

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

Financial Statements (Unaudited)

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

For the Three Months Ended March 31,
2011 2010

(Millions of Dollars)

OPERATING REVENUES		
Electric	\$ 149	\$ 161
Gas	92	90
TOTAL OPERATING REVENUES	241	251
OPERATING EXPENSES		
Purchased power	68	86
Gas purchased for resale	39	44
Other operations and maintenance	71	69
Depreciation and amortization	12	11
Taxes, other than income taxes	13	13
TOTAL OPERATING EXPENSES	203	223
OPERATING INCOME	38	28
OTHER INCOME (DEDUCTIONS)		
Investment and other income	-	(1)
Allowance for equity funds used during construction	1	1
TOTAL OTHER INCOME (DEDUCTIONS)	1	-
INCOME BEFORE INTEREST AND INCOME TAX EXPENSE	39	28
INTEREST EXPENSE		
Interest on long-term debt	7	8
Other interest	3	-
NET INTEREST EXPENSE	10	8
INCOME BEFORE INCOME TAX EXPENSE	29	20
INCOME TAX EXPENSE	10	7
NET INCOME	\$ 19	\$ 13

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

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

	For the Three Months Ended March 31,	
	2011	2010
	(Millions of Dollars)	
OPERATING ACTIVITIES		
Net income	\$ 19	\$ 13
PRINCIPAL NON-CASH CHARGES/(CREDITS) TO INCOME		
Depreciation and amortization	12	11
Deferred income taxes	4	(6)
Other non-cash items (net)	5	3
CHANGES IN ASSETS AND LIABILITIES		
Accounts receivable - customers, less allowance for uncollectibles	(15)	(27)
Accounts receivable from affiliated companies	3	10
Materials and supplies, including gas in storage	19	18
Prepayments, other receivables and other current assets	9	19
Recoverable energy costs	12	7
Accounts payable	(27)	(10)
Accounts payable to affiliated companies	(13)	12
Pensions and retiree benefits	20	17
Accrued taxes	8	1
Accrued interest	1	1
Accrued wages	(2)	5
Deferred charges, deferred derivative losses, noncurrent assets and other regulatory assets	10	(89)
Deferred credits and other regulatory liabilities	3	44
Superfund and other environmental costs	(1)	30
Other liabilities	(3)	(8)
NET CASH FLOWS FROM OPERATING ACTIVITIES	64	51
INVESTING ACTIVITIES		
Utility construction expenditures	(19)	(17)
Cost of removal less salvage	(2)	-
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(21)	(17)
FINANCING ACTIVITIES		
Retirement of long-term debt	(1)	(45)
Dividend to parent	(8)	(8)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	(9)	(53)
CASH AND TEMPORARY CASH INVESTMENTS:		
NET CHANGE FOR THE PERIOD	34	(19)
BALANCE AT BEGINNING OF PERIOD	38	52
BALANCE AT END OF PERIOD	\$ 72	\$ 33
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid/(refunded) during the period for:		
Interest	\$5	\$8
Income taxes	\$(4)	\$ -

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

	March 31, 2011	December 31, 2010
	(Millions of Dollars)	
ASSETS		
CURRENT ASSETS		
Cash and temporary cash investments	\$ 72	\$ 38
Accounts receivable - customers, less allowance for uncollectible accounts of \$5 in 2011 and 2010	86	71
Accrued unbilled revenue	35	46
Other receivables, less allowance for uncollectible accounts of \$1 in 2011 and 2010	11	11
Accounts receivable from affiliated companies	26	29
Gas in storage, at average cost	8	28
Materials and supplies, at average cost	10	9
Prepayments	20	17
Deferred derivative losses	30	39
Other current assets	16	28
TOTAL CURRENT ASSETS	314	316
INVESTMENTS	10	10
UTILITY PLANT, AT ORIGINAL COST		
Electric	1,133	1,117
Gas	501	499
General	168	165
Total	1,802	1,781
Less: Accumulated depreciation	502	494
Net	1,300	1,287
Construction work in progress	110	113
NET UTILITY PLANT	1,410	1,400
DEFERRED CHARGES, REGULATORY ASSETS AND NONCURRENT ASSETS		
Regulatory assets	561	585
Other deferred charges and noncurrent assets	23	26
TOTAL DEFERRED CHARGES, REGULATORY ASSETS AND NONCURRENT ASSETS	584	611
TOTAL ASSETS	\$ 2,318	\$ 2,337

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

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

	March 31, 2011	December 31, 2010
	(Millions of Dollars)	
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES		
Long-term debt due within one year	\$ 3	\$ 3
Accounts payable	63	88
Accounts payable to affiliated companies	21	34
Customer deposits	13	13
Accrued taxes	8	-
Accrued interest	10	9
Accrued wages	7	9
Fair value of derivative liabilities	20	22
Other current liabilities	30	38
TOTAL CURRENT LIABILITIES	175	216
NONCURRENT LIABILITIES		
Provision for injuries and damages	7	7
Pensions and retiree benefits	379	387
Superfund and other environmental costs	119	120
Fair value of derivative liabilities	19	24
Other noncurrent liabilities	2	3
TOTAL NONCURRENT LIABILITIES	526	541
DEFERRED CREDITS AND REGULATORY LIABILITIES		
Deferred income taxes and investment tax credits	322	308
Regulatory liabilities	141	132
Other deferred credits	4	3
TOTAL DEFERRED CREDITS AND REGULATORY LIABILITIES	467	443
LONG-TERM DEBT	609	610
SHAREHOLDER'S EQUITY		
Total common shareholder's equity (See Statement of Common Shareholder's Equity)	541	527
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	\$ 2,318	\$ 2,337

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

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

	For the Three Months Ended March 31,	
	2011	2010
	(Millions of Dollars)	
NET INCOME	\$ 19	\$ 13
OTHER COMPREHENSIVE INCOME, NET OF TAXES		
Pension plan liability adjustments, net of \$2 taxes in 2011 and 2010	3	3
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAXES	3	3
COMPREHENSIVE INCOME	\$ 22	\$ 16

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

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

(Millions of Dollars/Except Share Data)	Shares	<u>Common Stock</u> Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
BALANCE AS OF DECEMBER 31, 2009	1,000	\$ -	\$ 304	\$ 239	\$ (37)	\$ 506
Net income				13		13
Common stock dividend to parent				(8)		(8)
Other comprehensive income					3	3
BALANCE AS OF MARCH 31, 2010	1,000	\$ -	\$ 304	\$ 244	\$ (34)	\$ 514
BALANCE AS OF DECEMBER 31, 2010	1,000	\$ -	\$ 304	\$ 256	\$ (33)	\$ 527
Net income				19		19
Common stock dividend to parent				(8)		(8)
Other comprehensive income					3	3
BALANCE AS OF MARCH 31, 2011	1,000	\$ -	\$ 304	\$ 267	\$ (30)	\$ 541

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 three months ended March 31, 2011 and 2010, operating revenues for RECO and Pike were 20.8 percent and 0.9 percent and 21.0 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.

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

The interim consolidated financial statements as of March 31, 2011 and 2010 and for the three month periods ended March 31, 2011 and 2010 (the First 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 First Quarter Financial Statements should be read together with the audited consolidated financial statements of the Company, as of December 31, 2010 and 2009 and for each of the three years in the period ended December 31, 2010, including the notes thereto (the 2010 Annual Financial Statements). Information in the notes to the 2010 Annual Financial Statements referred to in these notes is incorporated by reference herein. The use of terms such as "see" or "refer to" shall be deemed to incorporate by reference into these notes the information to which reference is made.

The Company has, pursuant to the accounting rules for subsequent events, evaluated events or transactions that occurred after March 31, 2011 through the posting on its website (May 13, 2011) of the First Quarter Financial Statements for potential recognition or disclosure in the First Quarter Financial Statements.

Note A – Regulatory Matters

Rate Agreements

Electric

In April 2011, NYSPSC administrative law judges (ALJ) issued a recommended decision with respect to O&R's July 2010 electric rate filing recommending that the NYSPSC grant the Company a \$26.6 million rate increase, effective July 2011. The ALJ's recommended decision reflects a return on common equity of 9.2 percent and a

Notes to the Financial Statements (Unaudited) - Continued

common equity ratio of 49 percent. See “Regulatory Matters – Rate Agreements - Electric” in Note B to the 2010 Annual Financial Statements.

Other Regulatory Matters

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

Regulatory Assets and Liabilities

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

(Millions of Dollars)	2011	2010
Regulatory assets		
Unrecognized pension and other postretirement costs	\$201	\$219
Environmental remediation costs	120	122
Future federal income tax	81	78
Transition bond charges	48	48
Pension and other postretirement benefits deferrals	45	49
Deferred derivative losses	10	15
Storm reserve	13	14
Deferred losses on interest rate swap	10	10
Surcharge for New York State Assessment	11	9
Other	22	21
Regulatory assets – long – term	561	585
Deferred derivative losses - current	30	39
Recoverable energy costs - current	1	13
Regulatory assets - current	31	52
Total Regulatory Assets	\$592	\$637
Regulatory liabilities		
Allowance for cost of removal less salvage	\$73	\$72
Refundable energy costs	30	28
Carrying charges on T&D net plant	26	23
Other	12	9
Regulatory liabilities	141	132
Deferred derivative gains – current	2	1
Total Regulatory Liabilities	\$143	\$133

Note B – Short-Term Borrowing

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

At March 31, 2011 and December 31, 2010, O&R had no commercial paper outstanding. At March 31, 2011 and December 31, 2010, \$35 million and \$37 million of letters of credit, respectively, and no borrowings were outstanding for O&R under the Credit Agreement.

Note C – Pension Benefits

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

Notes to the Financial Statements (Unaudited) - Continued

Net Periodic Benefit Cost

The components of the Company's net periodic benefit costs for the three months ended March 31, 2011 and 2010 were as follows:

(Millions of Dollars)	2011	2010
Service cost – including administrative expenses	\$3	\$3
Interest cost on projected benefit obligation	9	9
Expected return on plan assets	(9)	(9)
Amortization of net actuarial loss	7	6
Amortization of prior service costs	1	-
NET PERIODIC BENEFIT COST	\$11	\$9
Cost capitalized	(3)	(2)
Cost charged/(deferred)	1	(2)
Cost charged to operating expenses	\$9	\$5

Expected Contributions

Based on estimates as of March 31, 2011, the Company is not required under funding regulations and laws to make any contributions to the pension plan during 2011. The Company's policy is to fund its accounting cost to the extent tax deductible. In 2011, O&R expects to make discretionary contributions to the pension plan of \$42 million.

Note D – Other Postretirement Benefits

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

Net Periodic Benefit Cost

The components of the Company's net periodic postretirement benefit costs for three months ended March 31, 2011 and 2010 were as follows:

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

Expected Contributions

Based on estimates as of March 31, 2011, O&R expects to make a contribution of \$10 million to the other postretirement benefit plans in 2011.

Note E – Environmental Matters

Superfund Sites

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

Notes to the Financial Statements (Unaudited) - Continued

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

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

The accrued liabilities and regulatory assets related to Superfund Sites at March 31, 2011 and December 31, 2010 were as follows:

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

The Superfund Sites have been investigated. However, for some of the sites, the extent and associated cost of the required remediation has not yet been determined. As information pertaining to the required remediation becomes available, the Company expects that additional liability may be accrued, the amount of which is not presently determinable but may be material. Under its current rate plans for provision of electric and gas service in New York, O&R is permitted to recover or defer as regulatory assets (for subsequent recovery through rates) certain site investigation and remediation costs. In February 2011, the NYSPSC initiated a proceeding to examine the existing mechanisms pursuant to which utilities recover such costs and possible alternatives.

Environmental remediation costs incurred related to Superfund Sites at March 31, 2011 and 2010 were as follows:

(Millions of Dollars)	2011	2010
Remediation costs incurred	\$0.4	\$0.5

There were no insurance recoveries received related to Superfund Sites for the three months ended March 31, 2011 and the year ended December 31, 2010.

Notes to the Financial Statements (Unaudited) - Continued

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

Asbestos Proceedings

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

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

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

(Millions of Dollars)	2011	2010
Accrued liability – asbestos suits	\$0.3	\$0.3
Regulatory assets – asbestos suits	0.3	0.3
Accrued liability – workers' compensation	\$5.1	\$5.0
Regulatory assets – workers' compensation	0.4	0.4

Note F – Financial Information by Business Segment

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

The financial data for the business segments are as follows:

(Millions of Dollars)	For the Three Months Ended March 31,							
	Operating revenues		Inter-segment revenues		Depreciation and amortization		Operating income	
	2011	2010	2011	2010	2011	2010	2011	2010
Electric	\$149	\$161	\$-	\$-	\$9	\$8	\$10	\$5
Gas	92	90	-	-	3	3	28	23
Total	\$241	\$251	\$-	\$-	\$12	\$11	\$38	\$28

Note G – Derivative Instruments and Hedging Activities

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

Notes to the Financial Statements (Unaudited) - Continued

Energy Price Hedging

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

(Millions of Dollars)	2011	2010
Fair value of net derivative assets/ (liabilities) – gross	\$(33)	\$(48)
Impact of netting of cash collateral	8	15
Fair value of net derivative assets/ (liabilities) – net	\$(25) ^(a)	\$(33) ^(a)

(a) Includes derivative liabilities of \$1 million and \$3 million with Con Edison's competitive energy businesses at March 31, 2011 and December 31, 2010, respectively. See Note I.

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

Credit Exposure

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

The Company had \$6 million of credit exposure in connection with electricity supply and hedging activities, net of collateral, at March 31, 2011. The Company's net credit exposure consisted of \$5 million with investment-grade counterparties and \$1 million with commodity exchange brokers.

Economic Hedges

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

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

Fair Value of Commodity Derivatives ^(a)			
(Millions of Dollars)	Balance Sheet Location	2011	2010
Derivative Assets			
Current	Other current assets	\$2	\$1
Long term	Other deferred charges and non-current assets	4	3
Total derivative assets		\$6	\$4
Impact of netting		(2)	(1)
Net derivative assets		\$4	\$3

Notes to the Financial Statements (Unaudited) - Continued

Derivative Liabilities			
Current	Fair value of derivative liabilities	\$28	\$37
Long term	Fair value of derivative liabilities	11	15
Total derivative liabilities		\$39	\$52
Impact of netting		(10)	(16)
Net derivative liabilities		\$29 ^(b)	\$36 ^(b)

- (a) Qualifying derivative contracts, which have been designated as normal purchases or normal sales contracts, are not reported at fair value under the accounting rules for derivative and hedging and, therefore, are excluded from the table.
- (b) Includes derivative liabilities of \$1 million and \$3 million with Con Edison's competitive energy businesses at March 31, 2011 and December 31, 2010, respectively. See Note I.

The Company generally recovers all of its prudently incurred purchased power and gas costs, including hedging gains and losses, in accordance with rate provisions approved by the applicable state utility commissions. See "Recoverable Energy Costs" in Note A to the 2010 Annual Financial Statements. In accordance with the accounting rules for regulated operations, the Company records a regulatory asset or liability to defer recognition of unrealized gains and losses on its commodity derivatives. As gains and losses are realized in future periods, they will be recognized as purchased power costs in the Company's consolidated income statement.

The following table presents the changes in the fair values of commodity derivatives that have been deferred for the three months ended March 31, 2011 and 2010:

Realized and Unrealized Gains/(Losses) on Commodity Derivatives ^(a)			
(Millions of Dollars)	Balance Sheet Location	Deferred for the Three Months Ended March 31, 2011	Deferred for the Three Months Ended March 31, 2010
Pre-tax gains/(losses) deferred in accordance with the accounting rules for regulated operations:			
Current	Deferred derivative gains	\$1	\$-
Long term	Regulatory liabilities	-	-
Total deferred gains		\$1	\$-
Current	Deferred derivative losses	\$9	\$(23)
Current	Recoverable energy costs ^(b)	(14)	(20)
Long term	Regulatory assets	5	(18)
Total deferred losses		\$-	\$(61)
Net deferred gain/(losses)		\$1	\$(61)

- (a) Qualifying derivative contracts, which have been designated as normal purchases or normal sales contracts, are not reported at fair value under the accounting rules for derivatives and hedging and, therefore, are excluded from the table.
- (b) Includes payments of \$7 million to Con Edison's competitive energy businesses for the three months ended March 31, 2011 and 2010. See Note I.

As of March 31, 2011, the Company had 104 electric or gas derivative contracts hedging electric energy or capacity market prices, which were considered to be derivatives under the accounting rules for derivatives and hedging (excluding qualifying derivative contracts, which have been designated as normal purchases or normal sales contracts). The following table presents the number of contracts by commodity type:

Electric Derivatives				Gas Derivatives		Total Number Of Contracts ^(a)
Number of Energy Contracts ^{(a) (c)}	MWhs ^{(b) (c)}	Number of Capacity Contracts ^(a)	MWhs ^(b)	Number of Contracts ^(a)	Dths ^(b)	
10	2,996,807	1	1,164	93	6,480,000	104

- (a) Qualifying derivative contracts, which have been designated as normal purchases or normal sales contracts, are not reported at fair value under the accounting rules for derivative and hedging and, therefore, are excluded from the table.

Notes to the Financial Statements (Unaudited) - Continued

- (b) Volumes are reported net of long and short positions.
(c) Includes one contract of 36,945 MWhs with Con Edison's competitive energy businesses. See Note I.

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

The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a net liability position, and collateral posted at March 31, 2011, and the additional collateral that would have been required to be posted had the lowest applicable credit rating been reduced one level and to below investment grade were:

(Millions of Dollars)	
Aggregate fair value – net liabilities ^(a)	\$36
Collateral posted ^(b)	\$17
Additional collateral ^(c) (downgrade one level from current rating ^(d))	\$4
Additional collateral ^(c) (downgrade to below investment grade from current rating ^(d))	\$24 ^(e)

- (a) Non-derivative transactions for the purchase and sale of electricity and qualifying derivative instruments, which have been designated as normal purchases or normal sales, are excluded from the table. These transactions primarily include purchases of electricity from independent system operators. For certain other such non-derivative transactions, the Company could be required to post collateral under certain circumstances, including in the event counterparties had reasonable grounds for insecurity.
- (b) Across the Utilities' energy derivative positions, credit limits for the same counterparties are generally integrated. At March 31, 2011, the Utilities posted combined collateral of \$68 million, including the collateral posted that is estimated to be attributable to O&R shown above.
- (c) The additional collateral amounts shown above are based upon the estimated O&R allocation of the Utilities' collateral requirements. The Utilities measure the collateral requirements by taking into consideration the fair value amounts of derivative instruments that contain credit-risk-related contingent features that are in a net liability position plus amounts owed to counterparties for settled transactions and amounts required by counterparties for minimum financial security. The fair value amounts represent unrealized losses, net of any unrealized gains where the Utilities have a legally enforceable right of setoff.
- (d) The current long-term ratings of O&R are Baa1/A-/A- by Moody's, S&P, and Fitch, respectively. Credit ratings assigned by rating agencies are expressions of opinions that are subject to revision or withdrawal at any time by the assigning rating agency.
- (e) Derivative instruments that are net assets have been excluded from the table. At March 31, 2011, if O&R had been downgraded to below investment grade, it would have been required to post additional collateral for such derivative instruments of not more than \$1 million.

Interest Rate Swaps

O&R has an interest rate swap pursuant to which it pays a fixed-rate of 6.09 percent and receives a LIBOR-based variable rate. The fair value of this interest rate swap at March 31, 2011 was an unrealized loss of \$10 million, which has been included in the Company's consolidated balance sheet as a noncurrent liability/fair value of derivative liabilities and a regulatory asset. The increase in the fair value of the swap for the three months ended March 31, 2011 was immaterial. In the event O&R's credit rating was downgraded to BBB- or lower by S&P or Baa3 or lower by Moody's, the swap counterparty could elect to terminate the agreement and, if it did so, the parties would then be required to settle the transaction.

Notes to the Financial Statements (Unaudited) - Continued

Note H – Fair Value Measurements

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

Assets and liabilities measured at fair value on a recurring basis as of March 31, 2011 are summarized below.

(Millions of Dollars)	Level 1	Level 2	Level 3	Netting Adjustments ⁽⁴⁾	Total
Derivative assets:					
Commodity ⁽¹⁾	\$-	\$2	\$4	\$(2)	\$4
Other assets ⁽³⁾	-	-	10	-	10
Total	\$-	\$2	\$14	\$(2)	\$14
Derivative liabilities:					
Commodity ⁽¹⁾	\$-	\$-	\$39 ⁽⁵⁾	\$(10)	\$29 ⁽⁴⁾
Interest rate contract ⁽²⁾	-	-	10	-	10
Total	\$-	\$-	\$49	\$(10)	\$39

- (1) A significant portion of the commodity derivative contracts categorized in Level 3 is valued using either an industry acceptable model or an internally developed model with observable inputs. The models also include some less readily observable inputs resulting in the classification of the entire contract as Level 3. See Note G.
- (2) See Note G.
- (3) Other assets are comprised of assets such as life insurance contracts within the Supplemental Employee Retirement Plan, held in a rabbi trust.
- (4) Amounts represent the impact of legally-enforceable master netting agreements that allow the Companies to net gain and loss positions and cash collateral held or placed with the same counterparties.
- (5) Includes derivative liabilities of \$1 million with Con Edison's competitive energy businesses. See Note I.

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

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

- (1) A significant portion of the commodity derivative contracts categorized in Level 3 is valued using either an industry acceptable model or an internally developed model with observable inputs. The models also include some less readily observable inputs resulting in the classification of the respective contract as Level 3. See Note G.
- (2) See Note G.
- (3) Other assets are comprised of assets such as life insurance contracts within the Supplemental Employee Retirement Plan, held in a rabbi trust.
- (4) Amounts represent the impact of legally-enforceable master netting agreements that allow the Companies to net gain and loss positions and cash collateral held or placed with the same counterparties.
- (5) Includes derivative liabilities of \$3 million with Con Edison's competitive energy businesses. See Note N to the 2010 Annual Financial Statements.

The table listed below provides a reconciliation of the beginning and ending net balances for assets and liabilities measured at fair value as of March 31, 2011 and 2010 and classified as Level 3 in the fair value hierarchy below.

Notes to the Financial Statements (Unaudited) - Continued

For the Three Months Ended March 31, 2011

(Millions of Dollars)	Beginning Balance as of January 1, 2011	Total Gains/(Losses) – Realized and Unrealized		Purchases	Issuances	Sales	Settlements	Ending Balance as of March 31, 2011
		Included in Earnings	Included in Regulatory Assets and Liabilities					
Derivatives:								
Commodity	\$(49)	\$(11)	\$14	\$-	\$-	\$-	\$11	\$(35)
Interest rate contract	(10)	(1)	-	-	-	-	1	(10)
Other assets (1)	9	-	1	-	-	-	-	10
Total	\$(50)	\$(12)	\$15	\$-	\$-	\$-	\$12	\$(35)

(1) Amounts included in earnings are reported in investment and other income on the consolidated income statement.

For the Three Months Ended March 31, 2010

(Millions of Dollars)	Beginning Balance as of January 1, 2010	Total Gains/(Losses) – Realized and Unrealized		Purchases	Issuances	Sales	Settlements	Ending Balance as of March 31, 2010
		Included in Earnings	Included in Regulatory Assets and Liabilities					
Derivatives:								
Commodity	\$(55)	\$(16)	\$(39)	\$-	\$-	\$-	\$16	\$(94)
Interest rate contract	(11)	(1)	-	-	-	-	1	(11)
Other assets (1)	9	-	-	-	-	-	-	9
Total	\$(57)	\$(17)	\$(39)	\$-	\$-	\$-	\$17	\$(96)

(1) Amounts included in earnings are reported in investment and other income on the consolidated income statement.

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

Note I – Related Party Transactions

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

The Company provides and receives administrative and other services to and from Con Edison and its subsidiaries pursuant to cost allocation procedures developed in accordance with rules approved by the NYSPSC and/or other regulatory authorities, as applicable. The services received include substantial administrative support operations, such as corporate secretarial and associated ministerial duties, accounting, treasury, investor relations, information resources, legal, human resources, fuel supply, and energy management services. The costs of administrative and other services provided by the Company, and received from Con Edison and its other subsidiaries for the three months ended March 31, 2011 and 2010 were as follows:

(Millions of Dollars)	2011	2010
Cost of services provided	\$5	\$5
Cost of services received	\$9	\$11

Notes to the Financial Statements (Unaudited) - Continued

In addition, CECONY and O&R have joint gas supply arrangements, in connection with which O&R purchased from CECONY \$22 million and \$31 million of natural gas for the three months ended March 31, 2011, and 2010, respectively. These amounts are net of the effect of related hedging transactions. At March 31, 2011 and December 31, 2010, O&R's net payable to CECONY associated with these gas purchases was \$4 million and \$11 million, respectively.

RECO purchased from Consolidated Edison Energy, Inc. \$7 million of electricity for both periods ended March 31, 2011, and 2010, pursuant to energy auctions.

At March 31, 2011 and December 31, 2010, the Company's receivable from Con Edison for income taxes was \$6 million and \$27 million, respectively. See Note A to the 2010 Annual Financial Statements.

FERC has authorized CECONY through 2011 to lend funds to O&R from time to time, for periods of not more than 12 months, in amounts not to exceed \$250 million outstanding at any time, at prevailing market rates. At March 31, 2011 and 2010, there were no loans outstanding for O&R.