

Orange and Rockland Utilities, Inc.
First Quarter 2014 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,	
	2014	2013
	(Millions of Dollars)	
OPERATING REVENUES		
Electric	\$ 163	\$ 145
Gas	93	82
TOTAL OPERATING REVENUES	256	227
OPERATING EXPENSES		
Purchased power	69	50
Gas purchased for resale	40	28
Operations and maintenance	78	70
Depreciation and amortization	14	14
Taxes, other than income taxes	16	18
TOTAL OPERATING EXPENSES	217	180
OPERATING INCOME	39	47
OTHER INCOME		
Allowance for equity funds used during construction	1	-
TOTAL OTHER INCOME	1	-
INCOME BEFORE INTEREST AND INCOME TAX EXPENSE	40	47
INTEREST EXPENSE		
Interest on long-term debt	8	8
Other interest	1	3
NET INTEREST EXPENSE	9	11
INCOME BEFORE INCOME TAX EXPENSE	31	36
INCOME TAX EXPENSE	10	6
NET INCOME	\$ 21	\$ 30

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,	
	2014	2013
	(Millions of Dollars)	
NET INCOME	\$ 21	\$ 30
OTHER COMPREHENSIVE INCOME, NET OF TAXES		
Pension plan liability adjustments, net of \$2 taxes in 2014 and 2013	2	3
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAXES	2	3
COMPREHENSIVE INCOME	\$ 23	\$ 33

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,	
	2014	2013
	(Millions of Dollars)	
OPERATING ACTIVITIES		
Net income	\$ 21	\$ 30
PRINCIPAL NON-CASH CHARGES/(CREDITS) TO INCOME		
Depreciation and amortization	14	14
Deferred income taxes	2	(4)
Other non-cash items (net)	3	5
CHANGES IN ASSETS AND LIABILITIES		
Accounts receivable - customers, less allowance for uncollectibles	(39)	(26)
Accounts receivable from affiliated companies	22	-
Materials and supplies, including gas in storage	13	12
Prepayments, other receivables and other current assets	6	8
Accounts payable	-	(42)
Accounts payable to affiliated companies	10	14
Pensions and retiree benefits obligations	(2)	12
Accrued taxes	1	3
Accrued interest	2	1
Accrued wages	(2)	(2)
Superfund and environmental remediation costs (net)	-	(1)
Deferred charges, noncurrent assets and other regulatory assets	(13)	15
Deferred credits and other regulatory liabilities	20	(10)
Other liabilities	(2)	(12)
NET CASH FLOWS FROM OPERATING ACTIVITIES	56	17
INVESTING ACTIVITIES		
Utility construction expenditures	(33)	(24)
Cost of removal less salvage	(1)	-
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(34)	(24)
FINANCING ACTIVITIES		
Net proceeds/(payments) of short-term debt	(8)	19
Retirement of long-term debt	(1)	(1)
Dividend to parent	(10)	(10)
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES	(19)	8
CASH AND TEMPORARY CASH INVESTMENTS:		
NET CHANGE FOR THE PERIOD	3	1
BALANCE AT BEGINNING OF PERIOD	29	38
BALANCE AT END OF PERIOD	\$ 32	\$ 39
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	\$5	\$6
Income taxes	\$3	\$ -

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

	March 31, 2014	December 31, 2013
	(Millions of Dollars)	
ASSETS		
CURRENT ASSETS		
Cash and temporary cash investments	\$ 32	\$ 29
Special deposits	-	4
Accounts receivable - customers, less allowance for uncollectible accounts of \$4 in 2014 and 2013	108	69
Other receivables, less allowance for uncollectible accounts of \$2 in 2014 and 2013	14	13
Accrued unbilled revenue	32	38
Accounts receivable from affiliated companies	29	51
Gas in storage, at average cost	6	20
Materials and supplies, at average cost	17	16
Prepayments	31	28
Regulatory assets	4	3
Deferred tax assets - current	15	17
Other current assets	14	7
TOTAL CURRENT ASSETS	302	295
INVESTMENTS	18	18
UTILITY PLANT, AT ORIGINAL COST		
Electric	1,399	1,377
Gas	605	603
General	186	182
Total	2,190	2,162
Less: Accumulated depreciation	613	603
Net	1,577	1,559
Construction work in progress	90	91
NET UTILITY PLANT	1,667	1,650
OTHER NONCURRENT ASSETS		
Regulatory assets	560	564
Other deferred charges and noncurrent assets	22	21
TOTAL OTHER NONCURRENT ASSETS	582	585
TOTAL ASSETS	\$ 2,569	\$ 2,548

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

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

	March 31, 2014	December 31, 2013
	(Millions of Dollars)	
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES		
Long-term debt due within one year	\$ 4	\$ 4
Notes payable	61	69
Accounts payable	67	70
Accounts payable to affiliated companies	34	23
Customer deposits	13	12
Accrued taxes	3	2
Accrued taxes to affiliated companies	17	18
Accrued interest	9	7
Accrued wages	8	10
Fair value of derivative liabilities	2	2
Regulatory liabilities	43	41
Other current liabilities	24	29
TOTAL CURRENT LIABILITIES	285	287
NONCURRENT LIABILITIES		
Provision for injuries and damages	14	15
Pensions and retiree benefits	265	274
Superfund and other environmental costs	104	105
Deferred income taxes and investment tax credits	505	506
Regulatory liabilities	153	132
Other deferred credits and noncurrent liabilities	11	9
TOTAL NONCURRENT LIABILITIES	1,052	1,041
LONG-TERM DEBT	599	600
COMMON SHAREHOLDER'S EQUITY (See Statement of Common Shareholder's Equity)	633	620
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	\$ 2,569	\$ 2,548

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

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

(Millions of Dollars/Except Share Data)	<u>Common Stock</u>		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
	Shares	Amount				
BALANCE AS OF DECEMBER 31, 2012	1,000	\$ -	\$ 304	\$ 307	\$ (43)	\$ 568
Net Income				30		30
Common stock dividend to parent				(10)		(10)
Other comprehensive income					3	3
BALANCE AS OF MARCH 31, 2013	1,000	\$ -	\$ 304	\$ 327	\$ (40)	\$ 591
BALANCE AS OF DECEMBER 31, 2013	1,000	\$ -	\$ 304	\$ 334	\$ (18)	\$ 620
Net Income				21		21
Common stock dividend to parent				(10)		(10)
Other comprehensive income					2	2
BALANCE AS OF MARCH 31, 2014	1,000	\$ -	\$ 304	\$ 345	\$ (16)	\$ 633

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

Notes to the Financial Statements (Unaudited)

General

These notes accompany and form an integral part of the financial statements of Orange and Rockland Utilities, Inc., a New York corporation, and its subsidiaries (the Company or O&R). The Company is a regulated utility, the equity of which is owned entirely by Consolidated Edison, Inc. (Con Edison). O&R has two regulated utility subsidiaries: Rockland Electric Company (RECO) and Pike County Light & Power Company (Pike). For the three months ended March 31, 2014 and 2013, operating revenues for RECO and Pike were 15.5 percent and 1.3 percent and 17.8 percent and 1.0 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 has a subsidiary, Rockland Electric Company Transition Funding LLC (Transition Funding), which was formed in 2004 in connection with the securitization of certain purchased power costs. See "Long-Term Debt" in Note C.

The Company is subject to regulation by the Federal Energy Regulatory Commission (FERC), the New York 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, 2014 and for the three month periods ended March 31, 2014 and 2013 (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, 2013 and 2012 and for each of the three years in the period ended December 31, 2013, including the notes thereto. Certain prior period amounts have been reclassified to conform to the current period presentation.

The Company has, pursuant to the accounting rules for subsequent events, evaluated events or transactions that occurred after March 31, 2014 through the posting on its website (May 14, 2014) of the First Quarter Financial Statements for potential recognition or disclosure in the First Quarter Financial Statements.

Note A – Summary of Significant Accounting Policies

Changes in Accumulated Other Comprehensive Income by Component

For the three months ended March 31, 2014 and 2013, changes to accumulated other comprehensive income (OCI) are as follows:

Notes to the Financial Statements (Unaudited) - Continued

(Millions of Dollars)	Three Months Ended March 31,	
	2014	2013
Beginning balance, accumulated OCI, net of taxes	\$(18)	\$(43)
OCI before reclassifications, net of tax of \$1 and \$1, respectively	1	1
Amounts reclassified from accumulated OCI related to pension plan liabilities, net of tax of \$1 and \$1, respectively ^{(a)(b)}	1	2
Current period total OCI, net of taxes	\$2	\$3
Ending balance, accumulated OCI, net of taxes ^(b)	\$(16)	\$(40)

(a) Only RECO's portion of unrecognized pension and other postretirement benefit costs and Pike's portion of unrecognized pension costs are recorded into, and amortized out of, OCI. All other such costs are recorded through regulatory assets. The net actuarial losses and prior service costs recognized during the period are included in the computation of net periodic pension and other postretirement benefit cost. See Notes E and F.

(b) Tax reclassified from accumulated OCI is reported in the income tax expense line item of the income statement.

Note B – Regulatory Matters

Other Regulatory Matters

In April 2010, the NJBPU approved a March 2010 stipulation among RECO, the Division of Rate Counsel and Staff of the NJBPU, authorizing RECO to recover, through a customer bill surcharge, the revenue requirement impact associated with 50 percent of up to \$19.4 million of the costs of certain RECO smart electric grid projects for which RECO receives grants for the remaining 50 percent of such costs from the United States Department of Energy under the American Recovery and Reinvestment Act of 2009. The revenue requirement recovered through the bill surcharge includes a return on investment based upon a return on common equity of 10.3 percent. Pursuant to the stipulation, in the company's next base rate proceeding (which the company has now commenced with its November 2013 rate request), the NJBPU will review the projects' costs, require the company to refund to customers amounts collected for costs, if any, that were not prudent, reasonable and incremental, and include in the company's rate base the remaining projects' costs.

In late October 2012, Superstorm Sandy caused extensive damage to the Company's electric distribution system and interrupted service to approximately 0.3 million customers. As of March 31, 2014 O&R incurred response and restoration costs for Superstorm Sandy of \$93 million (including capital expenditures of \$15 million). Most of the costs that were not capitalized were deferred for recovery as a regulatory asset under the Company's electric rate plans. See "Regulatory Assets and Liabilities" below. O&R expects to request recovery of deferred storm costs for its New York electric operations, which are also subject to NYSPSC review, when it next files with the NYSPSC for a new electric rate plan. In March 2013, the NJBPU established a proceeding to review the prudence of costs incurred by New Jersey utilities in response to major storm events in 2011 and 2012. In November 2013, RECO filed an electric rate request with the NJBPU which includes a proposal for recovery over a three-year period of its deferred storm costs of \$27 million. In May 2014, RECO, the NJBPU staff and the New Jersey Division of Rate Counsel entered into a stipulation of settlement regarding RECO's deferred storm costs. The stipulation, which is subject to NJBPU approval, provides that RECO's deferred storm costs are deemed reasonable, prudent and eligible for recovery over a period to be determined in RECO's electric rate proceeding.

Notes to the Financial Statements (Unaudited) - Continued

Regulatory Assets and Liabilities

Regulatory assets and liabilities at March 31, 2014 and December 31, 2013 were comprised of the following items:

(Millions of Dollars)	2014	2013
Regulatory assets		
Unrecognized pension and other postretirement costs	\$113	\$120
Future income tax	113	114
Environmental remediation costs	107	108
Deferred storm costs	104	107
Transition bond charges	31	33
Pension and other postretirement benefits deferrals	28	29
Property tax reconciliation	25	22
Revenue taxes	12	11
Surcharge for New York State assessment	8	4
Deferred derivative losses – noncurrent	1	1
Other	18	15
Regulatory assets – noncurrent	560	564
Deferred derivative losses - current	2	3
Recoverable energy costs - current	2	-
Regulatory assets - current	4	3
Total regulatory assets	\$564	\$567
Regulatory liabilities		
Allowance for cost of removal less salvage	\$92	\$87
Carrying charges on deferred tax liability	10	10
Unrecognized other postretirement benefit costs	9	-
Carrying charges on transmission and distribution net plant	6	8
Other postretirement benefit deferrals	4	-
New York State income tax rate change	4	-
Other	28	27
Regulatory liabilities – noncurrent	153	132
Refundable energy cost – current	31	34
Revenue decoupling mechanism	4	4
Deferred derivative gains - current	8	3
Regulatory liabilities – current	43	41
Total regulatory liabilities	\$196	\$173

Note C – Capitalization

Long-Term Debt

The carrying amounts and fair values of long-term debt are:

(Millions of Dollars)	March 31, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-Term Debt (including current portion)	\$603	\$665	\$604	\$650

Fair values of long-term debt have been estimated primarily using available market information.

At March 31, 2014 and December 31, 2013, long-term debt of the Company included \$3 million of mortgage bonds, collateralized by substantially all utility plant and other physical property of Pike. Long-term debt also included \$21 million and \$22 million at March 31, 2014 and December 31, 2013, respectively, of Transition Bonds issued by Transition Funding in July 2004. The proceeds from the Transition Bonds were used to purchase from

Notes to the Financial Statements (Unaudited) - Continued

RECO the right to be paid a Transition Bond Charge and associated tax charges by its customers relating to previously deferred purchased power costs for which the NJBPU had authorized recovery.

Note D – Short-Term Borrowing

At March 31, 2014 and December 31, 2013, O&R had \$61 million and \$69 million of commercial paper outstanding, respectively. At March 31, 2014 and December 31, 2013, \$45 million and \$15 million of letters of credit, respectively, were outstanding for O&R under the Credit Agreement.

Note E – Pension Benefits

Net Periodic Benefit Cost

The components of the Company's net periodic benefit costs for the three months ended March 31, 2014 and 2013 were as follows:

(Millions of Dollars)	2014	2013
Service cost – including administrative expenses	\$ 4	\$ 5
Interest cost on projected benefit obligation	9	8
Expected return on plan assets	(10)	(9)
Recognition of net actuarial loss	8	11
Recognition of prior service costs	-	-
NET PERIODIC BENEFIT COST	\$11	\$15
Cost capitalized	(3)	(4)
Reconciliation to rate level	3	(2)
Cost charged to operating expenses	\$11	\$9

Expected Contributions

Based on estimates as of March 31, 2014, O&R expects to make contributions to the pension plan during 2014 of \$41 million. O&R's policy is to fund its accounting cost to the extent tax deductible.

Note F – Other Postretirement Benefits

Net Periodic Benefit Cost

The components of the Company's net periodic postretirement benefit costs for the three months ended March 31, 2014 and 2013 were as follows:

(Millions of Dollars)	2014	2013
Service cost	\$ 1	\$ 1
Interest cost on accumulated other postretirement benefit obligation	2	2
Expected return on plan assets	(2)	(2)
Recognition of net actuarial loss	1	2
Recognition of prior service costs	(1)	(1)
NET PERIODIC POSTRETIREMENT BENEFIT COST	\$ 1	\$ 2
Cost capitalized	(1)	(1)
Reconciliation to rate level	3	1
Cost charged to operating expenses	\$ 3	\$ 2

Expected Contributions

Based on estimates as of March 31, 2014, O&R expects to make a contribution of an immaterial amount to the other postretirement benefit plans in 2014.

Notes to the Financial Statements (Unaudited) - Continued

Note G – Environmental Matters

Superfund Sites

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

The Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 and similar state statutes (Superfund) impose joint and several liability, regardless of fault, upon generators of hazardous substances for investigation and remediation costs (which include costs of demolition, removal, disposal, storage, replacement, containment, and monitoring) and 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 based on the information available, applicable remediation standards, and experience with similar sites.

The accrued liabilities and regulatory assets related to Superfund Sites at March 31, 2014 and December 31, 2013 were as follows:

(Millions of Dollars)	2014	2013
Accrued Liabilities:		
Manufactured gas plant sites	\$102	\$103
Other Superfund Sites	2	2
Total	\$104	\$105
Regulatory assets	\$107	\$108

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.

Notes to the Financial Statements (Unaudited) - Continued

Insurance recoveries related to Superfund Sites for the three months ended March 31, 2014 and for the year ended December 31, 2013 were immaterial. Environmental remediation costs incurred related to Superfund Sites for the three months ended March 31, 2014 and 2013 were as follows:

(Millions of Dollars)	2014	2013
Remediation costs incurred	\$1	\$3

In 2013, O&R estimated that for its manufactured gas plant sites, each of which has been investigated, the aggregate undiscounted potential liability for the remediation of coal tar and/or other manufactured gas plant related environmental contaminants could range up to \$167 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 liabilities for asbestos suits and workers' compensation proceedings (including those related to asbestos exposure) at March 31, 2014 and December 31, 2013 were as follows:

(Millions of Dollars)	2014	2013
Accrued liability – asbestos suits	\$0.3	\$0.3
Regulatory assets – asbestos suits	0.3	0.3
Accrued liability – workers' compensation	\$4.9	\$4.9
Regulatory assets – workers' compensation	-	-

Note H – Income Tax

As a result of recording a \$6 million income tax adjustment primarily attributable to changes in estimates relating to accumulated deferred income taxes in the first quarter of 2013, O&R's effective tax rate was 17 percent for the three months ended March 31, 2013, compared to 32 percent for the same period in 2014.

On March 31, 2014, tax legislation was enacted in the State of New York that reduces the corporate franchise tax rate from 7.1 percent to 6.5 percent, beginning January 1, 2016. The application of this legislation decreased

Notes to the Financial Statements (Unaudited) - Continued

O&R's accumulated deferred tax liabilities by \$4 million and increased O&R's regulatory liability by \$4 million. This tax legislation had no impact on O&R's effective tax rate for the three months ended March 31, 2014.

Uncertain Tax Positions

In anticipation of filing state refund claims in the second quarter of 2014 and the positions that will be taken in the amended returns, O&R increased its estimated liabilities for uncertain tax positions by \$2 million. The amended state tax returns contain uncertain tax positions unique to the State of New Jersey, and the returns will remain open for examination. At March 31, 2014, the estimated liability for uncertain tax positions for O&R was \$3 million and was reflected as a noncurrent liability on its consolidated balance sheet.

O&R recognizes interest on liabilities for uncertain tax positions in interest expense and would recognize penalties, if any, in operating expenses in O&R's consolidated income statement. In the first quarter of 2014 and 2013, O&R recognized an immaterial amount of interest expense and no penalties for uncertain tax positions in its consolidated income statement. At March 31, 2014 and December 31, 2013, O&R recognized an immaterial amount of accrued interest on its consolidated balance sheet.

As of March 31, 2014, O&R does not expect to resolve any of its uncertain tax positions within the next twelve months. The total amount of unrecognized tax benefits, if recognized, that would affect O&R's effective tax rate is \$3 million (\$2 million net of federal taxes).

Note I – Financial Information by Business Segment

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	
	2014	2013	2014	2013	2014	2013	2014	2013
Electric	\$163	\$145	\$-	\$-	\$10	\$10	\$12	\$20
Gas	93	82	-	-	4	4	27	27
Total	\$256	\$227	\$-	\$-	\$14	\$14	\$39	\$47

Note J – 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.

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.

Notes to the Financial Statements (Unaudited) - Continued

The Company enters into master agreements for their commodity derivatives. These agreements typically provide setoff in the event of contract termination. In such case, generally the non-defaulting or non-affected party's payable will be set-off by the other party's payable. The non-defaulting party will customarily notify the defaulting party within a specific time period and come to an agreement on the early termination amount.

The fair values of the Company's commodity derivatives including the offsetting of assets and liabilities at March 31, 2014 were:

(Millions of Dollars)

Commodity Derivatives	Gross Amounts of Recognized Assets/(Liabilities)	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets/(Liabilities) Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position		Net Amount
				Financial instruments	Cash collateral received	
Derivative assets	\$14	\$(4)	\$10 ^(a)	\$-	\$-	\$10 ^(a)
Derivative liabilities	(4)	4	-	-	-	-
Net derivative assets	\$10	\$-	\$10 ^(a)	\$-	\$-	\$10 ^(a)

(a) At March 31, 2014, the Company had margin deposits of \$3 million classified as derivative assets in the balance sheet, but not included in the table. As required by an exchange, a margin is collateral, typically cash, that the holder of a derivative instrument has to deposit in order to transact on an exchange and to cover its potential losses with its broker or the exchange.

The fair values of the Company's commodity derivatives including the offsetting of assets and liabilities at December 31, 2013 were:

(Millions of Dollars)

Commodity Derivatives	Gross Amounts of Recognized Assets/(Liabilities)	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets/(Liabilities) Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position		Net Amount
				Financial instruments	Cash collateral received	
Derivative assets	\$10	\$(5)	\$5 ^(a)	\$ -	\$ -	\$5 ^(a)
Derivative liabilities	(6)	6	-	-	-	-
Net derivative assets	\$4	\$1	\$5 ^(a)	\$ -	\$ -	\$5 ^(a)

(a) At December 31, 2013, the Company had margin deposits of \$1 million classified as derivative assets in the balance sheet, but not included in the table. As required by an exchange, a margin is collateral, typically cash, that the holder of a derivative instrument has to deposit in order to transact on an exchange and to cover its potential losses with its broker or the exchange.

Notes to the Financial Statements (Unaudited) - Continued

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

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 \$13 million of credit exposure in connection with electricity supply and hedging activities, net of collateral, at March 31, 2014. The Company's net credit exposure consisted of \$8 million with investment-grade counterparties and \$5 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, 2014 and December 31, 2013 were:

Fair Value of Commodity Derivatives ^(a)			
(Millions of Dollars)	Balance Sheet Location	2014	2013
Derivative Assets			
Current	Other current assets	\$10	\$7
Long-term	Other deferred charges and noncurrent assets	4	3
Total derivative assets		14	10
Impact of netting		(1)	(4)
Net derivative assets		\$13	\$6
Derivative Liabilities			
Current	Fair value of derivative liabilities	\$1	\$3
Long-term	Other deferred credits and noncurrent liabilities	3	3
Total derivative liabilities		4	6
Impact of netting		(4)	(6)
Net derivative liabilities		\$-	\$-

(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.

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. In

Notes to the Financial Statements (Unaudited) - Continued

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, 2014 and 2013:

Realized and Unrealized Gains/(Losses) on Commodity Derivatives^(a)			
(Millions of Dollars)	Balance Sheet Location	For the Three Months Ended March 31,	
		2014	2013
Pre-tax gains/(losses) deferred in accordance with the accounting rules for regulated operations:			
Current	Deferred derivative gains	\$5	\$-
Long-term	Deferred derivative gains	1	-
Total deferred gains/(losses)		\$6	\$-
Current	Deferred derivative losses	\$-	\$6
Current	Recoverable energy costs	18	1
Long-term	Deferred derivative losses	1	1
Total deferred gains/(losses)		\$19	\$8
Net deferred gains/(losses)		\$25	\$8

(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.

As of March 31, 2014, the Company had 76 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)	Number of Capacity Contracts ^(a) MWHs ^(b)	Number of Contracts ^(a) MWhs ^(b)	Dths ^(b)	
28	1,422,650	1	40	47
				4,850,000
				76

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

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 L). The amount of collateral to be provided will depend on the fair value of the derivative instruments and the Utilities' credit ratings.

The Company did not have any derivative instruments with credit-risk-related contingent features that are in a net liability position or collateral posted at March 31, 2014. For this purpose, non-derivative transactions for the

Notes to the Financial Statements (Unaudited) - Continued

purchase and sale of electricity and qualifying derivative instruments, which have been designated as normal purchases or normal sales, are excluded. These transactions primarily include purchases of electricity from independent system operators. For certain other such non-derivative transactions, the Company would be required to post collateral under certain circumstances, including in the event counterparties have reasonable grounds for insecurity.

Interest Rate Swaps

O&R has an interest rate swap, which terminates in October 2014, 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, 2014 was an unrealized loss of \$2 million, which has been included in the Company's consolidated balance sheet as a current 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, 2014 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.

Note K – Fair Value Measurements

The accounting rules for fair value measurements and disclosures define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in a principal or most advantageous market. Fair value is a market-based measurement that is determined based on inputs, which refer broadly to assumptions that market participants use in pricing assets or liabilities. These inputs can be readily observable, market corroborated, or generally unobservable firm inputs. The Company often makes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, and the risks inherent in the inputs to valuation techniques. The Company uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

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

- Level 1 – Consists of assets or liabilities whose value is based on unadjusted quoted prices in active markets at the measurement date. An active market is one in which transactions for assets or liabilities occur with sufficient frequency and volume to provide pricing information on an ongoing basis. This category includes contracts traded on active exchange markets valued using unadjusted prices quoted directly from the exchange.

Notes to the Financial Statements (Unaudited) - Continued

- Level 2 – Consists of assets or liabilities valued using industry standard models and based on prices, other than quoted prices within Level 1, that are either directly or indirectly observable as of the measurement date. The industry standard models consider observable assumptions including time value, volatility factors, and current market and contractual prices for the underlying commodities, in addition to other economic measures. This category includes contracts traded on active exchanges or in over-the-counter markets priced with industry standard models.

- Level 3 – Consists of assets or liabilities whose fair value is estimated based on internally developed models or methodologies using inputs that are generally less readily observable and supported by little, if any, market activity at the measurement date. Unobservable inputs are developed based on the best available information and subject to cost benefit constraints. This category includes contracts priced using models that are internally developed and contracts placed in illiquid markets. It also includes contracts that expire after the period of time for which quoted prices are available and internal models are used to determine a significant portion of the value.

Assets and liabilities measured at fair value on a recurring basis as of March 31, 2014 are summarized below.

(Millions of Dollars)	Level 1	Level 2	Level 3	Netting Adjustments ^(d)	Total
Derivative assets:					
Commodity ^{(a)(e)}	\$-	\$11	\$-	\$2	\$13
Other assets ^{(a)(c)(e)}	7	10	-	-	17
Total	\$7	\$21	\$-	\$2	\$30
Derivative liabilities:					
Commodity ^(a)	\$-	\$1	\$-	\$(1)	\$-
Interest rate contract ^{(a)(b)(e)}	-	2	-	-	2
Total	\$-	\$3	\$-	\$(1)	\$2

- (a) Level 2 assets and liabilities include investments held in the deferred compensation plan and/or non-qualified retirement plans, interest rate swap, or exchange-traded contracts where there is insufficient market liquidity to warrant inclusion in Level 1, and certain over-the-counter derivative instruments for electricity and natural gas. Derivative instruments classified as Level 2 are valued using industry standard models that incorporate corroborated observable inputs; such as pricing services or prices from similar instruments that trade in liquid markets, time value, and volatility factors.
- (b) See Note J.
- (c) Other assets are comprised of assets such as life insurance contracts within the deferred compensation plan and non-qualified retirement plans.
- (d) Amounts represent the impact of legally-enforceable master netting agreements that allow the Company to net gain and loss positions and cash collateral held or placed with the same counterparties.
- (e) The Company's policy is to recognize transfers into and transfers out of the levels at the end of the reporting period. There were no transfers between levels 1, 2, and 3 for the three months ended March 31, 2014.

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2013 are summarized below.

Notes to the Financial Statements (Unaudited) - Continued

(Millions of Dollars)	Level 1	Level 2	Level 3	Netting Adjustments ^(d)	Total
Derivative assets:					
Commodity ^{(a)(e)}	\$-	\$7	\$-	\$(1)	\$6
Other assets ^{(a)(c)(e)}	7	10	-	-	17
Total	\$7	\$17	\$-	\$(1)	\$23
Derivative liabilities:					
Commodity ^(a)	\$-	\$3	\$-	\$(3)	\$-
Interest rate contract ^{(a)(b)(e)}	-	2	-	-	2
Total	\$-	\$5	\$-	\$(3)	\$2

- (a) Level 2 assets and liabilities include investments held in the deferred compensation plan and/or non-qualified retirement plans, interest rate swap, or exchange-traded contracts where there is insufficient market liquidity to warrant inclusion in Level 1, and certain over-the-counter derivative instruments for electricity and natural gas. Derivative instruments classified as Level 2 are valued using industry standard models that incorporate corroborated observable inputs; such as pricing services or prices from similar instruments that trade in liquid markets, time value, and volatility factors.
- (b) See Note J.
- (c) Other assets are comprised of assets such as life insurance contracts within the deferred compensation plan and non-qualified retirement plans.
- (d) Amounts represent the impact of legally-enforceable master netting agreements that allow the Company to net gain and loss positions and cash collateral held or placed with the same counterparties.
- (e) The Company's policy is to recognize transfers into and transfers out of the levels at the end of the reporting period. There were no transfers between levels 1, 2, and 3 for the year ended December 31, 2013.

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

At March 31, 2014, the Company did not have any assets or liabilities that were classified as a Level 3 in the fair value hierarchy.

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, 2013 and classified as Level 3 in the fair value hierarchy:

For the Three Months Ended March 31, 2013											
(Millions of Dollars)	Beginning Balance as of January 1, 2013	Total Gains/(Losses) – Realized and Unrealized				Purchases	Issuances	Sales	Settlements	Transfer In/Out of Level 3	Ending Balance as of March 31, 2013
		Included in Earnings	Included in Regulatory Assets and Liabilities								
Derivatives:											
Commodity	\$(19)	\$2	\$4	\$-	\$-	\$-	\$(2)	\$-	\$-	\$(15)	
Total	\$(19)	\$2	\$4	\$-	\$-	\$-	\$(2)	\$-	\$-	\$(15)	

Notes to the Financial Statements (Unaudited) - Continued

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

The accounting rules for fair value measurements and disclosures require consideration of the impact of nonperformance risk (including credit risk) from a market participant perspective in the measurement of the fair value of assets and liabilities. At March 31, 2014, the Company determined that nonperformance risk would have no material impact on its financial position or results of operations. To assess nonperformance risk, the Company considered information such as collateral requirements, master netting arrangements, letters of credit and parent company guarantees, and applied a historical default probability based on current credit ratings and a market-based method by using the counterparty (for an asset) or the Company's (for a liability) credit default swaps rates.

Note L – Related Party Transactions

The Company provides and receives administrative and other services to and from Con Edison and its subsidiaries pursuant to cost allocation procedures developed in accordance with rules approved by the NYSPSC and/or other regulatory authorities, as applicable. The services received include substantial administrative support operations, such as corporate secretarial and associated managerial duties, accounting, treasury, investor relations, information resources, legal, human resources, fuel supply, and energy management services. The costs of administrative and other services provided by the Company, and received from Con Edison and its other subsidiaries for the three months ended March 31, 2014 and 2013 were as follows:

(Millions of Dollars)	2014	2013
Cost of services provided	\$4	\$4
Cost of services received	\$10	\$10

At March 31, 2014 and December 31, 2013, O&R's payable to Con Edison and its other subsidiaries associated with these services was \$7 million and \$5 million, respectively.

In addition, CECONY and O&R have joint gas supply arrangements, in connection with which O&R purchased from CECONY \$34 million and \$17 million of natural gas for the three months ended March 31, 2014 and 2013, respectively. These amounts are net of the effect of related hedging transactions. At March 31, 2014 and December 31, 2013, O&R's net payable to CECONY associated with these gas purchases was \$13 million and \$10 million, respectively. At March 31, 2014 and December 31, 2013, O&R's payable to Con Edison's competitive energy businesses associated with electricity purchases and retail services was \$1 million in both periods.

Notes to the Financial Statements (Unaudited) - Continued

At March 31, 2014 and December 31, 2013, the Company's payable to Con Edison for income taxes was \$1 million and \$2 million, respectively.

FERC has authorized CECONY through 2015 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, 2014 and December 31, 2013, there were no loans outstanding for O&R.