

**Orange and Rockland Utilities, Inc.**  
**Second Quarter 2005 Financial Statements and Notes**

Financial Statements (Unaudited)

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

	June 30, 2005	December 31, 2004
	(Millions of Dollars)	
<b>ASSETS</b>		
<b>UTILITY PLANT, AT ORIGINAL COST</b>		
Electric	\$ 828	\$ 812
Gas	342	336
General	123	121
Total	1,293	1,269
Less: Accumulated depreciation	389	382
Net	904	887
Construction work in progress	24	26
<b>NET PLANT</b>	<b>928</b>	<b>913</b>
<b>CURRENT ASSETS</b>		
Cash and temporary cash investments	23	12
Restricted cash	2	2
Accounts receivable - customers, less allowance for uncollectible accounts of \$2 in 2005 and 2004	45	31
Accrued unbilled revenue	28	28
Other receivables, less allowance for uncollectible accounts of \$2 in 2005 and 2004	17	24
Accounts receivable from affiliated companies	29	25
Gas in storage, at average cost	31	43
Materials and supplies, at average cost	6	5
Prepayments	15	12
Other current assets	33	16
<b>TOTAL CURRENT ASSETS</b>	<b>229</b>	<b>198</b>
<b>DEFERRED CHARGES, REGULATORY ASSETS AND NONCURRENT ASSETS</b>		
Regulatory assets	260	253
Other deferred charges and noncurrent assets	30	26
<b>TOTAL DEFERRED CHARGES, REGULATORY ASSETS AND NONCURRENT ASSETS</b>	<b>290</b>	<b>279</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,447</b>	<b>\$ 1,390</b>

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

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

	June 30, 2005	December 31, 2004
	(Millions of Dollars)	
<b>CAPITALIZATION AND LIABILITIES</b>		
<b>CAPITALIZATION</b>		
Common shareholder's equity (See Statement of Common Shareholder's Equity)	\$ 354	\$ 388
Long-term debt	385	345
<b>TOTAL CAPITALIZATION</b>	<b>739</b>	<b>733</b>
<b>NONCURRENT LIABILITIES</b>		
Provision for injuries and damages	9	10
Pensions and retiree benefits	121	98
Superfund and other environmental costs	57	57
Hedges on variable rate long-term debt	16	16
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>203</b>	<b>181</b>
<b>CURRENT LIABILITIES</b>		
Long-term debt due within one year	2	2
Notes payable	4	-
Accounts payable	89	66
Accounts payable to affiliated companies	30	41
Customer deposits	15	16
Accrued taxes	4	2
Accrued interest	6	6
Other current liabilities	8	10
<b>TOTAL CURRENT LIABILITIES</b>	<b>158</b>	<b>143</b>
<b>DEFERRED CREDITS AND REGULATORY LIABILITIES</b>		
Deferred income taxes and investment tax credits	198	198
Regulatory liabilities	146	127
Other deferred credits	3	8
<b>TOTAL DEFERRED CREDITS AND REGULATORY LIABILITIES</b>	<b>347</b>	<b>333</b>
<b>TOTAL CAPITALIZATION AND LIABILITIES</b>	<b>\$ 1,447</b>	<b>\$ 1,390</b>

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

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

	For the Three Months		For the Six Months	
	Ended June 30,		Ended June 30,	
	2005	2004	2005	2004
	(Millions of Dollars)			
<b>OPERATING REVENUES</b>				
Electric	\$ 123	\$ 122	\$ 244	\$ 242
Gas	34	34	131	127
<b>TOTAL OPERATING REVENUES</b>	<b>157</b>	<b>156</b>	<b>375</b>	<b>369</b>
<b>OPERATING EXPENSES</b>				
Purchased power	59	61	118	123
Gas purchased for resale	21	20	82	79
Other operations and maintenance	43	42	85	83
Depreciation and amortization	8	8	17	17
Taxes, other than income taxes	11	12	23	25
Income taxes	4	3	16	13
<b>TOTAL OPERATING EXPENSES</b>	<b>146</b>	<b>146</b>	<b>341</b>	<b>340</b>
<b>OPERATING INCOME</b>	<b>11</b>	<b>10</b>	<b>34</b>	<b>29</b>
<b>OTHER INCOME (DEDUCTIONS)</b>				
Investment and other income	-	-	-	-
<b>INTEREST EXPENSE</b>				
Interest on long-term debt	5	5	10	9
Other interest	-	-	1	-
<b>NET INTEREST EXPENSE</b>	<b>5</b>	<b>5</b>	<b>11</b>	<b>9</b>
<b>NET INCOME</b>	<b>\$ 6</b>	<b>\$ 5</b>	<b>\$ 23</b>	<b>\$ 20</b>

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 June 30,		For the Six Months Ended June 30,	
	2005	2004	2005	2004
(Millions of Dollars)				
NET INCOME	\$ 6	\$ 5	\$ 23	\$ 20
OTHER COMPREHENSIVE INCOME/(LOSS), NET OF TAXES				
Minimum pension liability adjustments, net of \$(1) taxes in 2004	-	-	-	(1)
Unrealized (losses)/gains on derivatives qualified as cash flow hedges, net of \$(2), \$1, \$- and \$1 taxes in 2005 and 2004, respectively	(2)	3	-	2
Less: Reclassification adjustment for gains included in net income, net of \$1 and \$1 taxes in 2004	-	1	-	1
<b>TOTAL OTHER COMPREHENSIVE (LOSS)/INCOME, NET OF TAXES</b>	<b>(2)</b>	<b>2</b>	<b>-</b>	<b>-</b>
<b>COMPREHENSIVE INCOME</b>	<b>\$ 4</b>	<b>\$ 7</b>	<b>\$ 23</b>	<b>\$ 20</b>

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

(Millions of Dollars/Except Share Data)	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
	Shares	Amount				
BALANCE AS OF DECEMBER 31, 2003	1,000	\$ -	\$ 194	\$ 186	\$(10)	\$ 370
Net Income				15		15
Common stock dividend to parent				(7)		(7)
Other comprehensive loss					(2)	(2)
BALANCE AS OF MARCH 31, 2004	1,000	\$ -	\$ 194	\$ 194	\$(12)	\$ 376
Net Income				5		5
Common stock dividend to parent				(7)		(7)
Other comprehensive income					2	2
BALANCE AS OF JUNE 30, 2004	1,000	\$ -	\$ 194	\$ 192	\$(10)	\$ 376
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

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

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

	For the Six Months Ended June 30,	
	2005	2004
	(Millions of Dollars)	
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 23	\$ 20
<b>PRINCIPAL NON-CASH CHARGES/(CREDITS) TO INCOME</b>		
Depreciation and amortization	17	17
Deferred income taxes	(1)	(10)
Other non-cash items (net)	1	(1)
<b>CHANGES IN ASSETS AND LIABILITIES</b>		
Accounts receivable - customers, less allowance for uncollectibles	(14)	2
Accounts receivable from affiliated companies	(4)	(10)
Materials and supplies, including gas in storage	11	(4)
Prepayments, other receivables and other current assets	(19)	(6)
Recoverable energy costs	(5)	21
Accounts payable	23	(11)
Accounts payable to affiliated companies	(11)	(3)
Pensions and retiree benefits	23	17
Accrued taxes	2	5
Accrued interest	-	(1)
Deferred charges and other regulatory assets	(7)	(19)
Deferred credits and regulatory liabilities	19	10
Other assets	1	1
Other liabilities	(2)	20
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>57</b>	<b>48</b>
<b>INVESTING ACTIVITIES</b>		
Utility construction expenditures	(31)	(34)
Cost of removal less salvage	(2)	(1)
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>(33)</b>	<b>(35)</b>
<b>FINANCING ACTIVITIES</b>		
Net proceeds from/(retirement of) short-term debt	4	3
Issuance of long-term debt	40	-
Dividend to parent	(57)	(14)
<b>NET CASH FLOWS USED IN FINANCING ACTIVITIES</b>	<b>(13)</b>	<b>(11)</b>
<b>CASH AND TEMPORARY CASH INVESTMENTS:</b>		
<b>NET CHANGE FOR THE PERIOD</b>	<b>11</b>	<b>2</b>
<b>BALANCE AT BEGINNING OF PERIOD</b>	<b>12</b>	<b>9</b>
<b>BALANCE AT END OF PERIOD</b>	<b>\$ 23</b>	<b>\$ 11</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the period for:		
Interest	\$ 10	\$ 9
Income Taxes	\$ 15	\$ 29

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. and its subsidiaries (the Company or O&R), a New York corporation. The Company is a regulated utility, which is a wholly owned subsidiary of Consolidated Edison, Inc. (Con Edison). 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 and the Pennsylvania Public Utility Commission 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 combined notes thereto) included in Item 8 of the combined Annual Report of Con Edison, Consolidated Edison Company of New York, Inc. (Con Edison of New York) and O&R on Form 10-K for the year ended December 31, 2004 (the Form 10-K); their separate unaudited financial statements (including the combined notes thereto) included in Item 1 of their combined Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2005 (the First Quarter Form 10-Q) and; O&R's separate unaudited financial statements (including notes thereto) for the quarterly period ended March 31, 2005 (the First Quarter Report) which is available on the O&R website ([www.oru.com](http://www.oru.com)). 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 financial statements in Item 8 of the Form 10-K for information pertaining to the Company's current rate agreements.



## Notes to the Financial Statements (Unaudited) - Continued

### Regulatory Assets and Liabilities

Regulatory assets and liabilities at June 30, 2005 and December 31, 2004 were comprised of the following items:

(Millions of Dollars)	2005	2004
<b>Regulatory Assets</b>		
Transition bond charges	\$72	\$74
Environmental remediation costs	61	59
Future federal income tax	48	47
Retirement program costs	50	42
Recoverable energy costs	17	18
Other	12	13
<b>Total Regulatory Assets</b>	<b>\$260</b>	<b>\$253</b>
<b>Regulatory Liabilities</b>		
Allowance for cost of removal less salvage	\$57	\$57
Unrealized gains on hedging	39	16
Refundable energy costs	23	29
Provision for rate refund	4	-
NYS tax law changes	11	11
Other	12	14
<b>Total Regulatory Liabilities</b>	<b>\$146</b>	<b>\$127</b>

### Note B – Stock-Based Compensation

Reference is made to “Stock-Based Compensation” in Note A to the financial statements in Item 8 of the Form 10-K. There would be no material effect on net income for the three and six months ended June 30, 2005 and 2004 if O&R had applied the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, “Accounting for Stock-Based Compensation,” for the purposes of recognizing compensation expense for employee stock-based arrangements.

### Note C – Long-Term Debt

On March 31, 2005 O&R issued (in a transaction exempt from the registration requirements of the Securities Act of 1933, as amended) \$40 million of 10-year debentures with a coupon rate of 5.3 percent and a maturity date of April 1, 2015.

## Notes to the Financial Statements (Unaudited) - Continued

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

For information about O&R's commercial paper program and revolving credit agreements, see Note D to the financial statements in the First Quarter Report, which is available on the O&R website. At June 30, 2005, O&R had \$4.4 million of commercial paper outstanding. The weighted average interest rate for the six-month period was 3.05 percent. At June 30, 2005, O&R had no loans outstanding under any of the credit agreements and \$2.1 million of letters of credit were outstanding.

### Note E – Pension Benefits

Reference is made to Note E to the financials statements in Item 8 of the Form 10-K.

#### Net Periodic Benefit Cost

The components of the Company's net periodic benefit costs for the three and six months ended June 30, 2005 and 2004 were as follows:

(Millions of Dollars)	For the Three Months Ended June 30,	
	2005	2004
Service cost – including administrative expenses	\$2	\$2
Interest cost on projected benefit obligation	7	6
Expected return on plan assets	(6)	(5)
Amortization of net actuarial loss	4	3
Amortization of prior service costs	1	-
<b>TOTAL PERIODIC BENEFIT COST</b>	<b>\$ 8</b>	<b>\$6</b>
Cost capitalized	(2)	(1)
Cost deferred	(3)	(1)
<b>Cost charged to operating expenses</b>	<b>\$ 3</b>	<b>\$4</b>

(Millions of Dollars)	For the Six Months Ended June 30,	
	2005	2004
Service cost – including administrative expenses	\$5	\$4
Interest cost on projected benefit obligation	14	13
Expected return on plan assets	(12)	(11)
Amortization of net actuarial loss	8	6
Amortization of prior service costs	1	-
<b>TOTAL PERIODIC BENEFIT COST</b>	<b>\$ 16</b>	<b>\$12</b>
Cost capitalized	(3)	(2)
Cost deferred	(7)	(1)
<b>Cost charged to operating expenses</b>	<b>\$ 6</b>	<b>\$9</b>

#### Expected Contributions

Based on current estimates, O&R is not required under funding regulations and laws to make any contributions to the pension plan during 2005. O&R expects to make discretionary contributions of \$29 million by September 2005.

## Notes to the Financial Statements (Unaudited) - Continued

### Note F – Other Postretirement Benefits

Reference is made to Note F to the financials statements in Item 8 of the Form 10-K.

#### Net Periodic Benefit Cost

The components of the Company's net periodic postretirement benefit costs for the three and six months ended June 30, 2005 and 2004 were as follows:

(Millions of Dollars)	For the Three Months Ended June 30,	
	2005	2004
Service cost	\$1	\$-
Interest cost on accumulated other postretirement benefit obligation	3	2
Expected return on plan assets	(2)	(1)
Amortization of net actuarial loss	3	2
Amortization of prior service cost	-	-
<b>NET PERIODIC POSTRETIREMENT BENEFIT COST</b>	<b>\$5</b>	<b>\$3</b>
Cost capitalized	(1)	(1)
Cost deferred	(2)	(1)
Cost charged to operating expenses	\$2	\$1

(Millions of Dollars)	For the Six Months Ended June 30,	
	2005	2004
Service cost	\$ 2	\$1
Interest cost on accumulated other postretirement benefit obligation	5	4
Expected return on plan assets	(3)	(2)
Amortization of net actuarial loss	5	3
Amortization of prior service cost	-	-
<b>NET PERIODIC POSTRETIREMENT BENEFIT COST</b>	<b>\$9</b>	<b>\$6</b>
Cost capitalized	(2)	(2)
Cost deferred	(3)	(1)
Cost charged to operating expenses	\$4	\$3

#### Expected Contributions

Based on current estimates, O&R expects to make contributions of \$13 million to the other postretirement benefit plans in 2005.

### Note G – 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).

## Notes to the Financial Statements (Unaudited) - Continued

### MGP Sites

The New York State Department of Environmental Conservation (DEC) requires O&R to develop and implement remediation programs for their MGP Sites. O&R has investigated and detected soil and/or groundwater contamination to varying degrees at all of their MGP Sites and has completed an Interim Remedial Measure at one MGP Site. In addition, in 2004 the DEC approved a remedial action plan for another of O&R's MGP Sites. Additional investigation and determination of the remediation and monitoring methods will be required at their other MGP Sites. At June 30, 2005 and December 31, 2004, O&R had an accrued liability of \$57 million for their MGP Sites. In 2004, O&R estimated that the aggregate undiscounted potential liability for the remediation of the MGP Sites could range from approximately \$31 million to \$87 million. These estimates were based on assumptions regarding the extent of contamination and the type and extent of remediation that may be required in light of the information available, applicable remediation standards and experience with similar sites. Actual experience may be materially different. O&R is permitted under its current rate agreements to recover or defer as regulatory assets (for subsequent recovery through rates) certain site investigation and remediation costs. At June 30, 2005 and December 31, 2004, O&R's regulatory asset for recovery of these costs were \$61 million and \$59 million, respectively. Environmental remediation costs incurred as of June 30, 2005 were approximately \$2 million and there were no insurance recoveries during the period.

### 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 millions of dollars but O&R believes that these amounts are greatly exaggerated, as experienced through 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 workers' compensation proceedings (including those related to asbestos exposure) and the amounts deferred as regulatory assets at June 30, 2005 and December 31, 2004 were as follows:

(Millions of Dollars)	2005	2004
Accrued liability – asbestos suits	\$-	\$1
Regulatory assets – asbestos suits	-	1
Accrued liability – workers' compensation	5	4

## Notes to the Financial Statements (Unaudited) - Continued

### Note H – Financial Information By Business Segment

Reference is made to Note O to the financial statements in Item 8 of the Form 10-K and to Note J to the financial statements in Part 1, Item 1 of the First Quarter 10-Q.

The financial data for the business segments are as follows:

For the Three Months Ended June 30,								
(Millions of Dollars)	Operating Revenues		Intersegment Revenues		Depreciation and Amortization		Operating Income	
	2005	2004	2005	2004	2005	2004	2005	2004
O&R								
Electric*	\$ 123	\$ 122	\$ -	\$ -	\$ 5	\$ 6	\$ 11	\$ 10
Gas	34	34	-	-	3	2	-	-
Total O&R	\$ 157	\$ 156	\$ -	\$ -	\$ 8	\$ 8	\$ 11	\$ 10

\* Operating revenues and operating income in 2005 include amounts related to RECO securitization.

For the Six Months Ended June 30,								
(Millions of Dollars)	Operating Revenues		Intersegment Revenues		Depreciation and Amortization		Operating Income	
	2005	2004	2005	2004	2005	2004	2005	2004
O&R								
Electric*	\$ 244	\$ 242	\$ -	\$ -	\$ 12	\$ 12	\$ 23	\$ 19
Gas	131	127	-	-	5	5	11	10
Total O&R	\$ 375	\$ 369	\$ -	\$ -	\$ 17	\$ 17	\$ 34	\$ 29

\* Operating revenues and operating income in 2005 include amounts related to RECO securitization.

### Note I – Derivative Instruments and Hedging Activities

Reference is made to Note P to the financial statements in Item 8 of the Form 10-K.

#### 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, basis swaps, transmission congestion contracts and financial transmission rights contracts. The fair values of these hedges at June 30, 2005 and December 31, 2004 were as follows:

(Millions of Dollars)	2005	2004
Fair value of net assets	\$37	\$14

Pursuant to SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," the Company 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 financial statements in Item 8 of the Form 10-K.

## Notes to the Financial Statements (Unaudited) - Continued

### Cash Flow Hedges

O&R 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. 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 six months ended June 30, 2005 and 2004 were immaterial to the results of operations of O&R for those periods. The following table presents selected information related to these cash flow hedges included in the accumulated OCI at June 30, 2005:

(Millions of Dollars)	Accumulated Other Comprehensive Income/(Loss) Net of Tax	Portion Expected to be Reclassified to Earnings during the Next 12 Months
Energy Price Hedges	\$1	\$1

The actual amounts that will be reclassified to earnings may vary from the expected amounts presented above 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 six months.

### Interest Rate Hedging

O&R uses interest rate swaps to manage interest rate exposure associated with debt. The fair values of these interest rate swaps at June 30, 2005 and December 31, 2004 were as follows:

(Millions of Dollars)	2005	2004
Fair value of interest rate swaps	\$(16)	\$(16)

### Cash Flow Hedges

O&R's interest rate swaps are designated as cash flow hedges under SFAS No. 133. Unrealized gains or losses on the hedges are 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 selected information related to these cash flow hedges included in the accumulated OCI at June 30, 2005:

(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	\$(9)	\$(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 will have no impact on results of operations.

## Notes to the Financial Statements (Unaudited) - Continued

### Note J – Related Party Transactions

Reference is made to Note U to the financial statements in Item 8 of the Form 10-K.

O&R provides and receives administrative and other services to and from Con Edison and its subsidiaries pursuant to cost allocation procedures approved by the PSC. 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 O&R, and received from Con Edison and its subsidiaries for the three and six months ended June 30, 2005 and 2004 were as follows:

(Millions of Dollars)	For the Three Months		For the Six Months	
	Ended June 30,		Ended June 30,	
	2005	2004	2005	2004
Cost of services provided	\$4	\$4	\$7	\$ 7
Cost of services received	\$6	\$6	\$13	\$11

In addition, O&R purchased from Con Edison of New York \$39 million and \$36 million of natural gas for the three months ended June 30, 2005 and 2004, respectively, and \$74 million and \$65 million for the six months ended June 30, 2005 and 2004, respectively. These amounts are net of the effect of related hedging transactions.

O&R also purchased from Consolidated Edison Energy, Inc., a wholly owned subsidiary of Con Edison, \$1 million and \$3 million of electricity for its New Jersey regulated subsidiary for the three months ended June 30, 2005 and 2004, respectively, and \$2 million and \$7 million for the six months ended June 30, 2005 and 2004, respectively, pursuant to a statewide energy auction.

In December 2003, 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 \$150 million outstanding at any time, at prevailing market rates. O&R has not borrowed any funds from Con Edison of New York.

### Note K – New Financial Accounting Standards

In May 2005, the Financial Accounting Standard Board (FASB) issued Statement No. 154, "Accounting for Changes and Error Corrections" (SFAS No. 154), which is effective for fiscal years beginning after December 15, 2005. This statement replaces Accounting Principles Board Opinion No. 20, "Accounting Changes" (APB 20) and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements." APB 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS No. 154 requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period specific effects or the cumulative effect of the change. The adoption of SFAS No. 154 is not expected to have a material impact on the Company's financial position, results of operations or liquidity.

## **Notes to the Financial Statements (Unaudited) - Continued**

In June 2005, the Emerging Issues Task Force reached a consensus on Issue 05-6, "Determining the Amortization Period for Leasehold Improvements," effective for periods beginning after June 30, 2005 and reached a tentative conclusion on Issue 04-13, "Accounting for Purchases and Sales of Inventory with the Same Counterparty," effective for reporting periods beginning after March 15, 2006. In July 2005, the FASB issued an Exposure Draft titled "Accounting for Uncertain Tax Positions," an interpretation of FASB Statement No. 109, "Accounting for Income Taxes." These standards are not expected to have a material impact on the Company's financial position, results of operations, or liquidity.

For information about other recent financial accounting standards, see Note K to the financial statements in the First Quarter Report, which is available on the O&R website.