

**Orange and Rockland Utilities, Inc.**  
**Consolidated Financial Statements (Unaudited)**  
**Third Quarter 2019**



## Report of Independent Auditors

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 September 30, 2019, the related consolidated statements of income, comprehensive income, and shareholder's equity for the three-month and nine-month periods ended September 30, 2019 and 2018, and the related consolidated statement of cash flows for the nine-month periods ended September 30, 2019 and 2018.

### ***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.

### ***Auditors' 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 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 (not presented herein) of the Company as of December 31, 2018, 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 in our report dated March 11, 2019, we expressed an unmodified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2018, is consistent, in all material respects, with the audited consolidated balance sheet from which it has been derived.

November 12, 2019

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

<i>(Millions of Dollars)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>OPERATING REVENUES</b>				
Electric	\$210	\$212	\$493	\$505
Gas	31	34	185	186
<b>TOTAL OPERATING REVENUES</b>	<b>241</b>	<b>246</b>	<b>678</b>	<b>691</b>
<b>OPERATING EXPENSES</b>				
Purchased power	61	73	146	167
Gas purchased for resale	10	12	68	60
Other operations and maintenance	81	80	225	234
Depreciation and amortization	22	19	63	57
Taxes, other than income taxes	21	20	63	63
<b>TOTAL OPERATING EXPENSES</b>	<b>195</b>	<b>204</b>	<b>565</b>	<b>581</b>
<b>OPERATING INCOME</b>	<b>46</b>	<b>42</b>	<b>113</b>	<b>110</b>
<b>OTHER INCOME (DEDUCTIONS)</b>				
Allowance for equity funds used during construction	—	—	2	1
Other deductions	(3)	(5)	(10)	(17)
<b>TOTAL OTHER INCOME (DEDUCTIONS)</b>	<b>(3)</b>	<b>(5)</b>	<b>(8)</b>	<b>(15)</b>
<b>INCOME BEFORE INTEREST AND INCOME TAX EXPENSE</b>	<b>43</b>	<b>37</b>	<b>105</b>	<b>95</b>
<b>INTEREST EXPENSE</b>				
Interest on long-term debt	10	9	29	27
Other interest	1	1	2	3
Allowance for borrowed funds used during construction	(1)	—	(1)	(1)
<b>NET INTEREST EXPENSE</b>	<b>10</b>	<b>10</b>	<b>30</b>	<b>29</b>
<b>INCOME BEFORE INCOME TAX EXPENSE</b>	<b>33</b>	<b>27</b>	<b>75</b>	<b>66</b>
<b>INCOME TAX EXPENSE</b>	<b>8</b>	<b>6</b>	<b>15</b>	<b>14</b>
<b>NET INCOME</b>	<b>\$25</b>	<b>\$21</b>	<b>\$60</b>	<b>\$52</b>

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

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

<i>(Millions of Dollars)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
NET INCOME	\$25	\$21	\$60	\$52
OTHER COMPREHENSIVE INCOME, NET OF TAXES				
Pension and other postretirement benefit plan liability adjustments, net of taxes	1	2	5	7
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAXES	1	2	5	7
COMPREHENSIVE INCOME	\$26	\$23	\$65	\$59

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

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

<i>(Millions of Dollars)</i>	<b>For the Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>OPERATING ACTIVITIES</b>		
Net income	\$60	\$52
<b>PRINCIPAL NON-CASH CHARGES/(CREDITS) TO INCOME</b>		
Depreciation and amortization	63	57
Deferred income taxes	(3)	25
Rate case amortizations	(1)	13
Common equity component of allowance for funds used during construction	(2)	(1)
Unbilled revenue	7	24
Other non-cash items, net	7	24
<b>CHANGES IN ASSETS AND LIABILITIES</b>		
Accounts receivable - customers	11	(27)
Accounts receivable from affiliated companies	5	(20)
Materials and supplies, including gas in storage	(4)	(4)
Prepayments, other receivables and other current assets	(25)	(12)
Accounts payable	39	39
Accounts payable to affiliated companies	—	(8)
Pensions and retiree benefits obligations, net	18	22
Pensions and retiree benefits contributions	(31)	(39)
Accrued taxes to affiliated companies	7	(21)
Accrued interest	—	2
System benefit charge	(1)	3
Superfund and environmental remediation costs, net	3	—
Deferred charges, noncurrent assets and other regulatory assets	4	(48)
Deferred credits and other regulatory liabilities	10	32
Other current and noncurrent liabilities	1	(11)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>168</b>	<b>102</b>
<b>INVESTING ACTIVITIES</b>		
Utility construction expenditures	(157)	(142)
Cost of removal less salvage	(6)	(5)
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>(163)</b>	<b>(147)</b>
<b>FINANCING ACTIVITIES</b>		
Net payment of short-term debt	(13)	(16)
Issuance of long-term debt	—	125
Retirement of long-term debt	(2)	(51)
Debt issuance costs	—	(1)
Capital contribution by parent	30	—
Dividend to parent	(35)	(35)
<b>NET CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b>	<b>(20)</b>	<b>22</b>
<b>CASH, TEMPORARY CASH INVESTMENTS, AND RESTRICTED CASH:</b>		
<b>NET CHANGE FOR THE PERIOD</b>	<b>(15)</b>	<b>(23)</b>
<b>BALANCE AT BEGINNING OF PERIOD</b>	<b>52</b>	<b>47</b>
<b>BALANCE AT END OF PERIOD</b>	<b>\$37</b>	<b>\$24</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH INFORMATION</b>		
Cash paid during the period for:		
Interest	\$29	\$27
Income taxes	\$12	\$25
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INFORMATION</b>		
Construction expenditures in accounts payable	\$15	\$14
Software licenses acquired but unpaid as of end of period	\$4	\$5

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

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

<i>(Millions of Dollars)</i>	September 30, 2019	December 31, 2018
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and temporary cash investments	\$36	\$50
Accounts receivable – customers, less allowance for uncollectible accounts of \$5 in 2019 and 2018	74	85
Other receivables, less allowance for uncollectible accounts of \$1 in 2019 and 2018	15	7
Accrued unbilled revenue	27	34
Accounts receivable from affiliated companies	4	9
Gas in storage, at average cost	13	12
Materials and supplies, at average cost	24	21
Prepayments	47	29
Regulatory assets	13	12
Restricted cash	1	2
Other current assets	1	2
<b>TOTAL CURRENT ASSETS</b>	<b>255</b>	<b>263</b>
<b>INVESTMENTS</b>	<b>26</b>	<b>25</b>
<b>UTILITY PLANT, AT ORIGINAL COST</b>		
Electric	1,847	1,783
Gas	852	805
General	291	275
<b>TOTAL</b>	<b>2,990</b>	<b>2,863</b>
Less: Accumulated depreciation	811	782
<b>Net</b>	<b>2,179</b>	<b>2,081</b>
Construction work in progress	120	129
<b>NET UTILITY PLANT</b>	<b>2,299</b>	<b>2,210</b>
<b>OTHER NONCURRENT ASSETS</b>		
Regulatory assets	328	371
Operating lease right-of-use asset	3	—
Other deferred charges and noncurrent assets	24	23
<b>TOTAL OTHER NONCURRENT ASSETS</b>	<b>355</b>	<b>394</b>
<b>TOTAL ASSETS</b>	<b>\$2,935</b>	<b>\$2,892</b>

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

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

<i>(Millions of Dollars)</i>	September 30, 2019	December 31, 2018
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Long-term debt due within one year	\$60	\$62
Notes payable	41	54
Accounts payable	107	81
Accounts payable to affiliated companies	17	17
Customer deposits	12	12
Accrued taxes	3	3
Accrued taxes to affiliated companies	18	11
Accrued interest	9	9
Accrued wages	10	10
Fair value of derivative liabilities	11	7
Regulatory liabilities	37	41
System benefit charge	58	59
Operating lease liabilities	1	—
Other current liabilities	26	26
<b>TOTAL CURRENT LIABILITIES</b>	<b>410</b>	<b>392</b>
<b>NONCURRENT LIABILITIES</b>		
Provision for injuries and damages	5	6
Pensions and retiree benefits	235	277
Superfund and other environmental costs	83	85
Deferred income taxes and unamortized investment tax credits	313	309
Regulatory liabilities	381	374
Operating lease liabilities	2	—
Other deferred credits and noncurrent liabilities	41	43
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>1,060</b>	<b>1,094</b>
<b>LONG-TERM DEBT</b>	<b>694</b>	<b>694</b>
<b>SHAREHOLDER'S EQUITY (See Statement of Shareholder's Equity)</b>	<b>771</b>	<b>712</b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<b>\$2,935</b>	<b>\$2,892</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>(In Millions/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, 2017	1,000	\$—	\$324	\$362	\$(20)	\$666
Net income				23		23
Common stock dividend to parent				(12)		(12)
Other comprehensive income					4	4
BALANCE AS OF MARCH 31, 2018	1,000	\$—	\$324	\$373	\$(16)	\$681
Net income				8		8
Common stock dividend to parent				(11)		(11)
Other comprehensive income					1	1
BALANCE AS OF JUNE 30, 2018	1,000	\$—	\$324	\$370	\$(15)	\$679
Net income				21		21
Common stock dividend to parent				(12)		(12)
Other comprehensive income					2	2
BALANCE AS OF SEPTEMBER 30, 2018	1,000	\$—	\$324	\$379	\$(13)	\$690
Net income				7		7
Common stock dividend to parent				(11)		(11)
Capital contribution by parent			25			25
Other comprehensive income					1	1
BALANCE AS OF DECEMBER 31, 2018	1,000	\$—	\$349	\$375	\$(12)	\$712
Net income				32		32
Common stock dividend to parent				(12)		(12)
Other comprehensive income					3	3
BALANCE AS OF MARCH 31, 2019	1,000	\$—	\$349	\$395	\$(9)	\$735
Net income				2		2
Common stock dividend to parent				(11)		(11)
Capital contribution by parent			10			10
Other comprehensive income					1	1
BALANCE AS OF JUNE 30, 2019	1,000	\$—	\$359	\$386	\$(8)	\$737
Net income				25		25
Common stock dividend to parent				(12)		(12)
Capital contribution by parent			20			20
Other comprehensive income					1	1
BALANCE AS OF SEPTEMBER 30, 2019	1,000	\$—	\$379	\$399	\$(7)	\$771

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 one regulated utility subsidiary: Rockland Electric Company (RECO). For the nine months ended September 30, 2019 and 2018, operating revenues for RECO were 20.4 percent and 20.9 percent, respectively, of O&R's consolidated operating revenues. O&R, along with RECO, provides electric service in southeastern New York and adjacent areas of northern New Jersey and gas service in southeastern New York. 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) and the New Jersey Board of Public Utilities (NJBPU) with respect to rates and accounting.

The interim consolidated financial statements as of September 30, 2019 and for the three and nine month periods ended September 30, 2019 and 2018 (the Third 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 Third Quarter Financial Statements should be read together with the audited consolidated financial statements of the Company, as of December 31, 2018 and 2017 and for each of the three years ended December 31, 2018, including the notes thereto and the separate unaudited consolidated financial statements of the Company as of March 31, 2019 and June 30, 2019 and for the three and six month periods ended March 31, 2019 and June 30, 2019 and 2018, including the notes thereto.

The Company has, pursuant to the accounting rules for subsequent events, evaluated events or transactions that occurred after September 30, 2019 through the posting on its website (November 12, 2019) of the Third Quarter Financial Statements for potential recognition or disclosure in the Third Quarter Financial Statements.

### Note A – Summary of Significant Accounting Policies

#### Revenue Recognition

The following table presents, for the three and nine months ended September 30, 2019 and 2018, revenue from contracts with customers as defined in Accounting Standards Codification (ASC) Topic 606, "Revenue from Contracts with Customers," as well as additional revenue from sources other than contracts with customers, disaggregated by major source.

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

<i>(Millions of Dollars)</i>	For the Three Months Ended September 30, 2019			For the Three Months Ended September 30, 2018		
	Revenues from contracts with customers	Other revenues (a)	Total operating revenues	Revenues from contracts with customers	Other revenues (a)	Total operating revenues
Electric	\$205	\$5	\$210	\$215	\$(3)	\$212
Gas	25	6	31	31	3	34
<b>Total</b>	<b>\$230</b>	<b>\$11</b>	<b>\$241</b>	<b>\$246</b>	<b>\$—</b>	<b>\$246</b>

(a) This includes revenue from alternative revenue programs, such as the revenue decoupling mechanisms under the New York electric and gas rate plans.

<i>(Millions of Dollars)</i>	For the Nine Months Ended September 30, 2019			For the Nine Months Ended September 30, 2018		
	Revenues from contracts with customers	Other revenues (a)	Total operating revenues	Revenues from contracts with customers	Other revenues (a)	Total operating revenues
Electric	\$488	\$5	\$493	\$508	\$(3)	\$505
Gas	178	7	185	179	7	186
<b>Total</b>	<b>\$666</b>	<b>\$12</b>	<b>\$678</b>	<b>\$687</b>	<b>\$4</b>	<b>\$691</b>

(a) This includes revenue from alternative revenue programs, such as the revenue decoupling mechanisms under the New York electric and gas rate plans.

### Utility Plant

General utility plant included \$5 million at September 30, 2019 and December 31, 2018, related to a May 2018 acquisition of software licenses. The estimated aggregate annual amortization expense related to the software licenses is immaterial. The accumulated amortization was immaterial at September 30, 2019 and December 31, 2018.

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

For the three and nine months ended September 30, 2019 and 2018, changes to accumulated other comprehensive income/(loss) (OCI) are as follows:

<i>(Millions of Dollars)</i>	For the Three Months Ended September 30,	
	2019	2018
Beginning balance, accumulated OCI, net of taxes (a)	\$(8)	\$(15)
Amounts reclassified from accumulated OCI related to pension plan liabilities, net of tax of \$(1) in 2018 (a)(b)	1	2
Current period OCI, net of taxes	1	2
Ending balance, accumulated OCI, net of taxes	\$(7)	\$(13)

<i>(Millions of Dollars)</i>	For the Nine Months Ended September 30,	
	2019	2018
Beginning balance, accumulated OCI, net of taxes (a)	\$(12)	\$(20)
OCI before reclassifications, net of tax of \$(1) in 2019 and 2018	2	3
Amounts reclassified from accumulated OCI related to pension plan liabilities, net of tax of \$(1) in 2019 and 2018 (a)(b)	3	4
Current period OCI, net of taxes	5	7
Ending balance, accumulated OCI, net of taxes	\$(7)	\$(13)

- (a) Only RECO's portion of unrecognized pension and other postretirement benefit 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.

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

### Reconciliation of Cash, Temporary Cash Investments and Restricted Cash

Cash, temporary cash investments and restricted cash are presented on a combined basis in the Company's consolidated statement of cash flows. At September 30, 2019 and 2018, cash, temporary cash investments and restricted cash are as follows:

<i>(Millions of Dollars)</i>	At September 30,	
	2019	2018
Cash and temporary cash investments	\$36	\$22
Restricted cash (a)	1	2
Total cash, temporary cash investments and restricted cash	\$37	\$24

(a) Restricted cash is comprised of RECO transition bond charge collections, net of principal, interest, trustee and service fees.

### Note B – Regulatory Matters

#### Rate Plans

##### O&R New York – Electric and Gas

In March 2019, the NYSPSC approved the November 2018 joint proposal for new electric and gas rates. The joint proposal provides for electric rate increases of \$13.4 million, \$8.0 million and \$5.8 million, effective January 1, 2019, 2020 and 2021, respectively. The joint proposal provides for a gas rate decrease of \$7.5 million, effective January 1, 2019, and gas rate increases of \$3.6 million and \$0.7 million, effective January 1, 2020 and 2021, respectively.

#### RECO

In October 2019, the New Jersey Division of Rate Counsel staff submitted testimony in the NJBPU proceeding in which RECO requested an electric rate increase, effective February 2020. The Division of Rate Counsel staff testimony supports an electric rate increase of \$5.8 million reflecting, among other things, an 8.9 percent return on common equity and a common equity ratio of 47.14 percent. In October 2019, RECO filed an update to the request it filed in May 2019. The company increased its requested February 2020 rate increase from \$19.9 million to \$20.3 million. The updated filing reflects an increase to the common equity ratio from 49.93 percent to 50.16 percent and a decrease in the return on common equity from 10.00 percent to 9.60 percent.

#### Other Regulatory Matters

In January 2018, the NYSPSC issued an order initiating a focused operations audit of the income tax accounting of certain utilities, including O&R. The Company is unable to estimate the amount or range of its possible loss related to this matter. At September 30, 2019, the Company had not accrued a liability related to this matter.

In March 2018, Winter Storms Riley and Quinn caused damage to the Company's electric distribution systems and interrupted service to approximately 93,000 O&R customers and 44,000 RECO customers. At September 30, 2019, O&R and RECO costs related to 2018 storms amounted to \$43 million and \$17 million, respectively, most of which were deferred as regulatory assets pursuant to their electric rate plans. The NYSPSC investigated the preparation and response to the storms by O&R, and other New York electric

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

utilities, including all aspects of their emergency response plans. In April 2019, following the issuance of a NYSpsc staff report on the investigation, the NYSpsc ordered the utilities to show cause why the NYSpsc should not commence a penalty action against them for violating their emergency response plans. O&R is unable to estimate the amount or range of their possible loss related to this matter. At September 30, 2019, O&R had not accrued a liability related to this matter.

### Regulatory Assets and Liabilities

Regulatory assets and liabilities at September 30, 2019 and December 31, 2018 were comprised of the following items:

<i>(Millions of Dollars)</i>	2019	2018
<b>Regulatory assets</b>		
Unrecognized pension and other postretirement costs	\$103	\$127
Environmental remediation costs	89	94
Deferred storm costs	69	76
Pension and other postretirement benefits deferrals	21	17
Revenue taxes	13	12
Property tax reconciliation	10	15
Deferred derivative losses	9	6
Recoverable energy costs	—	3
Transition bond charges	—	2
Other	14	19
<b>Regulatory assets – noncurrent</b>	<b>328</b>	<b>371</b>
Deferred derivative losses	11	7
Recoverable energy costs	2	5
<b>Regulatory assets – current</b>	<b>13</b>	<b>12</b>
<b>Total Regulatory Assets</b>	<b>\$341</b>	<b>\$383</b>
<b>Regulatory liabilities</b>		
Future federal income tax	\$137	\$143
Allowance for cost of removal less salvage	144	138
Pension and other postretirement benefit deferrals	26	22
Tax Cuts and Job Act of 2017 (TCJA) net benefits	18	23
Carrying charges on deferred tax liability	12	15
Earnings sharing - electric and gas	7	10
Other	37	23
<b>Regulatory liabilities – noncurrent</b>	<b>381</b>	<b>374</b>
Refundable energy costs	28	23
Revenue decoupling mechanism	8	17
Deferred derivative gains	1	1
<b>Regulatory liabilities – current</b>	<b>37</b>	<b>41</b>
<b>Total Regulatory Liabilities</b>	<b>\$418</b>	<b>\$415</b>

### Note C – Capitalization

#### Long-Term Debt

In September 2019, O&R agreed to issue in November 2019 \$43 million aggregate principal amount of 3.73 percent debentures, due 2049 and to issue in December 2019 \$44 million aggregate principal amount of 2.94

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

percent debentures, due 2029 and \$38 million aggregate principal amount of 3.46 percent debentures, due 2039.

The carrying amounts and fair values of long-term debt at September 30, 2019 and December 31, 2018 were:

<i>(Millions of Dollars)</i>	2019		2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-Term Debt (including current portion) (a)	\$754	\$889	\$756	\$782

(a) Amounts shown are net of unamortized debt expense and unamortized debt discount of \$6 million at September 30, 2019 and December 31, 2018.

Fair values of long-term debt have been estimated primarily using available market information and are classified as Level 2 liabilities (see Note L). Long-term debt included \$2 million at December 31, 2018 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. In May 2019, RECO paid the remaining \$1 million principal amount of the Transition Bonds.

### Note D – Short-Term Borrowing

At September 30, 2019 and December 31, 2018, O&R had \$41 million and \$54 million of commercial paper outstanding, respectively. The weighted average interest rate at September 30, 2019 and December 31, 2018 was 2.2 percent and 3.0 percent, respectively. At September 30, 2019 and December 31, 2018, immaterial amounts 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 cost for the three and nine months ended September 30, 2019 and 2018 were as follows:

<i>(Millions of Dollars)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Service cost – including administrative expenses	\$4	\$5	\$12	\$14
Interest cost on projected benefit obligation	9	9	28	26
Expected return on plan assets	(13)	(13)	(38)	(40)
Recognition of net actuarial loss	7	9	20	27
Recognition of prior service cost	1	—	1	2
<b>TOTAL PERIODIC BENEFIT COST</b>	<b>\$8</b>	<b>\$10</b>	<b>\$23</b>	<b>\$29</b>
Cost capitalized	(1)	(2)	(4)	(5)
Reconciliation to rate level	(1)	2	(2)	6
<b>Total expense recognized</b>	<b>\$6</b>	<b>\$10</b>	<b>\$17</b>	<b>\$30</b>

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

Components of net periodic benefit cost other than service cost are presented outside of operating income on the Company's consolidated income statements, and only the service cost component is eligible for capitalization. Accordingly, the service cost component is included in the line "Other operations and maintenance" and the non-service cost components are included in the line "Other deductions" in the Company's consolidated income statements.

### Expected Contributions

Based on estimates as of September 30, 2019, O&R expects to make contributions to the pension plans during 2019 of \$32 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 nine months of 2019, the Company contributed \$31 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 cost for the three and nine months ended September 30, 2019 and 2018 were as follows:

<i>(Millions of Dollars)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Service cost – including administrative expenses	\$2	\$2	\$4	\$5
Interest cost on projected other postretirement benefit obligation	2	2	6	6
Expected return on plan assets	(3)	(3)	(9)	(8)
Recognition of net actuarial loss	—	1	1	4
Recognition of prior service cost/(credit)	—	(1)	—	(3)
<b>TOTAL PERIODIC OTHER POSTRETIREMENT BENEFIT COST</b>	<b>\$1</b>	<b>\$1</b>	<b>\$2</b>	<b>\$4</b>
Cost capitalized	(1)	(1)	(2)	(2)
Reconciliation to rate level	1	—	4	(1)
<b>Total expense recognized</b>	<b>\$1</b>	<b>\$—</b>	<b>\$4</b>	<b>\$1</b>

For information about the presentation of the components of other postretirement benefit costs, see Note E.

### Contributions

The Company made a contribution of \$0.3 million to the other postretirement benefit plans in 2019. 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.

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

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

For Superfund Sites where there are other potentially responsible parties and O&R is not managing the site investigation and remediation, the accrued liability represents an estimate of the amount O&R will need to pay to investigate and, where determinable, discharge its related obligations. For Superfund Sites (including the manufactured gas plant sites) for which O&R is managing the investigation and remediation, the accrued liability represents an estimate of the Company’s share of 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 September 30, 2019 and December 31, 2018 were as follows:

<i>(Millions of Dollars)</i>	2019	2018
Accrued Liabilities:		
Manufactured gas plant sites	\$82	\$84
Other Superfund Sites	1	1
Total	\$83	\$85
Regulatory assets	\$89	\$94

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 permitted to recover or defer as regulatory assets (for subsequent recovery through rates) prudently incurred site investigation and remediation costs.

Environmental remediation costs incurred related to Superfund Sites for the three and nine months ended September 30, 2019 and 2018 were as follows:

<i>(Millions of Dollars)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Remediation costs incurred	\$1	\$3	\$5	\$4



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

Insurance and other third-party recoveries received by the Company for the three and nine months ended September 30, 2019 and 2018 were immaterial.

In 2018, 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 \$142 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 September 30, 2019 and December 31, 2018, 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 estimates were based upon a combination of modeling, historical data analysis and risk factor assessment. Courts have begun, and unless otherwise determined on appeal may continue, to apply different standards 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 September 30, 2019 and December 31, 2018 were as follows:

<i>(Millions of Dollars)</i>	2019	2018
Accrued liability – asbestos suits	\$0.4	\$0.4
Regulatory assets – asbestos suits	0.4	0.4
Accrued liability – workers' compensation	\$4.0	\$4.0

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

### Note H – Leases

In January 2019, the Company early adopted Accounting Standards Update (ASU) No. 2016-02, “Leases (Topic 842),” including the amendments thereto, using a modified retrospective transition method of adoption that required no prior period adjustments or charges to retained earnings for cumulative impact. The standard supersedes the lease requirements within ASC Topic 840, “Leases.”

The Company leases office buildings, equipment and access rights to support electric distribution facilities. Upon adoption of Topic 842, the Company recognized lease right-of-use assets and lease liabilities on its balance sheets for virtually all of its leases (other than leases that meet the definition of a short-term lease, the expense for which was immaterial). A lease right-of-use asset represents a right to use an identifiable underlying asset and obtain substantially all of the economic benefits from the use of that asset for the lease term. A lease liability represents an obligation to make lease payments arising from the lease. Leases are classified as either operating leases or finance leases. Operating leases are included in operating lease right-of-use asset and operating lease liabilities on the Company’s balance sheet. Finance leases are included in other noncurrent assets, other current liabilities and other noncurrent liabilities. The Company, as a regulated entity, is permitted to continue to recognize expense for operating leases using the timing that conforms to the regulatory rate treatment as rental payments are recovered from our customers and to account the same way for finance leases. Lessor accounting is similar to the previous model, but updated to align with ASC Topic 606 “Revenue from Contracts with Customers.”

The Company elected the following practical expedients: (1) a package of practical expedients that allows the Company to not reassess: (a) whether expired or existing contracts contained leases; (b) the lease classification for expired or existing leases and (c) the initial direct costs for existing leases; (2) for all underlying asset classes, an expedient that allows the Company to not apply the recognition requirements to short-term leases and an expedient that will allow the Company to account for lease and associated non-lease components as a single lease component; (3) an expedient that allows the use of hindsight to determine lease term; and (4) an expedient that allows the Company to not evaluate under Topic 842 land easements that exist or expired before the entity’s adoption of Topic 842 and that were not previously accounted for as leases under Topic 840.

The Company, upon adoption of Topic 842 recognized, and for new operating leases at commencement date recognizes, operating lease right-of-use assets and operating lease liabilities based on the present value of the future minimum lease payments over the lease term. As most of the Company’s leases do not provide an implicit rate, the Company used its collateralized incremental borrowing rate based on the information available at the commencement date to determine the present value of future payments. Most of the Company’s leases have remaining lease terms of one year to 12 years, and may include options to renew or extend the leases for up to five years at the fair rental value. The Company’s lease terms may include options to renew, extend or terminate the lease when it is reasonably certain that the Company will exercise that option. There were no leases with material variable lease payments or residual value guarantees.

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

Operating lease cost and cash paid for amounts included in the measurement of lease liabilities for the three and nine months ended September 30, 2019 were as follows:

<i>(Millions of Dollars)</i>	For the Three Months Ended September 30,	For the Nine Months Ended September 30,
	2019	2019
Operating lease cost	\$0.3	\$0.7
Operating lease cash flows	\$0.3	\$0.7

As of September 30, 2019, assets recorded as finance leases for O&R were \$1.1 million, and the accumulated amortization associated with finance leases for O&R was \$1.6 million. For the three and nine months ended September 30, 2019, finance lease costs and cash flows for O&R were immaterial.

Right-of-use assets obtained in exchange for lease obligations were immaterial for O&R for the three and nine months ended September 30, 2019.

Other information related to leases for O&R at September 30, 2019 was as follows:

Weighted Average Remaining Lease Term:

Operating leases	3.9 years
Finance leases	19.4 years
Weighted Average Discount Rate:	
Operating leases	3.8%
Finance leases	3.1%

Future minimum lease payments under non-cancellable leases at September 30, 2019 were as follows:

<i>(Millions of Dollars)</i>	Operating Leases	Finance Leases
Year Ending September 30,		
2020	\$1.0	\$—
2021	1.0	—
2022	0.7	—
2023	0.1	—
2024	—	0.1
All years thereafter	0.2	0.7
Total future minimum lease payments	\$3.0	\$0.8
Less: imputed interest	(0.2)	(0.2)
Total	2.8	\$0.6
Reported as of September 30, 2019		
Operating lease liabilities (current)	\$0.9	\$—
Operating lease liabilities (noncurrent)	1.9	—
Other noncurrent liabilities	—	0.6
Total	\$2.8	\$0.6

At September 30, 2019, the Company does not have material obligations under operating or finance leases that have not yet commenced.

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

Disclosures related to the three and nine months ended September 30, 2019 are presented as required under Topic 842. Prior period disclosures for the year ended December 31, 2018 are presented under Topic 840. The Company has elected to use a practical expedient provided by Topic 842 whereby comparative disclosures for prior periods are allowed to be presented under Topic 840. Prior period disclosures under Topic 840 have been provided on an annual basis. As a result, the disclosures presented under Topic 842 and Topic 840 will not be fully comparable in specific disclosure requirements or time period.

The future minimum lease commitments at December 31, 2018, accounted for under Topic 840, for the Company's operating lease agreements that are not cancellable by the Company were as follows:

*(Millions of Dollars)*

2019	\$1.0
2020	0.9
2021	0.9
2022	0.5
2023	0.1
All years thereafter	0.2
Total	\$3.6

The Company is a lessor under certain leases whereby the Company owns real estate and leases portions of it to others. Revenue under such leases was immaterial for O&R for the three and nine months ended September 30, 2019.

### Note I – Income Tax

O&R's income tax expense increased to \$8 million for the three months ended September 30, 2019, from \$6 million for the three months ended September 30, 2018. The increase in income tax expense is due primarily to higher income before income tax expense.

O&R's income tax expense increased to \$15 million for the nine months ended September 30, 2019 from \$14 million for the nine months ended September 30, 2018. The increase in income tax expense is due primarily to higher income before income tax expense, offset, in part, by an increase in the amortization of excess deferred federal income taxes due to the TCJA.

Reconciliation of the difference between income tax expense and the amount computed by applying the prevailing statutory income tax rate to income before income taxes for the three and nine months ended September 30, 2019 and 2018 is as follows:

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

<i>(% of Pre-tax income)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>STATUTORY TAX RATE</b>				
Federal	21%	21%	21%	21%
Changes in computed taxes resulting from:				
State income tax	6	5	6	5
Cost of removal	2	1	2	2
Other plant-related items	(1)	—	(1)	—
Research and development credits	—	—	(1)	(1)
Amortization of excess deferred federal income taxes	(3)	(5)	(6)	(5)
Other	(1)	—	(1)	—
Effective tax rate	24%	22%	20%	22%

O&R deferred as a regulatory liability its estimated net benefits under the TCJA for the nine months ended September 30, 2018. RECO deferred as a regulatory liability its estimated net benefits under the TCJA for the three months ended March 31, 2018. The net benefits include the revenue requirement impact of the reduction in the corporate federal income tax rate to 21 percent, the elimination for utilities of bonus depreciation and the amortization of excess deferred federal income taxes the utilities collected from their customers that will not need to be paid to the Internal Revenue Service under the TCJA. See “Regulatory Assets and Liabilities” in Note B.

### Uncertain Tax Positions

At September 30, 2019, the estimated liability for uncertain tax positions for O&R was an immaterial amount. In June 2019, the New Jersey Superior Court, Appellate Division, upheld the New Jersey Tax Court’s ruling that RECO is required to add back the transitional energy facility assessment (TEFA) in computing its New Jersey taxable income. RECO will not ask for reconsideration or appeal this decision, and therefore, reversed both its \$2 million refund claim and its \$2 million reserve for uncertain tax positions. There was no impact to O&R’s effective tax rate.

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 nine months ended September 30, 2019, O&R recognized no interest expense or penalties for uncertain tax positions in its consolidated income statement. At September 30, 2019 and December 31, 2018, O&R recognized an immaterial amount of accrued interest on its consolidated balance sheet.

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

### Note J – Financial Information by Business Segment

O&R's principal business segments are its regulated electric and gas utility activities. The financial data for the business segments are as follows:

For the Three Months Ended September 30,						
<i>(Millions of Dollars)</i>	Operating revenues		Depreciation and amortization		Operating income	
	2019	2018	2019	2018	2019	2018
Electric	\$210	\$212	\$16	\$14	\$56	\$52
Gas	31	34	6	5	(10)	(10)
Total	\$241	\$246	\$22	\$19	\$46	\$42

For the Nine Months Ended September 30,						
<i>(Millions of Dollars)</i>	Operating revenues		Depreciation and amortization		Operating income	
	2019	2018	2019	2018	2019	2018
Electric	\$493	\$505	\$46	\$41	\$88	\$79
Gas	185	186	17	16	25	31
Total	\$678	\$691	\$63	\$57	\$113	\$110

### Note K – 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. These are economic hedges, for which the Company does not elect hedge accounting. Derivatives are recognized on the consolidated balance sheet at fair value (see Note L), 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.

In August 2017, the FASB issued amendments to the guidance for derivatives and hedging through ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." The amendments in this update provide greater clarification on hedge accounting for risk components, presentation and disclosure of hedging instruments, and overall targeted improvements to simplify hedge accounting. The amendments are effective for reporting periods beginning after December 15, 2019. The application of the guidance would not have a material impact on the Company's financial position, results of operations and liquidity because the Company does not elect hedge accounting for their derivative instruments and hedging activities.

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

The fair values of the Company's commodity derivatives including the offsetting of assets and liabilities on the consolidated balance sheet at September 30, 2019 and December 31, 2018 were:

<i>(Millions of Dollars)</i>	2019			2018		
Balance Sheet Location	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)
Fair value of derivative assets						
Current	\$1	\$—	\$1	\$1	\$—	\$1 (b)
Noncurrent	—	—	—	3	(2)	1
Total fair value of derivative assets	\$1	\$—	\$1	\$4	\$(2)	\$2
Fair value of derivative liabilities						
Current	\$(11)	\$—	\$(11)	\$(6)	\$(1)	\$(7)
Noncurrent	(9)	1	(8)	(6)	2	(4)
Total fair value of derivative liabilities	\$(20)	\$1	\$(19)	\$(12)	\$1	\$(11)
Net fair value derivative assets/(liabilities)	\$(19)	\$1	\$(18)	\$(8)	\$(1)	\$(9)

- (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.
- (b) At December 31, 2018, margin deposits of \$1 million were classified as derivative assets on the consolidated balance sheet, but not included in the table. Margin is collateral, typically cash, that the holder of a derivative instrument is required to deposit in order to transact on an exchange and to cover its potential losses with its broker or the exchange.

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 regulatory 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.

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

The following table presents the realized and unrealized gains or losses on commodity derivatives that have been deferred for the three and nine months ended September 30, 2019 and 2018:

<i>(Millions of Dollars)</i>	Balance Sheet Location	For the Three Months Ended September 30,	
		2019	2018
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)		\$—	\$(1)
Current	Deferred derivative losses	\$1	\$(1)
Current	Recoverable energy costs	(3)	2
Noncurrent	Deferred derivative losses	3	1
Total deferred gains/(losses)		\$1	\$2
Net deferred gains/(losses)		\$1	\$1

<i>(Millions of Dollars)</i>	Balance Sheet Location	For the Nine Months Ended September 30,	
		2019	2018
Pre-tax gains/(losses) deferred in accordance with accounting rules for regulated operations:			
Current	Deferred derivative gains	\$—	\$—
Noncurrent	Deferred derivative gains	(2)	1
Total deferred gains/(losses)		\$(2)	\$1
Current	Deferred derivative losses	\$(4)	\$(3)
Current	Recoverable energy costs	(12)	2
Noncurrent	Deferred derivative losses	(3)	2
Total deferred gains/(losses)		\$(19)	\$1
Net deferred gains/(losses)		\$(21)	\$2

The following table presents the hedged volume of the Company's derivative transactions at September 30, 2019:

Electric Energy (MWh) (a)	Capacity (MW) (a)	Natural Gas (Dt) (a)
2,529,260	3,480	15,950,000

(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.



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

At September 30, 2019, the Company had an immaterial amount of credit exposure in connection with open energy supply net receivables and hedging activities, net of collateral related to investment-grade counterparties and exchange brokers.

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 September 30, 2019:

*(Millions of Dollars)*

Aggregate fair value – net liabilities (a)	\$17
Collateral posted	6
Additional collateral (b) (downgrade one level from current ratings)	3
Additional collateral (b) (downgrade to below investment grade from current ratings)	14 (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 September 30, 2019. 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 September 30, 2019, if the Company had been downgraded to below investment grade, it would not have been required to post additional collateral for such derivative instruments.

### Note L – 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

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

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.

Assets and liabilities measured at fair value on a recurring basis as of September 30, 2019 and December 31, 2018 are summarized below.

<i>(Millions of Dollars)</i>	2019					2018				
	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	\$—	\$3	\$—	\$—	\$3
Other (a)(b)(d)	20	6	—	—	26	20	5	—	—	25
Total assets	\$20	\$7	\$—	\$—	\$27	\$20	\$8	\$—	\$—	\$28
Derivative liabilities:										
Commodity (a)(b)(c)	\$1	\$5	\$12	\$—	\$18	\$—	\$2	\$9	\$—	\$11

(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 nine months ended September 30, 2019 and for the year ended December 31, 2018.

(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.

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

- (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 September 30, 2019 and December 31, 2018, 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.

<b>Commodity</b>	<b>Fair Value of Level 3 at September 30, 2019 (Millions of Dollars)</b>	<b>Valuation Techniques</b>	<b>Unobservable Inputs</b>	<b>Range</b>
Electricity	\$(2)	Discounted Cash Flow	Forward energy prices (a)	\$21.50-\$62.75 per MWh
	(10)	Discounted Cash Flow	Forward capacity prices (a)	\$0.45-\$7.75 per KW-month
<b>Total - Commodity</b>	<b>\$(12)</b>			

(a) Generally, increases/(decreases) in this input in isolation would result in a higher/(lower) fair value measurement.

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 nine months ended September 30, 2019 and 2018 and classified as Level 3 in the fair value hierarchy:

<b>(Millions of Dollars)</b>	<b>For The Three Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
Beginning balance as of July 1,	\$(12)	\$(1)
Included in earnings	—	3
Included in regulatory assets and liabilities	—	(4)
Settlements	—	(4)
Ending balance as of September 30,	\$(12)	\$(6)

<b>(Millions of Dollars)</b>	<b>For the Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
Beginning balance as of January 1,	\$(9)	\$(4)
Included in earnings	(5)	4
Included in regulatory assets and liabilities	(3)	(2)
Settlements	5	(4)
Ending balance as of September 30,	\$(12)	\$(6)

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

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

derivatives are generally deferred on the consolidated balance sheet in accordance with the accounting rules for regulated operations.

### Note M – 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 technology, 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 nine months ended September 30, 2019 and 2018 were as follows:

<i>(Millions of Dollars)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Cost of services provided	\$4	\$4	\$14	\$21
Cost of services received	\$15	\$13	\$42	\$41

At September 30, 2019 and December 31, 2018, O&R's payable to Con Edison and its other subsidiaries associated with these services were \$11 million and \$5 million, respectively. In addition, at September 30, 2019, the Company's receivable from CECONY related to aid provided for storm restoration activities was \$2 million.

In addition, CECONY and O&R have joint gas supply arrangements, in connection with which O&R purchased from CECONY \$12 million and \$13 million of natural gas for the three months ended September 30, 2019 and 2018, respectively and \$53 million and \$60 million for the nine months ended September 30, 2019 and 2018, respectively. These amounts are net of the effect of related hedging transactions. At September 30, 2019 and December 31, 2018, O&R's net payable to CECONY associated with these gas purchases was \$3 million and \$9 million, respectively.

At September 30, 2019 and December 31, 2018, the Company's net payable to Con Edison for income taxes was \$18 million and \$11 million, respectively.

FERC has authorized CECONY through 2019 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 September 30, 2019 and December 31, 2018, there were no loans outstanding for O&R.

### Note N – New Financial Accounting Standards

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

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

Losses on Financial Instruments.” The amendments replace the incurred loss impairment methodology which involved delayed recognition of credit losses. The amendments introduce an expected credit loss impairment model which requires immediate recognition of losses anticipated to be incurred over the instrument’s life. A broader range of reasonable and supportable information must be considered in developing the credit loss estimates. The Company’s financial instruments that would be subject to the amendments include its accounts receivable - customers and other receivables. The amendments are effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Early adoption is permitted. The Company plans to early adopt the amendments for reporting periods beginning after December 15, 2019. The adoption of this guidance is not expected to have a material impact on the Company’s financial position, results of operations and liquidity. The Company will implement additional internal controls related to the amendments, however the adoption of the amendment is not expected to require a change that will materially affect the Company’s internal control over financial reporting.

In January 2017, the FASB issued amendments to the guidance for the subsequent measurement of goodwill through ASU 2017-04, “Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.” The amendments in this update simplify goodwill impairment testing by eliminating Step 2 of the goodwill impairment test wherein an entity has to compute the implied fair value of goodwill by performing procedures to determine the fair value of its assets and liabilities. Under the new guidance, an entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value up to the total amount of goodwill allocated to that reporting unit. The amendments are effective for fiscal years beginning after December 15, 2021. 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.