

**Orange and Rockland Utilities, Inc.**  
**Second Quarter 2015 Financial Statements and Notes**

Financial Statements (Unaudited)

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## Independent Auditor's Report

To the Board of Directors of Orange and Rockland Utilities, Inc.:

We have reviewed the accompanying consolidated interim financial information of Orange and Rockland Utilities, Inc. and its subsidiaries ("the Company"), which comprise the consolidated balance sheet as of June 30, 2015, and the related consolidated statements of income, comprehensive income, and shareholder's equity for the three-month and six-month periods ended June 30, 2015 and 2014 and the consolidated statement of cash flows for the six-month periods ended June 30, 2015 and 2014.

### ***Management's Responsibility for the Consolidated Interim Financial Information***

The Company's management is responsible for the preparation and fair presentation of the consolidated interim financial information in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of the consolidated interim financial information in accordance with accounting principles generally accepted in the United States of America.

### ***Auditor's Responsibility***

Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information taken as a whole. Accordingly, we do not express such an opinion.

### ***Conclusion***

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial information for it to be in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matter***

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet and related consolidated statement of capitalization of the Company as of December 31, 2014, and the related consolidated statements of income, comprehensive income, cash flows, and shareholder's equity for the year then ended (not presented herein), and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated March 6, 2015. In our opinion, the information set forth in the accompanying consolidated balance sheet information and consolidated statement of shareholder's equity as of June 30, 2015, is consistent, in all material respects, with the audited consolidated balance sheet from which it has been derived.

*PricewaterhouseCoopers LLP*

August 14, 2015

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
	<i>(Millions of Dollars)</i>			
<b>OPERATING REVENUES</b>				
Electric	\$162	\$157	\$318	\$320
Gas	16	35	93	128
<b>TOTAL OPERATING REVENUES</b>	<b>178</b>	<b>192</b>	<b>411</b>	<b>448</b>
<b>OPERATING EXPENSES</b>				
Purchased power	54	52	105	120
Gas purchased for resale	9	15	31	55
Operations and maintenance	85	76	167	154
Depreciation and amortization	17	15	34	29
Taxes, other than income taxes	15	14	31	31
<b>TOTAL OPERATING EXPENSES</b>	<b>180</b>	<b>172</b>	<b>368</b>	<b>389</b>
<b>OPERATING INCOME/(LOSS)</b>	<b>(2)</b>	<b>20</b>	<b>43</b>	<b>59</b>
<b>OTHER INCOME</b>				
Investment and other income	—	1	1	2
Allowance for equity funds used during construction	—	1	—	1
<b>TOTAL OTHER INCOME</b>	<b>—</b>	<b>2</b>	<b>1</b>	<b>3</b>
<b>INCOME/(LOSS) BEFORE INTEREST AND INCOME TAX EXPENSE</b>	<b>(2)</b>	<b>22</b>	<b>44</b>	<b>62</b>
<b>INTEREST EXPENSE</b>				
Interest on long-term debt	8	8	16	17
Other interest	1	—	2	1
Allowance for borrowed funds used during construction	—	—	—	(1)
<b>NET INTEREST EXPENSE</b>	<b>9</b>	<b>8</b>	<b>18</b>	<b>17</b>
<b>INCOME/(LOSS) BEFORE INCOME TAX EXPENSE</b>	<b>(11)</b>	<b>14</b>	<b>26</b>	<b>45</b>
<b>INCOME TAX EXPENSE/(BENEFIT)</b>	<b>(4)</b>	<b>6</b>	<b>10</b>	<b>16</b>
<b>NET INCOME/(LOSS)</b>	<b>\$(7)</b>	<b>\$8</b>	<b>\$16</b>	<b>\$29</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,	
	2015	2014	2015	2014
	<i>(Millions of Dollars)</i>			
NET INCOME/(LOSS)	\$(7)	\$8	\$16	\$29
OTHER COMPREHENSIVE INCOME, NET OF TAXES				
Pension and other postretirement benefit plan liability adjustments, net of taxes	2	1	5	3
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAXES	2	1	5	3
COMPREHENSIVE INCOME/(LOSS)	\$(5)	\$9	\$21	\$32

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,

	2015	2014
	<i>(Millions of Dollars)</i>	
<b>OPERATING ACTIVITIES</b>		
Net income	\$16	\$29
<b>PRINCIPAL NON-CASH CHARGES/(CREDITS) TO INCOME</b>		
Depreciation and amortization	34	29
Deferred income taxes	(3)	6
Rate case amortizations	12	7
Other non-cash items (net)	6	6
<b>CHANGES IN ASSETS AND LIABILITIES</b>		
Accounts receivable – customers, less allowance for uncollectibles	4	(8)
Accounts receivable from affiliated companies	(2)	25
Materials and supplies, including gas in storage	7	5
Prepayments, other receivables and other current assets	20	13
Accounts payable	(6)	(5)
Accounts payable to affiliated companies	(5)	—
Pensions and retiree benefits obligations (net)	21	24
Pensions and retiree contributions	(1)	(1)
Accrued taxes	(1)	—
Accrued taxes to affiliated companies	4	(16)
Accrued interest	—	(1)
Accrued wages	(4)	(3)
Superfund and environmental remediation costs (net)	1	(1)
Deferred charges, noncurrent assets and other regulatory assets	5	(17)
Deferred credits and other regulatory liabilities	8	16
Other current and noncurrent liabilities	(8)	—
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>108</b>	<b>108</b>
<b>INVESTING ACTIVITIES</b>		
Utility construction expenditures	(65)	(66)
Cost of removal less salvage	(4)	(3)
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>(69)</b>	<b>(69)</b>
<b>FINANCING ACTIVITIES</b>		
Net payment of short-term debt	(76)	(20)
Issuance of long-term debt	120	—
Debt issuance costs	(1)	—
Retirement of long-term debt	(42)	(1)
Dividend to parent	(60)	(20)
<b>NET CASH FLOWS USED IN FINANCING ACTIVITIES</b>	<b>(59)</b>	<b>(41)</b>
<b>CASH AND TEMPORARY CASH INVESTMENTS:</b>		
<b>NET CHANGE FOR THE PERIOD</b>	<b>(20)</b>	<b>(2)</b>
<b>BALANCE AT BEGINNING OF PERIOD</b>	<b>49</b>	<b>29</b>
<b>BALANCE AT END OF PERIOD</b>	<b>\$29</b>	<b>\$27</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH INFORMATION</b>		
Cash paid during the period for:		
Interest	\$15	\$15
Income taxes	\$10	\$17
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INFORMATION</b>		
Construction expenditures in accounts payable	\$14	\$15

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

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

	June 30, 2015	December 31, 2014
	<i>(Millions of Dollars)</i>	
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and temporary cash investments	\$29	\$49
Accounts receivable – customers, less allowance for uncollectible accounts of \$5 and \$4 in 2015 and 2014, respectively	67	71
Other receivables, less allowance for uncollectible accounts of \$2 in 2015 and 2014	4	9
Accrued unbilled revenue	31	43
Accounts receivable from affiliated companies	17	15
Gas in storage, at average cost	9	16
Materials and supplies, at average cost	18	18
Prepayments	24	29
Regulatory assets	15	16
Deferred tax assets	18	24
Other current assets	6	5
<b>TOTAL CURRENT ASSETS</b>	<b>238</b>	<b>295</b>
<b>INVESTMENTS</b>	<b>18</b>	<b>18</b>
<b>UTILITY PLANT, AT ORIGINAL COST</b>		
Electric	1,522	1,491
Gas	650	633
General	207	200
<b>TOTAL</b>	<b>2,379</b>	<b>2,324</b>
Less: Accumulated depreciation	665	644
Net	1,714	1,680
Construction work in progress	60	60
<b>NET UTILITY PLANT</b>	<b>1,774</b>	<b>1,740</b>
<b>OTHER NONCURRENT ASSETS</b>		
Regulatory assets	635	675
Other deferred charges and noncurrent assets	18	21
<b>TOTAL OTHER NONCURRENT ASSETS</b>	<b>653</b>	<b>696</b>
<b>TOTAL ASSETS</b>	<b>\$2,683</b>	<b>\$2,749</b>

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

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

	June 30, 2015	December 31, 2014
	<i>(Millions of Dollars)</i>	
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Long-term debt due within one year	\$103	\$143
Notes payable	—	76
Accounts payable	60	69
Accounts payable to affiliated companies	19	24
Customer deposits	14	13
Accrued taxes	3	4
Accrued taxes to affiliated companies	10	6
Accrued interest	7	7
Accrued wages	7	11
Fair value of derivative liabilities	3	4
Regulatory liabilities	34	45
Other current liabilities	34	40
<b>TOTAL CURRENT LIABILITIES</b>	<b>294</b>	<b>442</b>
<b>NONCURRENT LIABILITIES</b>		
Provision for injuries and damages	6	6
Pensions and retiree benefits	410	421
Superfund and other environmental costs	95	98
Deferred income taxes and investment tax credits	528	533
Regulatory liabilities	175	156
Other deferred credits and noncurrent liabilities	15	11
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>1,229</b>	<b>1,225</b>
<b>LONG-TERM DEBT</b>	<b>575</b>	<b>457</b>
<b>COMMON SHAREHOLDER'S EQUITY (See Statement of Shareholder's Equity)</b>	<b>585</b>	<b>625</b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<b>\$2,683</b>	<b>\$2,749</b>

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

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

<i>(Millions of Dollars/Except Share Data)</i>	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
	Shares	Amount				
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
Net income				8		8
Common stock dividend to parent				(10)		(10)
Other comprehensive income					1	1
BALANCE AS OF JUNE 30, 2014	1,000	\$—	\$304	\$343	\$(15)	\$632
BALANCE AS OF DECEMBER 31, 2014	1,000	\$—	\$304	\$354	\$(33)	\$625
Net income				22		22
Common stock dividend to parent				(50)		(50)
Other comprehensive income					3	3
BALANCE AS OF MARCH 31, 2015	1,000	\$—	\$304	\$326	\$(30)	\$600
Net loss				(7)		(7)
Common stock dividend to parent				(10)		(10)
Other comprehensive income					2	2
BALANCE AS OF JUNE 30, 2015	1,000	\$—	\$304	\$309	\$(28)	\$585

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 six months ended June 30, 2015 and 2014, operating revenues for RECO and Pike were 22.1 percent and 1.4 percent and 18.3 percent and 1.3 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 State Public Service Commission (NYSPSC), the New Jersey Board of Public Utilities (NJBPU) and the Pennsylvania Public Utility Commission (PAPUC) with respect to rates and accounting.

The interim consolidated financial statements as of June 30, 2015 and for the three and six month periods ended June 30, 2015 and 2014 (the Second Quarter Financial Statements) are unaudited but, in the opinion of the Company's management, reflect all adjustments (which include only normally recurring adjustments) necessary for a fair presentation of the results for the interim periods presented. The sum of the quarterly financial information may vary from the six month period ended June 30, 2015 data due to rounding. The Second Quarter Financial Statements should be read together with the audited consolidated financial statements of the Company, as of December 31, 2014 and 2013 and for each of the three years ended December 31, 2014, including the notes thereto.

The Company has, pursuant to the accounting rules for subsequent events, evaluated events or transactions that occurred after June 30, 2015 through the posting on its website (August 14, 2015) of the Second Quarter Financial Statements for potential recognition or disclosure in the Second Quarter Financial Statements.

### Note A – Summary of Significant Accounting Policies

#### Changes in Accumulated Other Comprehensive Income/(Loss) by Component

For the three and six months ended June 30, 2015 and 2014, changes to accumulated other comprehensive income/(loss) (OCI) are as follows:

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

	For the Three Months Ended June 30,	
<i>(Millions of Dollars)</i>	2015	2014
Beginning balance, accumulated OCI, net of taxes (a)	\$(30)	\$(16)
Amounts reclassified from accumulated OCI related to pension plan liabilities, net of tax of \$(1) in 2015 and 2014 (a)(b)	2	1
Current period OCI, net of taxes	2	1
Ending balance, accumulated OCI, net of taxes	\$(28)	\$(15)

	For the Six Months Ended June 30,	
<i>(Millions of Dollars)</i>	2015	2014
Beginning balance, accumulated OCI, net of taxes (a)	\$(33)	\$(18)
OCI before reclassifications, net of tax of \$(2) and \$(1) in 2015 and 2014, respectively	2	1
Amounts reclassified from accumulated OCI related to pension plan liabilities net of tax of \$(2) and \$(1), in 2015 and 2014, respectively (a)(b)	3	2
Current period OCI, net of taxes	5	3
Ending balance, accumulated OCI, net of taxes	\$(28)	\$(15)

- (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 total periodic pension and other postretirement benefit cost.
- (b) Tax reclassified from accumulated OCI is reported in the income tax expense line item of the consolidated income statement.

### Reclassifications and Revisions

Prior period amounts have been reclassified where necessary to conform to the current period presentation.

## Note B – Regulatory Matters

### Rate Plans

#### O&R New York – Electric and Gas

In June 2015, O&R entered into a Joint Proposal with the NYSPSC staff and other parties for new electric and gas rate plans for its New York jurisdictional services. Under the Joint Proposal, which is subject to NYSPSC review and approval, the new rate plans would be effective November 2015. The following tables contain a summary of the new rate plans:

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

### O&R New York - Electric

Effective period	November 2015 - October 2017
Base rate changes	Yr. 1 - \$9.3 million Yr. 2 - \$8.8 million
Amortizations to income of net regulatory (assets) and liabilities (a)	Yr. 1 - \$(8.5) million Yr. 2 - \$(9.4) million
Revenue decoupling mechanism	Continued reconciliation of actual electric delivery revenues to those authorized in the rate plan.
Recoverable energy costs	Continued current rate recovery of purchased power costs.
Negative revenue adjustments	Potential penalties (up to \$4 million annually) if certain performance targets are not met.
Cost reconciliations	Continued reconciliation of expenses for pension and other postretirement benefits, property taxes, the impact of new laws and environmental remediation to amounts reflected in rates.
Net utility plant reconciliations (b)	Target levels reflected in rates are: Yr. 1 - \$928 million Yr. 2 - \$970 million
Average rate base	Yr. 1 - \$763 million Yr. 2 - \$805 million
Weighted average cost of capital (after-tax)	Yr. 1 - 7.10 percent Yr. 2 - 7.06 percent
Authorized return on common equity	9.0 percent
Earnings sharing	Most earnings above an annual earnings threshold of 9.6 percent are to be applied to reduce regulatory assets.
Cost of long-term debt	Yr. 1 - 5.42 percent Yr. 2 - 5.35 percent
Common equity ratio	48 percent

- (a) The Joint Proposal provides that the company should be allowed to recover from customers \$59.3 million of its regulatory asset for deferred storm costs over a five-year period, including \$11.85 million in each of years 1 and 2, \$1 million of the regulatory asset for such costs will not be recovered from customers, and all outstanding issues related to Superstorm Sandy and other past major storms prior to November 2014 are resolved. The Joint Proposal also provides that a total of approximately \$4 million of regulatory assets for property tax and interest rate reconciliations will not be recovered from customers. Amounts that will not be recovered from customers were charged-off in June 2015.
- (b) Excludes electric advanced metering infrastructure as to which the company will be required to defer as a regulatory liability the revenue requirement impact of the amount, if any, by which actual average net utility plant balances are less than amounts reflected in rates: \$1 million in year 1 and \$9 million in year 2.

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

### O&R New York - Gas

Effective period	November 2015 - October 2018
Base rate changes (a)	Yr. 1 - \$27.5 million Yr. 2 - \$4.4 million Yr. 3 - \$6.7 million
Amortizations to income of net regulatory (assets) and liabilities (b)	Yr. 1 - \$(1.7) million Yr. 2 - \$(2.1) million Yr. 3 - \$(2.5) million
Revenue decoupling mechanism	Continued reconciliation of actual gas delivery revenues to those authorized in the rate plan, including through weather normalization clause.
Recoverable energy costs	Continued current rate recovery of purchased gas costs.
Negative revenue adjustments	Potential penalties (up to \$3.7 million in Yr. 1, \$4.7 million in Yr. 2 and \$5.8 million in Yr. 3) if certain performance targets are not met.
Cost reconciliations	Continued reconciliation of expenses for pension and other postretirement benefits, property taxes, the impact of new laws and environmental remediation to amounts reflected in rates.
Net utility plant reconciliations (c)	Target levels reflected in rates are: Yr. 1 - \$492 million Yr. 2 - \$518 million Yr. 3 - \$546 million
Average rate base	Yr. 1 - \$366 million Yr. 2 - \$391 million Yr. 3 - \$417 million
Weighted average cost of capital (after-tax)	Yr. 1 - 7.10 percent Yr. 2 - 7.06 percent Yr. 3 - 7.06 percent
Authorized return on common equity	9.0 percent
Earnings sharing	Most earnings above an annual earnings threshold of 9.6 percent are to be applied to reduce regulatory assets.
Cost of long-term debt	Yr. 1 - 5.42 percent Yr. 2 - 5.35 percent Yr. 3 - 5.35 percent
Common equity ratio	48 percent

- (a) The base rate changes may be implemented, at the NYSPSC's option, with increases of \$16.4 million in each of years 1 and 2 and an increase of \$5.8 million, together with a surcharge of \$10.6 million, in year 3.
- (b) Reflects that the company will not recover from customers a total of approximately \$14 million of regulatory assets for property tax and interest rate reconciliations. Amounts that will not be recovered from customers were charged-off in June 2015.
- (c) Excludes gas advanced metering infrastructure as to which the company will be required to defer as a regulatory liability the revenue requirement impact of the amount, if any, by which actual average net utility plant balances are less than amounts reflected in rates: \$0.5 million in year 1, \$4.2 million in year 2 and \$7.2 million in year 3.

### Other Regulatory Matters

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 June 30, 2015, O&R incurred response and restoration costs for Superstorm Sandy of \$91 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. Collection from customers of these costs is provided for under the June 2015 Joint Proposal with respect to O&R's electric rates (which is subject to NYSPSC approval) and RECO's current electric rate plan. See "Rate Plans," above.

In June 2014, the NYSPSC initiated a proceeding to investigate the practices of qualifying persons to perform plastic fusions on gas facilities. New York State regulations require gas utilities to qualify and, except in certain circumstances, annually requalify workers that perform fusion to join plastic pipe. The NYSPSC directed the New York gas utilities to provide information in this proceeding about their compliance with the qualification and requalification requirements and related matters; their procedures for compliance with all gas safety regulations; and their annual chief executive officer certifications regarding these and other procedures. O&R had not timely

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

requalified certain workers that had been qualified under its procedures to perform fusion to join plastic pipe. O&R has requalified its workers who perform plastic pipe fusions. In May 2015, the NYSPSC, which indicated that it would address enforcement at a later date, ordered O&R and other gas utilities to perform risk assessment and remediation plans, additional leakage surveying and reporting; and the gas utilities to implement certain new plastic fusion requirements.

### Regulatory Assets and Liabilities

Regulatory assets and liabilities at June 30, 2015 and December 31, 2014 were comprised of the following items:

<i>(Millions of Dollars)</i>	2015	2014
<b>Regulatory assets</b>		
Unrecognized pension and other postretirement costs	\$209	\$237
Future income tax	110	108
Environmental remediation costs	101	105
Deferred storm costs	86	95
Property tax reconciliation	40	36
Pension and other postretirement benefits deferrals	27	24
Transition bond charges	24	27
Revenue taxes	12	12
Deferred derivative losses	5	2
Surcharge for New York State assessment	3	7
Other	18	22
<b>Regulatory assets – noncurrent</b>	<b>635</b>	<b>675</b>
Future income tax	8	10
Deferred derivative losses	5	5
Recoverable energy costs	2	1
<b>Regulatory assets – current</b>	<b>15</b>	<b>16</b>
<b>Total Regulatory Assets</b>	<b>\$650</b>	<b>\$691</b>
<b>Regulatory liabilities</b>		
Allowance for cost of removal less salvage	\$102	\$98
Pension and other postretirement benefit deferrals	24	10
Carrying charges on deferred tax liability	20	17
Long-term debt interest reconciliation	10	—
Net utility plant reconciliations	—	1
Other	19	30
<b>Regulatory liabilities – noncurrent</b>	<b>175</b>	<b>156</b>
Refundable energy costs	33	45
Other	1	—
<b>Regulatory liabilities – current</b>	<b>34</b>	<b>45</b>
<b>Total Regulatory Liabilities</b>	<b>\$209</b>	<b>\$201</b>

### Note C – Capitalization

#### Long-Term Debt

In June 2015, the Company issued \$120 million aggregate principal amount of 4.95 percent debentures, due 2045.

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

The carrying amounts and fair values of long-term debt at June 30, 2015 and December 31, 2014 are:

<i>(Millions of Dollars)</i>	2015		2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-Term Debt (including current portion)	\$678	\$727	\$600	\$689

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

At June 30, 2015 and December 31, 2014, 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 \$17 million and \$18 million at June 30, 2015 and December 31, 2014, respectively, of Transition Bonds issued by Transition Funding in July 2004. The proceeds from the Transition Bonds were used to purchase from 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 June 30, 2015, O&R had no commercial paper outstanding. At December 31, 2014, O&R had \$76 million of commercial paper outstanding. At June 30, 2015 and December 31, 2014, an immaterial amount of letters of credit were outstanding for O&R under the Credit Agreement.

### Note E – Pension Benefits

#### Total Periodic Benefit Cost

The components of the Company's total periodic benefit costs for the three and six months ended June 30, 2015 and 2014 were as follows:

<i>(Millions of Dollars)</i>	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Service cost – including administrative expenses	\$4	\$4	\$9	\$7
Interest cost on projected benefit obligation	9	9	18	18
Expected return on plan assets	(11)	(11)	(22)	(21)
Recognition of net actuarial loss	10	8	21	16
Recognition of prior service costs	1	—	1	1
<b>TOTAL PERIODIC BENEFIT COST</b>	<b>\$13</b>	<b>\$10</b>	<b>\$27</b>	<b>\$21</b>
Cost capitalized	(4)	(3)	(8)	(6)
Reconciliation to rate level	1	3	1	6
Cost charged to operating expenses	\$10	\$10	\$20	\$21

#### Expected Contributions

Based on estimates as of June 30, 2015, O&R expects to make contributions to the pension plans during 2015 of \$53 million. O&R's policy is to fund the total periodic benefit cost of the qualified plan to the extent tax deductible and to also contribute to the non-qualified supplemental plan. During the first six months of 2015, the Company contributed \$1 million to the pension plans.

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

### Note F – Other Postretirement Benefits

#### Total Periodic Benefit Cost

The components of the Company's total periodic other postretirement benefit costs for the three and six months ended June 30, 2015 and 2014 were as follows:

<i>(Millions of Dollars)</i>	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Service cost – including administrative expenses	\$1	\$1	\$2	\$2
Interest cost on projected other postretirement benefit obligation	2	2	4	4
Expected return on plan assets	(2)	(2)	(5)	(5)
Recognition of net actuarial loss	1	1	2	3
Recognition of prior service costs	(2)	(1)	(3)	(2)
<b>TOTAL PERIODIC OTHER POSTRETIREMENT BENEFIT COST</b>	<b>\$—</b>	<b>\$1</b>	<b>\$—</b>	<b>\$2</b>
Cost capitalized	—	—	—	(1)
Reconciliation to rate level	2	2	5	5
Cost charged to operating expenses	\$2	\$3	\$5	\$6

#### Expected Contributions

Based on estimates as of June 30, 2015, O&R expects to make a contribution of an immaterial amount to the other postretirement benefit plans in 2015. O&R's policy is to fund the total periodic benefit cost of the plans to the extent tax deductible.

### 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 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

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

liability represents an estimate of the Company's share of the 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 June 30, 2015 and December 31, 2014 were as follows:

<i>(Millions of Dollars)</i>	2015	2014
Accrued Liabilities:		
Manufactured gas plant sites	\$94	\$97
Other Superfund Sites	1	1
Total	\$95	\$98
Regulatory assets	\$101	\$105

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. The Company is unable to estimate the time period over which the remaining accrued liability will be incurred because, among other things, the required remediation has not been determined for some of the sites.

Under its current rate plans, the Company is permitted to recover or defer as regulatory assets (for subsequent recovery through rates) certain site investigation and remediation costs. The amount of site investigation and remediation costs to be recovered is reduced by, among other things, insurance recoveries. The June 2015 Joint Proposal for new electric and gas rate plans (see Note B), which is subject to NYSPSC approval, continues these provisions of the current rate plans. The Joint Proposal also provides that the NYSPSC may consider and address the amount of any claims for site investigation and remediation costs under third-party liability policies denied by an insurer with which O&R is engaged in litigation. The insurer has denied coverage of claims submitted by O&R for approximately \$15 million of site investigation and remediation costs (which costs have been deferred as regulatory assets). O&R is currently seeking leave to appeal to the New York State Court of Appeals from adverse coverage determinations by lower courts.

Insurance recoveries related to Superfund Sites for the three and six months ended June 30, 2015 and 2014 were immaterial. Environmental remediation costs incurred related to Superfund Sites for the three and six months ended June 30, 2015 and 2014 were as follows:

<i>(Millions of Dollars)</i>	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Remediation costs incurred	\$1	\$3	\$3	\$4



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

In 2014, 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 environmental contaminants could range up to \$155 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; however, the Company believes that these amounts are greatly exaggerated, based on the disposition of previous claims. At June 30, 2015, the Company had accrued its estimated aggregate undiscounted potential liability for these suits and additional suits that may be brought over the next 15 years of \$0.3 million. The estimate was based upon a combination of modeling, historical data analysis and risk factor assessment. Trial courts have begun, and unless otherwise determined by an appellate court may continue, to apply a different standard for determining liability in asbestos suits than the standard that applied historically. As a result, the Company currently believes that there is a reasonable possibility of an exposure to loss in excess of the liability accrued for the suits. The Company is unable to estimate the amount or range of such loss. 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) and the amounts deferred as regulatory assets for the Company at June 30, 2015 and December 31, 2014 were as follows:

<i>(Millions of Dollars)</i>	2015	2014
Accrued liability – asbestos suits	\$0.3	\$0.3
Regulatory assets – asbestos suits	0.3	0.3
Accrued liability – workers' compensation	\$5.0	\$5.0
Regulatory assets – workers' compensation	—	—

### Note H – Income Tax

O&R's income tax benefit was \$4 million for the three months ended June 30, 2015, compared with an income tax expense of \$6 million for the three months ended June 30, 2014. The effective tax rate for the three months ended June 30, 2015 and 2014 was 37 percent and 41 percent, respectively. The decrease in the effective tax rate was due primarily to insurance reimbursements for injuries and damages received in 2015 that reduced the income tax benefit on the loss before income tax expense in the three months ended June 30, 2015 and lower

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

amortization of New York State's Metropolitan Transportation Authority business tax, partially offset by plant-related flow through items.

O&R's income tax expense decreased to \$10 million for the six months ended June 30, 2015, from \$16 million for the six months ended June 30, 2014. The effective tax rate for the six months ended June 30, 2015 and 2014 was 40 percent and 35 percent, respectively. The increase in the effective tax rate was due primarily to insurance reimbursements for injuries and damages received in 2015 and higher amortization of New York State's Metropolitan Transportation Authority business tax.

### Uncertain Tax Positions

At June 30, 2015, the estimated liability for uncertain tax positions for O&R was \$3 million. 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 reduce O&R's effective tax rate is \$3 million (\$2 million, net of federal taxes).

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 six months ended June 30, 2015, O&R recognized an immaterial amount of interest expense and no penalties for uncertain tax positions in its consolidated income statement. At June 30, 2015, O&R recognized an immaterial amount of accrued interest on its consolidated balance sheet.

### Note I – Financial Information by Business Segment

The financial data for the business segments are as follows:

<i>(Millions of Dollars)</i>	For the Three Months Ended June 30,							
	Operating revenues		Inter-segment revenues		Depreciation and amortization		Operating income/(loss)	
	2015	2014	2015	2014	2015	2014	2015	2014
Electric	\$162	\$157	\$—	\$—	\$13	\$11	\$16	\$25
Gas	16	35	—	—	4	4	(18)	(5)
Total	\$178	\$192	\$—	\$—	\$17	\$15	\$(2)	\$20

<i>(Millions of Dollars)</i>	For the Six Months Ended June 30,							
	Operating revenues		Inter-segment revenues		Depreciation and amortization		Operating income	
	2015	2014	2015	2014	2015	2014	2015	2014
Electric	\$318	\$320	\$—	\$—	\$25	\$21	\$34	\$37
Gas	93	128	—	—	9	8	9	22
Total	\$411	\$448	\$—	\$—	\$34	\$29	\$43	\$59

### Note J – Derivative Instruments and Hedging Activities

The Company hedges market price fluctuations associated with physical purchases and sales of electricity natural gas and, to a lesser extent, refined fuels by using derivative instruments including futures, forwards and options. Derivatives are recognized on the consolidated balance sheet at fair value (see Note K), unless an

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

exception is available under the accounting rules for derivatives and hedging. Qualifying derivative contracts that have been designated as normal purchases or normal sales contracts are not reported at fair value under the accounting rules.

The fair values of the Company's commodity derivatives including the offsetting of assets and liabilities on the consolidated balance sheet at June 30, 2015 and December 31, 2014 were:

<i>(Millions of Dollars)</i>	2015			2014		
<b>Balance Sheet Location</b>	<b>Gross Amounts of Recognized Assets/ (Liabilities)</b>	<b>Gross Amounts Offset</b>	<b>Net Amounts of Assets/ (Liabilities) (a)</b>	<b>Gross Amounts of Recognized Assets/ (Liabilities)</b>	<b>Gross Amounts Offset</b>	<b>Net Amounts of Assets/ (Liabilities) (a)</b>
Fair value of derivative assets						
Current	\$4	\$(4)	\$—	\$2	\$(2)	\$—
Noncurrent	2	(2)	—	3	(2)	1
Total fair value of derivative assets	\$6	\$(6)	\$—	\$5	\$(4)	\$1
Fair value of derivative liabilities						
Current	\$(8)	\$5	\$(3)	\$(6)	\$2	\$(4)
Noncurrent	(7)	2	(5)	(4)	3	(1)
Total fair value of derivative liabilities	\$(15)	\$7	\$(8)	\$(10)	\$5	\$(5)
Net fair value derivative assets/(liabilities)	\$(9)	\$1	\$(8)	\$(5)	\$1	\$(4)

(a) Derivative instruments and collateral were offset on the consolidated balance sheet as applicable under the accounting rules. The Company enters into master agreements for its commodity derivatives. These agreements typically provide offset in the event of contract termination. In such case, generally the non-defaulting party's payable will be offset by the defaulting 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 Company generally recovers its prudently incurred purchased power and gas costs, including hedging gains and losses, in accordance with rate provisions approved by the applicable state utility regulators. 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 electric and gas derivatives. As gains and losses are realized in future periods, they will be recognized as purchased power, gas and fuel costs in the Company's consolidated income statements.

O&R and 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.

The following table presents the realized and unrealized gains or losses on commodity derivatives that have been deferred for the three and six months ended June 30, 2015 and 2014:

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

For the Three Months Ended June 30,

<i>(Millions of Dollars)</i>	Balance Sheet Location	2015	2014
Pre-tax gains/(losses) deferred in accordance with accounting rules for regulated operations:			
Current	Deferred derivative gains	\$(1)	\$—
Noncurrent	Deferred derivative gains	—	1
Total deferred gains/(losses)		\$(1)	\$1
Current	Deferred derivative losses	\$(1)	\$—
Current	Recoverable energy costs	(3)	(1)
Noncurrent	Deferred derivative losses	(1)	—
Total deferred gains/(losses)		\$(5)	\$(1)
Net deferred gains/(losses)		\$(6)	\$—

For the Six Months Ended June 30,

<i>(Millions of Dollars)</i>	Balance Sheet Location	2015	2014
Pre-tax gains/(losses) deferred in accordance with accounting rules for regulated operations:			
Current	Deferred derivative gains	\$—	\$6
Noncurrent	Deferred derivative gains	—	1
Total deferred gains/(losses)		\$—	\$7
Current	Deferred derivative losses	\$—	\$—
Current	Recoverable energy costs	(1)	16
Noncurrent	Deferred derivative losses	(3)	1
Total deferred gains/(losses)		\$(4)	\$17
Net deferred gains/(losses)		\$(4)	\$24

The following table presents the hedged volume of the Company's derivative transactions at June 30, 2015:

Electric Energy (MWHs) (a)	Natural Gas (Dt) (a)
1,240,090	4,120,000

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

The Company is exposed to credit risk related to transactions entered into primarily for the various electric supply and hedging activities. Credit risk relates to the loss that may result from a counterparty's nonperformance. 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 measures credit risk exposure as the replacement cost for open energy commodity and derivative positions plus amounts owed from counterparties for settled transactions. The replacement cost of open positions represents unrealized gains, net of any unrealized losses where the Company has a legally enforceable right of offset.

At June 30, 2015, the Company had an immaterial amount of credit exposure in connection with energy supply and hedging activities, net of collateral.

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 a party to provide collateral on its derivative instruments that are in a net liability position. The amount of collateral to be provided will depend on the fair value of the derivative instruments and the party's credit ratings.

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

The following table presents the aggregate fair value of the Company's derivative instruments with credit-risk-related contingent features that are in a net liability position, the collateral posted for such positions 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 at June 30, 2015:

<i>(Millions of Dollars)</i>	<b>2015</b>
Aggregate fair value – net liabilities (a)	\$8
Collateral posted	—
Additional collateral (b) (downgrade one level from current ratings)	5
Additional collateral (b) (downgrade to below investment grade from current ratings)	11 (c)

- (a) Non-derivative transactions for the purchase and sale of electricity, gas and qualifying derivative instruments, which have been designated as normal purchases or normal sales, are excluded from the table. These transactions primarily include purchases of electricity from independent system operators. In the event the Company was no longer extended unsecured credit for such purchases, the Company would be not be required to post collateral at June 30, 2015. 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) 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 liabilities 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 Company has a legally enforceable right of offset.
- (c) Derivative instruments that are net assets have been excluded from the table. At June 30, 2015, if the Company had been downgraded to below investment grade, it would have been required to post an immaterial amount of additional collateral.

### 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 established 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

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

category includes contracts traded on active exchange markets valued using unadjusted prices quoted directly from the exchange.

- 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 June 30, 2015 and December 31, 2014 are summarized below.

<i>(Millions of Dollars)</i>	2015					2014				
	Level 1	Level 2	Level 3	Netting Adjustment (e)	Total	Level 1	Level 2	Level 3	Netting Adjustment (e)	Total
Derivative assets:										
Commodity (a)(b)(c)	\$—	\$—	\$—	\$—	\$—	\$—	\$1	\$—	\$—	\$1
Other (a)(b)(d)	8	10	—	—	18	8	10	—	—	18
<b>Total assets</b>	<b>\$8</b>	<b>\$10</b>	<b>\$—</b>	<b>\$—</b>	<b>\$18</b>	<b>\$8</b>	<b>\$11</b>	<b>\$—</b>	<b>\$—</b>	<b>\$19</b>
Derivative liabilities:										
Commodity (a)(b)(c)	\$—	\$9	\$—	\$(1)	\$8	\$—	\$6	\$—	\$(1)	\$5

(a) The Company's policy is to review the fair value hierarchy and recognize transfers into and transfers out of the levels at the end of each reporting period. There were no transfers between levels 1, 2 and 3 for the six months ended June 30, 2015 and the year ended December 31, 2014.

(b) Level 2 assets and liabilities include investments held in the deferred compensation plan and/or non-qualified retirement plans, 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.

(c) 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 June 30, 2015 and December 31, 2014, the Company determined that nonperformance risk would have no material impact on its financial position or results of operation.

(d) Other assets are comprised of assets such as life insurance contracts within the deferred compensation plan and non-qualified retirement plans.

(e) 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.

CECONY's risk management group develops and maintains the valuation policies and procedures for, and verifies pricing and fair value valuation of, commodity derivatives for the Utilities. Under CECONY's 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

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

basis to the Utilities' risk committees, comprised of officers and employees of the Utilities that oversee energy hedging. The risk management group reports to CECONY's Vice President and Treasurer.

### 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 NYSPPSC 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 and six months ended June 30, 2015 and 2014 were as follows:

<i>(Millions of Dollars)</i>	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Cost of services provided	\$4	\$5	\$8	\$9
Cost of services received	\$9	\$9	\$21	\$20

At June 30, 2015 and December 31, 2014, O&R's payable to Con Edison and its other subsidiaries associated with these services was \$7 million.

In addition, CECONY and O&R have joint gas supply arrangements, in connection with which O&R purchased from CECONY \$9 million and \$18 million of natural gas for the three months ended June 30, 2015 and 2014, respectively, and \$34 million and \$52 million of natural gas for the six months ended June 30, 2015 and 2014, respectively. These amounts are net of the effect of related hedging transactions. At June 30, 2015, O&R's net receivable from CECONY associated with these gas purchases was \$4 million and at December 31, 2014, O&R's net payable to CECONY was \$3 million. At June 30, 2015 and December 31, 2014, O&R's payable to Con Edison's competitive energy businesses associated with electricity purchases and retail services was \$1 million.

At June 30, 2015 and December 31, 2014, the Company's payable to Con Edison for income taxes was \$8 million and \$6 million, respectively.

FERC has authorized CECONY through 2015 to periodically lend funds to O&R, for periods of not more than 12 months, in amounts not to exceed \$250 million outstanding at any time, at prevailing market rates. At June 30, 2015 and December 31, 2014, there were no loans outstanding for O&R.

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

### Note M – New Financial Accounting Standards

In January 2015, the Financial Accounting Standards Board (FASB) issued amendments on income statement guidance through Accounting Standards Update (ASU) No. 2015-01, "Income Statement—Extraordinary and Unusual Items (Subtopic 225-20)." The amendments eliminate the requirement to report extraordinary items separately on the income statement. The amendments are effective for reporting periods beginning after December 15, 2015. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The application of this guidance is not expected to have a material impact on the Company's financial position, results of operations and liquidity.

In February 2015, the FASB issued amendments on consolidation guidance through ASU No. 2015-02, "Consolidation (Topic 810)." The amendments provide additional guidance for variable interest entity (VIE) accounting of limited partnerships and similar legal entities, fees paid to decision makers of a VIE, the effect of fee arrangements on primary beneficiary determination, and the effect of related parties on primary beneficiary determination. The amendments are effective prospectively for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted. The application of this guidance is not expected to have a material impact on the Company's financial position, results of operations and liquidity.

In April 2015, the FASB issued amendments on debt issuance costs guidance through ASU No. 2015-03, "Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." The amendments provide additional guidance requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a reduction of that debt liability rather than as a deferred cost (i.e. an asset) as required by current guidance. The amendments are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Early adoption is permitted. The application of this guidance is not expected to have a material impact on the Company's financial position, results of operations and liquidity.

In April 2015, the FASB issued amendments on internal-use software guidance through ASU No. 2015-05, "Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." The amendments provide guidance to customers about whether a cloud computing arrangement should be accounted for as a license of internal use software or as a service contract. The amendments are effective for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Early adoption is permitted. The application of this guidance is not expected to have a material impact on the Company's financial position, results of operations and liquidity.

In May 2015, the FASB issued amendments on disclosure guidance for investments using Net Asset Value per Share through ASU No. 2015-07, "Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)." The amendments remove the



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

requirement to categorize investments in the fair value hierarchy if Net Asset Value per Share is used as a practical expedient to determine the fair value of the investment. The amendments are effective for reporting periods beginning after December 15, 2016. Early adoption is permitted. The application of this guidance is not expected to have a material impact on the Company's financial position, results of operations and liquidity.

In July 2015, the FASB issued amendments on the measurement of first-in, first-out and average cost inventory through ASU No. 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory." The amendments require that inventory within the scope of the guidance be measured at the lower of cost and net realizable value rather than cost and market value. The amendments are effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted. The Company is evaluating the application and impact of the new guidance on the Company's financial position, results of operations and liquidity.

In August 2015, the FASB issued amendments on the accounting for derivative contracts through ASU No. 2015-13, "Derivatives and Hedging (Topic 815): Application of the Normal Purchases and Normal Sales Scope Exception to Certain Electricity Contracts within Nodal Energy Markets." The amendments specify that the use of locational marginal pricing by an independent system operator does not constitute a net settlement of the contract and would not cause the contract to fail the physical delivery criterion of the normal purchases and normal sales scope exception. The amendments are effective upon issuance and should be applied prospectively. The Company is evaluating the application and impact of the new guidance on the Company's financial position, results of operations and liquidity.