

Orange and Rockland Utilities, Inc.
Second Quarter 2016 Financial Statements and Notes

Financial Statements (Unaudited)

[Independent Auditor's Report](#)

[Consolidated Income Statement](#)

[Consolidated Statement of Comprehensive Income](#)

[Consolidated Statement of Cash Flows](#)

[Consolidated Balance Sheet](#)

[Consolidated Statement of Shareholder's Equity](#)

[Notes to the Financial Statements \(Unaudited\)](#)



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, 2016, and the related consolidated statements of income, comprehensive income, cash flows, and of shareholder's equity for the three-month and six-month periods ended June 30, 2016 and 2015.

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, 2015, and the related consolidated statements of income, comprehensive income, cash flows, and of 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 4, 2016. In our opinion, the information set forth in the accompanying consolidated balance sheet information and consolidated statement of shareholder's equity as of December 31, 2015, is consistent, in all material respects, with the audited consolidated balance sheet from which it has been derived.

PricewaterhouseCoopers LLP

August 11, 2016

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
	<i>(Millions of Dollars)</i>			
OPERATING REVENUES				
Electric	\$144	\$166	\$284	\$322
Gas	31	30	106	107
TOTAL OPERATING REVENUES	175	196	390	429
OPERATING EXPENSES				
Purchased power	45	54	85	105
Gas purchased for resale	8	9	23	31
Other operations and maintenance	73	103	143	185
Depreciation and amortization	17	17	33	34
Taxes, other than income taxes	19	15	40	31
TOTAL OPERATING EXPENSES	162	198	324	386
OPERATING INCOME/(LOSS)	13	(2)	66	43
OTHER INCOME (DEDUCTIONS)				
Investment and other income	—	—	—	1
TOTAL OTHER INCOME	—	—	—	1
INCOME BEFORE INTEREST AND INCOME TAX EXPENSE	13	(2)	66	44
INTEREST EXPENSE				
Interest on long-term debt	9	8	19	16
Other interest	—	1	—	2
NET INTEREST EXPENSE	9	9	19	18
INCOME/(LOSS) BEFORE INCOME TAX EXPENSE	4	(11)	47	26
INCOME TAX EXPENSE/(BENEFIT)	2	(4)	19	10
NET INCOME/(LOSS)	\$2	\$(7)	\$28	\$16

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,	
	2016	2015	2016	2015
	<i>(Millions of Dollars)</i>			
NET INCOME/(LOSS)	\$2	\$(7)	\$28	\$16
OTHER COMPREHENSIVE INCOME, NET OF TAXES				
Pension and other postretirement benefit plan liability adjustments, net of taxes	1	2	1	5
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAXES	1	2	1	5
COMPREHENSIVE INCOME/(LOSS)	\$3	\$(5)	\$29	\$21

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,

	2016	2015
	<i>(Millions of Dollars)</i>	
OPERATING ACTIVITIES		
Net income	\$28	\$16
PRINCIPAL NON-CASH CHARGES/(CREDITS) TO INCOME		
Depreciation and amortization	33	34
Deferred income taxes	12	(3)
Rate case amortizations	9	12
Other non-cash items, net	5	6
CHANGES IN ASSETS AND LIABILITIES		
Accounts receivable, customers	7	4
Accounts receivable from affiliated companies	9	(2)
Materials and supplies, including gas in storage	4	7
Prepayments, other receivables and other current assets	(10)	20
Accounts payable	10	(6)
Accounts payable to affiliated companies	4	(5)
Pensions and retiree benefits obligations, net	15	21
Pensions and retiree benefits contributions	(1)	(1)
Accrued taxes	—	(1)
Accrued taxes to affiliated companies	8	4
Accrued wages	—	(4)
Superfund and environmental remediation costs, net	(5)	1
Deferred charges, noncurrent assets and other regulatory assets	3	5
Deferred credits and other regulatory liabilities	(2)	8
Other current and noncurrent liabilities	2	(8)
NET CASH FLOWS FROM OPERATING ACTIVITIES	131	108
INVESTING ACTIVITIES		
Utility construction expenditures	(77)	(65)
Cost of removal less salvage	(3)	(4)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(80)	(69)
FINANCING ACTIVITIES		
Net payment of short-term debt	(60)	(76)
Issuance of long-term debt	—	120
Debt issuance costs	—	(1)
Retirement of long-term debt	(2)	(42)
Capital contribution by parent	20	—
Dividend to parent	(21)	(60)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	(63)	(59)
CASH AND TEMPORARY CASH INVESTMENTS:		
NET CHANGE FOR THE PERIOD	(12)	(20)
BALANCE AT BEGINNING OF PERIOD	45	49
BALANCE AT END OF PERIOD EXCLUDING HELD FOR SALE	\$33	\$29
SUPPLEMENTAL DISCLOSURE OF CASH INFORMATION		
Cash paid/(received) during the period for:		
Interest	\$18	\$15
Income taxes	\$(9)	\$10
SUPPLEMENTAL DISCLOSURE OF NON-CASH INFORMATION		
Construction expenditures in accounts payable	\$13	\$14

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

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

	June 30, 2016	December 31, 2015
	<i>(Millions of Dollars)</i>	
ASSETS		
CURRENT ASSETS		
Cash and temporary cash investments	\$33	\$45
Accounts receivable – customers, less allowance for uncollectible accounts of \$4 in 2016 and 2015	50	57
Other receivables, less allowance for uncollectible accounts of \$1 in 2016 and 2015	8	2
Accrued unbilled revenue	36	32
Accounts receivable from affiliated companies	5	14
Gas in storage, at average cost	8	12
Materials and supplies, at average cost	17	17
Prepayments	24	26
Regulatory assets	8	11
Assets held for sale	23	23
Other current assets	6	5
TOTAL CURRENT ASSETS	218	244
INVESTMENTS	21	22
UTILITY PLANT, AT ORIGINAL COST		
Electric	1,563	1,530
Gas	681	667
General	215	211
TOTAL	2,459	2,408
Less: Accumulated depreciation	690	665
Net	1,769	1,743
Construction work in progress	93	80
NET UTILITY PLANT	1,862	1,823
OTHER NONCURRENT ASSETS		
Regulatory assets	571	614
Other deferred charges and noncurrent assets	17	16
TOTAL OTHER NONCURRENT ASSETS	588	630
TOTAL ASSETS	\$2,689	\$2,719

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

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

	June 30, 2016	December 31, 2015
	<i>(Millions of Dollars)</i>	
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES		
Long-term debt due within one year	\$79	\$79
Notes payable	—	60
Accounts payable	64	63
Accounts payable to affiliated companies	19	15
Customer deposits	15	14
Accrued taxes	3	3
Accrued taxes to affiliated companies	10	2
Accrued interest	9	9
Accrued wages	9	9
Fair value of derivative liabilities	6	10
Regulatory liabilities	24	30
Liabilities held for sale	4	5
Other current liabilities	43	41
TOTAL CURRENT LIABILITIES	285	340
NONCURRENT LIABILITIES		
Provision for injuries and damages	6	6
Pensions and retiree benefits	339	347
Superfund and other environmental costs	94	100
Deferred income taxes and unamortized investment tax credits	539	526
Regulatory liabilities	190	188
Other deferred credits and noncurrent liabilities	15	17
TOTAL NONCURRENT LIABILITIES	1,183	1,184
LONG-TERM DEBT	588	590
COMMON SHAREHOLDER'S EQUITY (See Statement of Shareholder's Equity)	633	605
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	\$2,689	\$2,719

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, 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
BALANCE AS OF DECEMBER 31, 2015	1,000	\$—	\$304	\$325	\$(24)	\$605
Net income				26		26
Common stock dividend to parent				(11)		(11)
Other comprehensive income					—	—
BALANCE AS OF MARCH 31, 2016	1,000	\$—	\$304	\$340	\$(24)	\$620
Net income				2		2
Common stock dividend to parent				(10)		(10)
Capital contribution by parent			20			20
Other comprehensive income					1	1
BALANCE AS OF JUNE 30, 2016	1,000	\$—	\$324	\$332	\$(23)	\$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) (see Note N). For the six months ended June 30, 2016 and 2015, operating revenues for RECO and Pike were 21.6 percent and 1.2 percent and 22.1 percent and 1.4 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, 2016 and for the three and six month periods ended June 30, 2016 and 2015 (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, 2015 and 2014 and for each of the three years ended December 31, 2015, 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 June 30, 2016 through the posting on its website (August 11, 2016) of the Second Quarter Financial Statements for potential recognition or disclosure in the Second Quarter Financial Statements.

Notes to the Financial Statements (Unaudited) - continued

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, 2016 and 2015, changes to accumulated other comprehensive income/(loss) (OCI) are as follows:

<i>(Millions of Dollars)</i>	For the Three Months Ended June 30,	
	2016	2015
Beginning balance, accumulated OCI, net of taxes (a)	\$(24)	\$(30)
Amounts reclassified from accumulated OCI related to pension plan liabilities, net of tax of \$(1) in 2016 and 2015 (a)(b)	1	2
Current period OCI, net of taxes	1	2
Ending balance, accumulated OCI, net of taxes	\$(23)	\$(28)

<i>(Millions of Dollars)</i>	For the Six Months Ended June 30,	
	2016	2015
Beginning balance, accumulated OCI, net of taxes (a)	\$(24)	\$(33)
OCI before reclassifications, net of tax of \$1 and \$(2) in 2016 and 2015, respectively	(1)	2
Amounts reclassified from accumulated OCI related to pension plan liabilities, net of tax of \$(1) and \$(2), in 2016 and 2015 (a)(b)	2	3
Current period OCI, net of taxes	1	5
Ending balance, accumulated OCI, net of taxes	\$(23)	\$(28)

(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

A revision was made to O&R's consolidated income statement for the three and six months ended June 30, 2015 to reflect a charge to operations and maintenance expense of \$18 million relating to the June 2015 write-off of regulatory assets which was previously recorded in other operating revenues. The Company does not deem this revision material to its consolidated financial statements for the three and six months ended June 30, 2015.

Note B – Regulatory Matters

Rate Plans

RECO

In April 2016, RECO filed a request with the NJBPU for an electric rate increase of \$10 million, effective March 2017. The filing reflected a return on common equity of 10.20 percent and a common equity ratio of 49.81 percent. In July 2016, RECO filed an update to its April 2016 request. The Company decreased its requested March 2017 rate increase by \$1 million to \$9 million. The updated filing reflects a return on common equity of 10.20 percent and a common equity ratio of 49.71 percent. The filing reflects continuation of provisions pursuant to which the Company recovers its purchased power and fuel costs from customers.

Other Regulatory Matters

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

Notes to the Financial Statements (Unaudited) - continued

requelification 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 requelified certain workers that had been qualified under its procedures to perform fusion to join plastic pipe. O&R has requelified 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. In December 2015, the NYSPSC staff informed O&R that the Company had satisfactorily completed its risk assessment and remediation plan. The Company is unable to estimate the amount or range of its possible loss related to this proceeding.

Regulatory Assets and Liabilities

Regulatory assets and liabilities at June 30, 2016 and December 31, 2015 were comprised of the following items:

<i>(Millions of Dollars)</i>	2016	2015
Regulatory assets		
Unrecognized pension and other postretirement costs	\$155	\$179
Future income tax	117	118
Environmental remediation costs	104	105
Deferred storm costs	65	75
Property tax reconciliation	42	46
Pension and other postretirement benefits deferrals	30	29
Transition bond charges	18	20
Revenue taxes	14	13
Deferred derivative losses	3	4
Surcharge for New York State assessment	3	4
Other	20	21
Regulatory assets – noncurrent	571	614
Deferred derivative losses	6	10
Recoverable energy costs	2	1
Regulatory assets – current	8	11
Total Regulatory Assets	\$579	\$625
Regulatory liabilities		
Allowance for cost of removal less salvage	\$109	\$105
Pension and other postretirement benefit deferrals	29	30
Carrying charges on deferred tax liability	18	21
Long-term debt interest reconciliation	9	10
Earnings sharing - electric and gas	4	—
Other	21	22
Regulatory liabilities – noncurrent	190	188
Refundable energy costs	21	30
Revenue decoupling mechanism	2	—
Deferred derivative gains	1	—
Regulatory liabilities – current	24	30
Total Regulatory Liabilities	\$214	\$218

Notes to the Financial Statements (Unaudited) - continued

Note C – Capitalization

Long-Term Debt

The carrying amounts and fair values of long-term debt at June 30, 2016 and December 31, 2015 are:

<i>(Millions of Dollars)</i>	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-Term Debt (including current portion)	\$667	\$784	\$669	\$726

Fair values of long-term debt have been estimated primarily using available market information and are classified as Level 2 liabilities.

At June 30, 2016 and December 31, 2015, \$3 million of mortgage bonds, collateralized by substantially all utility plant and other physical property of Pike, were classified as held for sale (see Note N). Long-term debt also included \$13 million and \$14 million at June 30, 2016 and December 31, 2015, 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, 2016 O&R had no commercial paper outstanding. At December 31, 2015, O&R had \$60 million of commercial paper outstanding. At June 30, 2016 and December 31, 2015, 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, 2016 and 2015 were as follows:

<i>(Millions of Dollars)</i>	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Service cost – including administrative expenses	\$4	\$4	\$8	\$9
Interest cost on projected benefit obligation	9	9	18	18
Expected return on plan assets	(12)	(11)	(24)	(22)
Recognition of net actuarial loss	8	10	16	21
Recognition of prior service costs	1	1	1	1
TOTAL PERIODIC BENEFIT COST	\$10	\$13	\$19	\$27
Cost capitalized	(4)	(4)	(7)	(8)
Reconciliation to rate level	—	1	(1)	1
Cost charged to operating expenses	\$6	\$10	\$11	\$20

Expected Contributions

Based on estimates as of June 30, 2016, O&R expects to make contributions to the pension plans during 2016

Notes to the Financial Statements (Unaudited) - continued

of \$39 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 plan. During the first six months of 2016, the Company contributed \$1 million to the pension plans.

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, 2016 and 2015 were as follows:

<i>(Millions of Dollars)</i>	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Service cost – including administrative expenses	\$1	\$1	\$3	\$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	1	2
Recognition of prior service costs	(2)	(2)	(3)	(3)
TOTAL PERIODIC OTHER POSTRETIREMENT BENEFIT COST	\$—	\$—	\$—	\$—
Reconciliation to rate level	—	2	—	5
Cost charged to operating expenses	\$—	\$2	\$—	\$5

Expected Contributions

Based on estimates as of June 30, 2016, O&R expects to make a contribution of \$0.1 million to the other postretirement benefit plans in 2016. 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."

Notes to the Financial Statements (Unaudited) - continued

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 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, 2016 and December 31, 2015 were as follows:

<i>(Millions of Dollars)</i>	2016	2015
Accrued Liabilities:		
Manufactured gas plant sites	\$93	\$100
Other Superfund Sites	1	—
Total	\$94	\$100
Regulatory assets	\$104	\$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 electric and gas 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 the electric and gas rate plans 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 was then 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). In September 2015, the New York State Court of Appeals denied O&R's motion for leave to appeal adverse coverage determinations by lower courts. In December 2015, at the NYSPSC's direction, O&R made a filing explaining why the site investigation and remediation costs that were the subject of the litigation over insurance coverage should be recovered through rates.

Environmental remediation costs incurred related to Superfund Sites for the three and six months ended June 30, 2016 and 2015 were as follows:

Notes to the Financial Statements (Unaudited) - continued

<i>(Millions of Dollars)</i>	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Remediation costs incurred	\$7	\$1	\$7	\$3

No insurance recoveries were received by the Company for the three or six months ended June 30, 2016 and 2015.

In 2015, 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 \$151 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, 2016 and December 31, 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 as shown in the following table. 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.

Notes to the Financial Statements (Unaudited) - continued

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, 2016 and December 31, 2015 were as follows:

<i>(Millions of Dollars)</i>	2016	2015
Accrued liability – asbestos suits	\$0.3	\$0.3
Regulatory assets – asbestos suits	0.3	0.3
Accrued liability – workers' compensation	\$4.8	\$4.8
Regulatory assets – workers' compensation	—	—

Note H – Income Tax

O&R's income tax expense increased to \$2 million for the three months ended June 30, 2016 compared to an income tax benefit of \$4 million for the three months ended June 30, 2015. The effective tax rate for the three months ended June 30, 2016 and 2015 was 50 percent and 37 percent, respectively. The increase in O&R's effective tax rate is primarily related to a low amount of income before income tax expense for the three months ended June 30, 2016 and a decrease in tax benefits for plant-related flow through items, offset in part by lower reimbursement of insurance claims.

O&R's income tax expense increased to \$19 million for the six months ended June 30, 2016, from \$10 million for the six months ended June 30, 2015. The effective tax rate for the six months ended June 30, 2016 and 2015 was 41 percent and 40 percent, respectively. The increase in O&R's effective tax rate is primarily related to a decrease in tax benefits for plant-related flow through items, offset in part by lower reimbursement of insurance claims.

Uncertain Tax Positions

At June 30, 2016, 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 three and six months ended June 30, 2016, O&R recognized an immaterial amount of interest expense and no penalties for uncertain tax positions in its consolidated income statement. At June 30, 2016 and December 31, 2015, O&R recognized an immaterial amount of accrued interest on its consolidated balance sheet.

Notes to the Financial Statements (Unaudited) - continued

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	
	2016	2015	2016	2015	2016	2015	2016	2015
Electric	\$144	\$166	\$—	\$—	\$13	\$13	\$14	\$16
Gas	31	30	—	—	4	4	(1)	(18)
Total	\$175	\$196	\$—	\$—	\$17	\$17	\$13	\$(2)

<i>(Millions of Dollars)</i>	For the Six Months Ended June 30,							
	Operating revenues		Inter-segment revenues		Depreciation and amortization		Operating income	
	2016	2015	2016	2015	2016	2015	2016	2015
Electric	\$284	\$322	\$—	\$—	\$24	\$25	\$32	\$34
Gas	106	107	—	—	9	9	34	9
Total	\$390	\$429	\$—	\$—	\$33	\$34	\$66	\$43

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 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, 2016 and December 31, 2015 were:

<i>(Millions of Dollars)</i>	2016			2015		
	Gross Amounts of Recognized Assets/ (Liabilities)	Gross Amounts Offset	Net Amounts of Assets/ (Liabilities) (a)	Gross Amounts of Recognized Assets/ (Liabilities)	Gross Amounts Offset	Net Amounts of Assets/ (Liabilities) (a)
Balance Sheet Location						
Fair value of derivative assets						
Current	\$4	\$(4)	\$—	\$1	\$(1)	\$—
Noncurrent	6	(6)	—	6	(6)	—
Total fair value of derivative assets	\$10	\$(10)	\$—	\$7	\$(7)	\$—
Fair value of derivative liabilities						
Current	\$(8)	\$2	\$(6)	\$(10)	\$—	\$(10)
Noncurrent	(6)	4	(2)	(9)	6	(3)
Total fair value of derivative liabilities	\$(14)	\$6	\$(8)	\$(19)	\$6	\$(13)
Net fair value derivative assets/(liabilities)	\$(4)	\$(4)	\$(8)	\$(12)	\$(1)	\$(13)

- (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.

Notes to the Financial Statements (Unaudited) - continued

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, 2016 and 2015:

		For the Three Months Ended June 30,	
(Millions of Dollars)	Balance Sheet Location	2016	2015
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	\$7	\$(1)
Current	Recoverable energy costs	(5)	(3)
Noncurrent	Deferred derivative losses	6	(1)
Total deferred gains/(losses)		\$8	\$(5)
Net deferred gains/(losses)		\$9	\$(6)

		For the Six Months Ended June 30,	
(Millions of Dollars)	Balance Sheet Location	2016	2015
Pre-tax gains/(losses) deferred in accordance with accounting rules for regulated operations:			
Current	Deferred derivative gains	\$1	\$—
Noncurrent	Deferred derivative gains	2	—
Total deferred gains/(losses)		\$3	\$—
Current	Deferred derivative losses	\$4	\$—
Current	Recoverable energy costs	(12)	(1)
Noncurrent	Deferred derivative losses	1	(3)
Total deferred gains/(losses)		\$(7)	\$(4)
Net deferred gains/(losses)		\$(4)	\$(4)

Notes to the Financial Statements (Unaudited) - continued

The following table presents the hedged volume of the Company's derivative transactions at June 30, 2016:

Electric Energy (MWh) (a)	Capacity (MW) (a)	Natural Gas (Dt) (a)
1,605,930	2,400	1,930,000

(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, 2016, the Company had \$4 million of credit exposure in connection with energy supply and hedging activities, net of collateral. The net credit exposure was primarily with investment-grade counterparties.

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.

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, 2016:

(Millions of Dollars)

Aggregate fair value – net liabilities (a)	\$8
Collateral posted	1
Additional collateral (b) (downgrade one level from current ratings)	—
Additional collateral (b) (downgrade to below investment grade from current ratings)	10 (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 not be required to post collateral at June 30, 2016. 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, 2016, if the Company had been downgraded to below investment grade, it would have been required to post \$2 million of additional collateral.

Notes to the Financial Statements (Unaudited) - continued

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 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.

Notes to the Financial Statements (Unaudited) - continued

Assets and liabilities measured at fair value on a recurring basis as of June 30, 2016 and December 31, 2015 are summarized below.

<i>(Millions of Dollars)</i>	2016					2015				
	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)	\$—	\$—	\$4	\$(4)	\$—	\$—	\$—	\$1	\$(1)	\$—
Other (a)(b)(d)	8	13	—	—	21	14	8	—	—	22
Total assets	\$8	\$13	\$4	\$(4)	\$21	\$14	\$8	\$1	\$(1)	\$22
Derivative liabilities:										
Commodity (a)(b)(c)	\$—	\$8	\$—	\$0	\$8	\$—	\$13	\$—	\$—	\$13

- (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, 2016 and the year ended December 31, 2015.
- (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, 2016 and December 31, 2015, 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 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.

Commodity	Fair Value of Level 3 at June 30, 2016			Range
	<i>(Millions of Dollars)</i>	Valuation Techniques	Unobservable Inputs	
Electricity	\$4	Discounted Cash Flow	Forward capacity prices (a)	\$4.00-\$9.25 per kW-month

The table listed below provides a reconciliation of the beginning and ending net balances for assets and liabilities measured at fair value for the three and six months ended June 30, 2016 and 2015 and classified as Level 3 in the fair value hierarchy:

Notes to the Financial Statements (Unaudited) - continued

<i>(Millions of Dollars)</i>	For The Three Months Ended June 30,	
	2016	2015
Beginning balance as of April 1,	\$2	\$—
Included in earnings	—	—
Included in regulatory assets and liabilities	2	—
Purchases	—	—
Settlements	—	—
Ending balance as of June 30,	\$4	\$—

<i>(Millions of Dollars)</i>	For The Six Months Ended June 30,	
	2016	2015
Beginning balance as of January 1,	\$1	\$—
Included in earnings	—	—
Included in regulatory assets and liabilities	3	—
Purchases	—	—
Settlements	—	—
Ending balance as of June 30,	\$4	\$—

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

Note 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, 2016 and 2015 were as follows:

<i>(Millions of Dollars)</i>	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Cost of services provided	\$4	\$4	\$8	\$8
Cost of services received	\$10	\$9	\$22	\$21

At June 30, 2016 and December 31, 2015, O&R's payable to Con Edison and its other subsidiaries associated with these services was \$5 million.

Notes to the Financial Statements (Unaudited) - continued

In addition, CECONY and O&R have joint gas supply arrangements, in connection with which O&R purchased from CECONY \$9 million of natural gas for the three months ended June 30, 2016 and 2015, and \$22 million and \$34 million of natural gas for the six months ended June 30, 2016 and 2015, respectively. These amounts are net of the effect of related hedging transactions. At June 30, 2016 and December 31, 2015, O&R's net payable to CECONY associated with these gas purchases was \$10 million and \$6 million, respectively. At June 30, 2016 and December 31, 2015, O&R's payable to Con Edison's competitive energy businesses associated with electricity purchases and retail services was \$1 million.

At June 30, 2016, the Company's payable to Con Edison for income taxes was \$8 million. At December 31, 2015, the Company's receivable from Con Edison for income taxes was \$9 million.

FERC has authorized CECONY through 2017 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, 2016 and December 31, 2015, there were no loans outstanding for O&R.

Note M – New Financial Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board jointly issued a revenue recognition standard that will supersede the revenue recognition requirements within Accounting Standards Codification Topic 605, "Revenue Recognition," and most industry-specific guidance under the Codification through Accounting Standards Updates (ASU) No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." The purpose of the new guidance is to create a consistent framework for revenue recognition. The guidance clarifies how to measure and recognize revenue arising from customer contracts to depict the transfer of goods or services in an amount that reflects the consideration the entity expects to receive. Additionally, in March and April 2016, respectively, the FASB issued ASU No. 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)" to clarify how to apply the implementation guidance for principal versus agent considerations and ASU No. 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing" to clarify the guidance pertaining to identifying performance obligations and licensing implementation guidance. Furthermore in May 2016, the FASB issued ASU No. 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients" to clarify assessing collectibility, presentation of sales taxes, non-cash consideration, contract modification at transition, and completed contracts at transition. In August 2015, the FASB issued amendments to defer the effective date of ASU No. 2014-09 to annual reporting periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019 through ASU No. 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date." Early adoption is permitted for reporting periods beginning after December 15, 2016. The Company is in the process of evaluating the application and impact of the new guidance on the Company's financial position, results of operations and liquidity.

Notes to the Financial Statements (Unaudited) - continued

In January 2016, the FASB issued amendments on certain aspects of recognition, measurement, presentation, and disclosure of financial instruments through ASU No. 2016-01, "Financial Instruments (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." The amendments require changes to the accounting for equity investments, the presentation and disclosure requirements for financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, clarification was provided related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The amendments in this update are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted for portions of the standard. The Company is in the process of evaluating the potential impact of the new guidance on the Company's financial position, results of operations and liquidity.

In February 2016, the FASB issued amendments on financial reporting of leasing transactions through ASU No. 2016-02, "Leases (Topic 842)." The amendments require lessees to recognize assets and liabilities on the balance sheet and disclose key information about leasing arrangements. Lessees will need to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). Lessor accounting is similar to the current model, but updated to align with certain changes to the lessee model. For income statement purposes, the pattern of expense recognition will be dependent on whether transactions are designated as operating leases or finance leases. The amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. The amendments must be adopted using a modified retrospective transition and provide for certain practical expedients. The Company is in the process of evaluating the potential impact of the new guidance on the Company's financial position, results of operations and liquidity.

In March 2016, the FASB issued amendments to the guidance for Derivatives and Hedging accounting through ASU 2016-05, "Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships." The amendments clarify that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument under Topic 815 does not, in and of itself, require discontinuation of the application of hedge accounting. The amendments in this update are effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. 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 March 2016, the FASB issued amendments to clarify the guidance for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts through ASU No. 2016-06, "Derivatives & Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments." An entity performing the assessment under the amendments is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence. The amendments are effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods

Notes to the Financial Statements (Unaudited) - continued

within fiscal years beginning after December 15, 2018. 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 March 2016, the FASB issued amendments to eliminate the requirement to retroactively adopt the equity method of accounting when a company increases its level of ownership or degree of influence over an investment through ASU No. 2016-07, "Investments-Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting." This amendment requires that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in Accumulated Other Comprehensive Income at the date the investment qualifies for the equity method. The amendments in this Update are effective for reporting periods beginning after December 15, 2016. 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 March 2016, the FASB issued amendments to simplify several aspects of the accounting for share-based payment transactions through ASU No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." The amendments simplify areas such as income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments are effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. 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 2016, the FASB issued amendments to the guidance on revenue recognition and derivatives and hedging through ASU 2016-11, "Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting (SEC Update)." The amendment rescinds certain SEC guidance superseded by the newly issued revenue recognition and hedging guidance (ASU 2014-09 and 2014-16 respectively). The amendments will be effective upon adoption of the 2014-09 and 2014-16. The Company is in the process of evaluating the potential impact of the amendments on the Company's financial position, results of operations and liquidity.

In June 2016, the FASB issued amendments to the guidance for recognition of credit losses for financial instruments through ASU 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The amendment replaces the incurred loss impairment methodology which involved delayed recognition of credit losses. As the updated guidance requires expected credit losses to be reflected, a broader range of reasonable and supportable information must be considered in developing the credit loss estimates. This includes financial instruments that are valued at amortized cost and available for sale. The amendments in this Update are effective for annual periods beginning after December 15, 2020, and

Notes to the Financial Statements (Unaudited) - continued

interim periods within annual periods beginning after December 15, 2020. Early adoption is permitted where entities may adopt as of reporting periods beginning after December 15, 2018. The application of this guidance is not expected to have a material impact on the Company's financial position, results of operations and liquidity.

Note N — Assets Held For Sale

In October 2015, upon evaluating strategic alternatives, O&R entered into an agreement to sell Pike to Corning Natural Gas Holding Corporation (Corning) for \$16 million, including estimated working capital adjustments. The closing of the sale, which the Company expects to occur in 2016, is subject to certain regulatory approvals by the FERC and PAPUC, which have been obtained. In March 2016, FERC approved a proposed electric supply agreement between O&R and Pike. In June 2016, FERC approved a proposed gas supply and gas transportation agreement between O&R and Pike. In August 2016, the PAPUC approved a joint settlement petition submitted by Pike, O&R, Corning and other parties. In 2015, the Company classified the related electric and gas assets and liabilities as held for sale and ceased recording depreciation expense on these assets. At September 30, 2015, O&R recorded an impairment charge of \$5 million (\$3 million net of taxes), representing the difference between the carrying amount of Pike's assets and the estimated sales proceeds. The impairment is reflected in the amount included in assets held for sale on the Company's consolidated balance sheet at June 30, 2016.

At June 30, 2016, the carrying amounts of the assets and liabilities designated as held for sale were as follows:

<i>(Millions of Dollars)</i>	
Cash and temporary cash investments	\$4
Accrued unbilled revenue	1
Other assets	1
Total current assets	6
Utility plant, less accumulated depreciation of \$6	14
Regulatory assets	3
Total assets held for sale	\$23
Other	\$1
Total current liabilities	1
Long-term debt	3
Total liabilities held for sale	\$4