollars) | 2006 | 2005 |
|---|---|---|
| Fair value of net assets | $(25) | $69 |

Pursuant to SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," the Company generally defers recognition in income of gains and losses on a hedge until the underlying transaction is completed. In accordance with rate provisions that permit the recovery of the cost of purchased power, O&R credits or charges to its customers' gains and losses on hedges and related transaction costs. See "Recoverable Energy Costs" in Note A to the 2005 Annual Financial Statements.

Credit Exposure

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

The Company had $26 million of credit exposure in connection with energy supply and hedging activities, net of collateral and reserves, at September 30, 2006. Of this amount, $17 million was with investment-grade counterparties and $9 million was with a commodity exchange broker.

Cash Flow Hedges

The Company designates a portion of its derivative instruments as cash flow hedges under SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities.” Under cash flow hedge accounting, to the extent a hedge is determined to be “effective,” the unrealized gain or loss on the hedge is recorded in other comprehensive income (OCI) and reclassified to earnings at the time the underlying transaction is completed. A gain or loss relating to any portion of the hedge determined to be “ineffective” is recognized in earnings in the period in which such determination is made.

At September 30, 2006 and 2005, the gains and losses related to these cash flow hedges included in the accumulated OCI were immaterial to the Company’s financial statements. The actual amounts that will be reclassified to earnings may vary from the expected amounts as a result of changes in market prices. The effect of reclassification from accumulated OCI to earnings will generally be offset by the recognition of the hedged transaction in earnings. The maximum term for O&R’s cash flow hedges is 15 months.

The unrealized net gains and losses relating to the hedge ineffectiveness of these cash flow hedges that were recognized in earnings for the three and nine months ended September 30, 2006 and 2005 were immaterial to the results of operations of O&R for those periods.

## Interest Rate Hedging

The Company uses interest rate swaps to manage interest rate exposure associated with debt. The fair values of these interest rate swaps at September 30, 2006 and December 31, 2005 were as follows:

| (Millions of Dollars) | 2006 | 2005 |
|---|---|---|
| Fair value of interest rate swaps | $(12) | $(13) |

Cash Flow Hedges

The Company’s interest rate swaps are designated as cash flow hedges under SFAS No. 133. Any gain or loss on the hedges is recorded in OCI and reclassified to interest expense and included in earnings during the periods in which the hedged interest payments occur.

The following table presents select information related to these cash flow hedges included in the accumulated OCI at September 30, 2006:

| (Millions of Dollars) | Accumulated Other Comprehensive Income/(Loss) Net of Tax | Portion Expected to be Reclassified to Earnings during the Next 12 Months |
|---|---|---|
| Interest Rate Swaps | $(7) | $(1) |

The actual amounts that will be reclassified to earnings may vary from the expected amounts presented above as a result of changes in interest rates. For the Company, these costs are recovered in rates and the reclassification is not expected to have an impact on results of operations.

## Note K – Related Party Transactions

Reference is made to Note P to the 2005 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 administrative support operations, such as corporate secretarial and associated ministerial duties, accounting, treasury, investor relations, information resources, legal, human resources, fuel supply, and energy management services. The costs of administrative and other services provided by O&R, and received from Con Edison and its subsidiaries for the three and nine months ended September 30, 2006 and 2005 were as follows:

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| (Millions of Dollars) | 2006 | 2005 | 2006 | 2005 |
| Cost of services provided | $4 | $3 | $12 | $11 |
| Cost of services received | $6 | $6 | $20 | $19 |

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 $32 million and $42 million of natural gas for the three months ended September 30, 2006 and 2005, respectively, and $114 million and $116 million for the nine months ended September 30, 2006 and 2005, respectively. These amounts are net of the effect of related hedging transactions.

Con Edison of New York also hedges electricity purchases for O&R. Electric hedging transactions executed by Con Edison of New York on behalf of O&R resulted in a charge to purchased power of $2.4 million and $5.8 million for the three and nine months ended September 30, 2006, respectively, and a credit of $1.2 million and $1.9 million for the three and nine months ended September 30, 2005, respectively.

As of September 30, 2006 and December 31, 2005, O&R's net payable to Con Edison of New York associated with derivatives for energy price hedging, was $55 million and $2 million, respectively. See Note J.

As of September 30, 2006 and December 31, 2005, the Company's receivable from Con Edison for income taxes was $23 million and $15 million, respectively. See Note A to the 2005 Annual Financial Statements.

Pike purchased from Consolidated Edison Energy, Inc., a wholly owned subsidiary of Con Edison, $1.3 million of electricity for the nine months ended September 30, 2006, pursuant to energy auctions. RECO purchased from Consolidated Edison Energy, Inc. $1.5 million of electricity for the nine months ended September 30, 2005, pursuant to energy auctions.

In December 2005, the FERC authorized Con Edison of New York to lend funds to O&R, for periods of not more than 12 months, in amounts not to exceed $200 million outstanding at any time, at prevailing market rates. O&R has not borrowed any funds from Con Edison of New York.

## Note L – New Financial Accounting Standards

Reference is made to Note Q to the 2005 Annual Financial Statements.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 157, "Fair Value Measurements." This Statement defines fair value, establishes a framework for measuring fair value and expands the disclosures about fair value measurements. It applies to other accounting pronouncements that require fair value measurements and, accordingly, does not require any new fair value measurements. The guidance in this Statement becomes effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of this Statement on their financial position, results of operations and liquidity.

In September 2006, the FASB issued Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Benefits – an amendment of FASB Statements No. 87, 88, 106 and 123(R)." This Statement requires an employer that sponsors one or more defined benefit pension or other postretirement plans to recognize an asset or liability for the overfunded or underfunded status of the plan. For a pension plan, the asset or liability is the difference between the fair value of the plan's assets and the projected benefit obligation. For any other postretirement benefit plan, the asset or liability is the difference between the fair value of the plan's assets and the accumulated postretirement benefit obligation. Employers must recognize all unrecognized prior service costs and credits and unrecognized actuarial gains and losses in accumulated other comprehensive income, net of tax. Such amounts would be adjusted as they are subsequently recognized as components of net periodic benefit cost or income pursuant to the current recognition and amortization provisions of FASB Statements No. 87, “Employers’ Accounting for Pensions,” and No. 106, “Employers’ Accounting for Postretirement Benefits Other Than Pensions.” For a description of the Company’s pension plan and other postretirement benefit plans, see Notes E and F to the 2005 Annual Financial Statements. In general, under the Company’s rate plans, the difference between expenses recognized under these accounting standards and the rate allowance is deferred. The Company will record a regulatory asset for the amount that would otherwise have been charged to other comprehensive income. The guidance in this statement becomes effective for financial statements issued for fiscal years ending after December 15, 2006. If this Statement had been effective as of December 31, 2005, the Company would have accrued an additional liability of $245 million for pension and other postretirement benefits, eliminated the charge to other comprehensive income of $3 million and recorded a regulatory asset of $248 million.

In July 2006, the FASB issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109.” This interpretation clarifies the accounting for uncertain tax positions in accordance with FASB Statement No. 109 and becomes effective for fiscal years beginning after December 15, 2006. Under the interpretation, an enterprise would not be allowed to recognize, in its financial statements, the benefit of a tax position unless that position would more likely than not be sustained upon examination, by taxing authorities including resolution of any related appeals and litigation processes, based solely on the technical merits of the position. Con Edison and its subsidiaries, including O&R, file a consolidated federal income tax return. The IRS has completed its audits of ORU’s federal income tax returns through June 1999, the date of its merger with Con Edison. Con Edison’s federal income tax returns for subsequent years, which the IRS is reviewing, reflect certain tax positions with which the IRS does not or may not agree, including tax positions with respect to O&R’s deduction of certain construction related costs. See Note G. The Company is continuing to evaluate the interpretation; however, it is not expected to have a material impact on its financial position, results of operations or liquidity.

In June 2006, the FASB issued Emerging Issues Task Form (EITF) No. 06-3, “How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That is, Gross versus Net Presentation).” This issue concerns the income statement presentation of any taxes assessed by a governmental authority on a revenue producing transaction between a seller and a buyer and does not require re-evaluation of existing policies. The Task Force concluded that presentation of such taxes, on a gross or net basis, is a matter of accounting policy and should be disclosed. The adoption of EITF No. 06-3 is not expected to have a material impact on the Company’s financial position, results of operations or liquidity. See “Revenues” in Note A to the 2005 Annual Financial Statements for description of the Company’s presentation of its revenues.

In April 2006, the FASB issued Staff Position No. FIN 46(R)-6, “Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R)” (the FSP), which is effective prospectively for reporting periods beginning after June 15, 2006. The FSP clarifies that the variability to be considered in applying FASB Interpretation No. 46 (revised December 2003), “Consolidation of Variable Interest Entities,” should be based on an analysis of the design of the entity. The application of this FSP is not expected to have a material impact on the Company’s financial position, results of operations or liquidity.

In March 2006, the FASB issued Statement No. 156, “Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140” (SFAS No. 156), which is effective for fiscal years beginning after September 15, 2006. The Statement clarifies the accounting for servicing rights, requires servicing rights to be initially measured at fair value, and provides the option to subsequently account for servicing rights at either fair value or under the amortization method previously required under FASB Statement No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.” The adoption of SFAS No. 156 is not expected to have a material impact on the Company’s financial position, results of operations or liquidity.

In February 2006, the FASB issued Statement No. 155, “Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140” (SFAS No. 155), which is effective for fiscal years beginning after September 15, 2006. This statement permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. It establishes a requirement to evaluate interests in securitized financial assets to determine whether they are freestanding derivatives or whether they contain embedded derivatives. The adoption of SFAS No. 155 is not expected to have a material impact on the Company’s financial position, results of operations or liquidity.