

**Orange and Rockland Utilities, Inc.**  
**Consolidated Financial Statements (Unaudited)**  
**Third Quarter 2021**



## 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, 2021, and the related consolidated statements of income, comprehensive income, and shareholder's equity for the three-month and nine-month periods ended September 30, 2021 and 2020 and the consolidated statement of cash flows for the nine-month periods ended September 30, 2021 and 2020.

### ***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, 2020, and the related consolidated statements of



income, comprehensive income, shareholder's equity and of cash flows for the year then ended (not presented herein), and in our report dated March 12, 2021, we expressed an unmodified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2020, is consistent, in all material respects, with the audited consolidated balance sheet from which it has been derived.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive style with a large initial 'P' and a long, sweeping underline.

November 12, 2021

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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,	
	2021	2020	2021	2020
OPERATING REVENUES				
Electric	\$223	\$208	\$522	\$483
Gas	34	30	177	164
<b>TOTAL OPERATING REVENUES</b>	<b>257</b>	<b>238</b>	<b>699</b>	<b>647</b>
OPERATING EXPENSES				
Purchased power	68	56	157	127
Gas purchased for resale	13	9	56	43
Other operations and maintenance	83	79	240	232
Depreciation and amortization	24	23	71	67
Taxes, other than income taxes	22	22	67	64
<b>TOTAL OPERATING EXPENSES</b>	<b>210</b>	<b>189</b>	<b>591</b>	<b>533</b>
<b>OPERATING INCOME</b>	<b>47</b>	<b>49</b>	<b>108</b>	<b>114</b>
OTHER INCOME (DEDUCTIONS)				
Investment and other income	—	—	1	—
Allowance for equity funds used during construction	—	1	1	2
Other deductions	(4)	(5)	(11)	(13)
<b>TOTAL OTHER DEDUCTIONS</b>	<b>(4)</b>	<b>(4)</b>	<b>(9)</b>	<b>(11)</b>
<b>INCOME BEFORE INTEREST AND INCOME TAX EXPENSE</b>	<b>43</b>	<b>45</b>	<b>99</b>	<b>103</b>
INTEREST EXPENSE				
Interest on long-term debt	10	10	32	29
Other interest	—	1	1	2
Allowance for borrowed funds used during construction	—	(1)	(1)	(1)
<b>NET INTEREST EXPENSE</b>	<b>10</b>	<b>10</b>	<b>32</b>	<b>30</b>
<b>INCOME BEFORE INCOME TAX EXPENSE</b>	<b>33</b>	<b>35</b>	<b>67</b>	<b>73</b>
<b>INCOME TAX EXPENSE</b>	<b>7</b>	<b>8</b>	<b>14</b>	<b>16</b>
<b>NET INCOME</b>	<b>\$26</b>	<b>\$27</b>	<b>\$53</b>	<b>\$57</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,	
	2021	2020	2021	2020
NET INCOME	\$26	\$27	\$53	\$57
OTHER COMPREHENSIVE INCOME, NET OF TAXES				
Pension and other postretirement benefit plan liability adjustments, net of taxes	2	1	7	7
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAXES	2	1	7	7
COMPREHENSIVE INCOME	\$28	\$28	\$60	\$64

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

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

	For the Nine Months Ended September 30,	
<i>(Millions of Dollars)</i>	2021	2020
<b>OPERATING ACTIVITIES</b>		
Net income	\$53	\$57
<b>PRINCIPAL NON-CASH CHARGES/(CREDITS) TO INCOME</b>		
Depreciation and amortization	71	67
Deferred income taxes	7	13
Rate case amortizations	(1)	(1)
Common equity component of allowance for funds used during construction	(1)	(2)
Unbilled revenue	—	17
Other non-cash items, net	14	21
<b>CHANGES IN ASSETS AND LIABILITIES</b>		
Accounts receivable - customers	(15)	(18)
Allowance for uncollectible accounts - customers	4	2
Accounts receivable from affiliated companies	(1)	1
Materials and supplies, including gas in storage	(3)	—
Revenue decoupling mechanism receivable	8	(7)
Prepayments, other receivables and other current assets	(24)	(23)
Accounts payable	(3)	19
Accounts payable to affiliated companies	(1)	(3)
Pensions and retiree benefits obligations	3	10
Pensions and retiree benefits contributions	(37)	(40)
Accrued taxes	(1)	5
Accrued taxes to affiliated companies	—	(12)
Accrued interest	1	1
System benefit charge	—	(3)
Superfund and environmental remediation costs	6	6
Deferred charges, noncurrent assets and other regulatory assets	(46)	(33)
Deferred credits and other regulatory liabilities	76	8
Other current and noncurrent liabilities	(4)	(3)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>106</b>	<b>82</b>
<b>INVESTING ACTIVITIES</b>		
Utility construction expenditures	(152)	(146)
Cost of removal less salvage	(5)	(4)
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>(157)</b>	<b>(150)</b>
<b>FINANCING ACTIVITIES</b>		
Net issuance of short-term debt	43	1
Issuance of long-term debt	—	75
Capital contribution by parent	35	10
Dividend to parent	(39)	(36)
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>39</b>	<b>50</b>
<b>CASH, TEMPORARY CASH INVESTMENTS, AND RESTRICTED CASH:</b>		
<b>NET CHANGE FOR THE PERIOD</b>	<b>(12)</b>	<b>(18)</b>
<b>BALANCE AT BEGINNING OF PERIOD</b>	<b>37</b>	<b>32</b>
<b>BALANCE AT END OF PERIOD</b>	<b>\$25</b>	<b>\$14</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH INFORMATION</b>		
Cash paid during the period for:		
Interest	\$30	\$29
Income taxes	\$8	\$15
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INFORMATION</b>		
Construction expenditures in accounts payable	\$15	\$12
Software licenses acquired but unpaid as of end of period	\$1	\$3

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, 2021	December 31, 2020
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and temporary cash investments	\$25	\$37
Accounts receivable – customers, less allowance for uncollectible accounts of \$13 and \$9 in 2021 and 2020, respectively	97	86
Other receivables, less allowance for uncollectible accounts of \$2 in 2021 and 2020	25	14
Accrued unbilled revenue	32	32
Accounts receivable from affiliated companies	7	6
Gas in storage, at average cost	11	9
Materials and supplies, at average cost	25	24
Prepayments	46	31
Regulatory assets	18	23
Revenue decoupling mechanism receivable	—	8
Other current assets	20	7
<b>TOTAL CURRENT ASSETS</b>	<b>306</b>	<b>277</b>
<b>INVESTMENTS</b>	<b>27</b>	<b>26</b>
<b>UTILITY PLANT, AT ORIGINAL COST</b>		
Electric	2,079	1,988
Gas	949	910
General	314	295
<b>TOTAL</b>	<b>3,342</b>	<b>3,193</b>
Less: Accumulated depreciation	933	878
Net	2,409	2,315
Construction work in progress	141	154
<b>NET UTILITY PLANT</b>	<b>2,550</b>	<b>2,469</b>
<b>OTHER NONCURRENT ASSETS</b>		
Regulatory assets	430	450
Operating lease right-of-use asset	1	2
Other deferred charges and noncurrent assets	30	23
<b>TOTAL OTHER NONCURRENT ASSETS</b>	<b>461</b>	<b>475</b>
<b>TOTAL ASSETS</b>	<b>\$3,344</b>	<b>\$3,247</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, 2021	December 31, 2020
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Notes payable	\$88	\$45
Accounts payable	123	132
Accounts payable to affiliated companies	15	16
Customer deposits	14	14
Accrued taxes	8	9
Accrued taxes to affiliated companies	1	1
Accrued interest	11	10
Accrued wages	11	10
Fair value of derivative liabilities	10	13
Regulatory liabilities	62	24
System benefit charge	53	53
Operating lease liabilities	1	1
Other current liabilities	23	28
<b>TOTAL CURRENT LIABILITIES</b>	<b>420</b>	<b>356</b>
<b>NONCURRENT LIABILITIES</b>		
Provision for injuries and damages	5	6
Pensions and retiree benefits	245	314
Superfund and other environmental costs	76	77
Asset retirement obligation	1	1
Deferred income taxes and unamortized investment tax credits	356	340
Regulatory liabilities	427	410
Operating lease liabilities	—	1
Other deferred credits and noncurrent liabilities	58	42
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>1,168</b>	<b>1,191</b>
<b>LONG-TERM DEBT</b>	<b>893</b>	<b>893</b>
<b>SHAREHOLDER'S EQUITY (See Statement of Shareholder's Equity)</b>	<b>863</b>	<b>807</b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<b>\$3,344</b>	<b>\$3,247</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, 2019	1,000	\$—	\$379	\$398	\$(15)	\$762
Net income				31		31
Common stock dividend to parent				(12)		(12)
Other comprehensive income					5	5
BALANCE AS OF MARCH 31, 2020	1,000	\$—	\$379	\$417	\$(10)	\$786
Net loss				(2)		(2)
Common stock dividend to parent				(12)		(12)
Capital contribution by parent			5			5
Other comprehensive income					1	1
BALANCE AS OF JUNE 30, 2020	1,000	\$—	\$384	\$403	\$(9)	\$778
Net income				27		27
Common stock dividend to parent				(12)		(12)
Capital contribution by parent			5			5
Other comprehensive income					1	1
BALANCE AS OF SEPTEMBER 30, 2020	1,000	\$—	\$389	\$418	\$(8)	\$799
BALANCE AS OF DECEMBER 31, 2020	1,000	\$—	\$404	\$420	\$(17)	\$807
Net income				27		27
Common stock dividend to parent				(12)		(12)
Capital contribution by parent			30			30
Other comprehensive income					3	3
BALANCE AS OF MARCH 31, 2021	1,000	\$—	\$434	\$435	\$(14)	\$855
Net income				—		—
Common stock dividend to parent				(14)		(14)
Capital contribution by parent			5			5
Other comprehensive income					2	\$2
BALANCE AS OF JUNE 30, 2021	1,000	\$—	\$439	\$421	\$(12)	\$848
Net income				26		26
Common stock dividend to parent				(13)		(13)
Other comprehensive income					2	2
BALANCE AS OF SEPTEMBER 30, 2021	1,000	\$—	\$439	\$434	\$(10)	\$863

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 consolidated 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, 2021 and 2020, operating revenues for RECO were 20.9 percent and 20.8 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.

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 of the Company as of September 30, 2021 and for the three and nine month periods ended September 30, 2021 and 2020 (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 statement 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, 2020 and 2019 and for each of the years ended December 31, 2020 and 2019 including the notes thereto and the separate unaudited consolidated financial statements of the Company as of March 31, 2021 and for the three month period ended March 31, 2021, including the notes thereto and as of June 30, 2021 and for the three and six month periods ended June 30, 2021, including the notes thereto.

### Coronavirus Disease 2019 (COVID-19) Impacts

Information regarding the Coronavirus Disease 2019 (COVID-19) global pandemic and its impact on the Company are described in Note B, Note I, Note J and Note K.

### Subsequent Events

The Company has, pursuant to the accounting rules for subsequent events, evaluated events or transactions that occurred after September 30, 2021 through the posting on its website (November 12, 2021) of the Third Quarter Financial Statements for potential recognition or disclosure in the Third Quarter Financial Statements.

## Note A – Summary of Significant Accounting Policies

### Accounting Policies

The accounting policies of the Company conform to generally accepted accounting principles in the United States of America (GAAP). For the Company, these accounting principles include the accounting rules for regulated operations and the accounting requirements of the FERC and the state regulators having jurisdiction.

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

### Reclassification

Certain prior period amounts have been reclassified to conform with current period presentation.

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

For the three and nine months ended September 30, 2021 and 2020, changes to accumulated other comprehensive income/(loss) (OCI) were as follows:

<i>(Millions of Dollars)</i>	For the Three Months Ended September 30,	
	2021	2020
Beginning balance, accumulated OCI, net of taxes (a)	\$(12)	\$(9)
Amounts reclassified from accumulated OCI related to pension plan liabilities, net of tax of \$(1) in 2020 (a)(b)	2	1
Current period OCI, net of taxes	2	1
Ending balance, accumulated OCI, net of taxes (a)	\$(10)	\$(8)

<i>(Millions of Dollars)</i>	For the Nine Months Ended September 30,	
	2021	2020
Beginning balance, accumulated OCI, net of taxes (a)	\$(17)	\$(15)
OCI before reclassifications, net of tax of \$(1) in 2021 and 2020	2	3
Amounts reclassified from accumulated OCI related to pension plan liabilities, net of tax of \$(1) in 2021 and 2020 (a)(b)	5	4
Current period OCI, net of taxes	7	7
Ending balance, accumulated OCI, net of taxes (a)	\$(10)	\$(8)

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

(b) 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 costs. See Notes E and F.

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

### Note B – Regulatory Matters

#### Rate Plans

In October 2021, O&R, the New York State Department of Public Service (NYSDPS) and other parties entered into a Joint Proposal for new electric and gas rate plans for the three-year period January 2022 through December 2024 (the Joint Proposal). The Joint Proposal is subject to NYSPSC approval. The Joint Proposal includes certain COVID-19 provisions, such as: recovery of 2020 late payment charges over 3 years (\$2.8 million); reconciliation of late payment charges to amounts reflected in rates for years 2021 through 2024, with full recovery/refund via surcharge/sur-credit once the annual variance equals or exceeds 5 basis points of return on equity; and reconciliation of write-offs of customer accounts receivable balances to amounts reflected in rates from January 1, 2020 through December 31, 2024, with full recovery/refund via surcharge/sur-credit once the annual variance equals or exceeds 5 basis points of return on equity. The following tables contain a summary of the proposed rate plans.

#### O&R New York – Electric

Effective period	January 2022 – December 2024 (c)
Base rate changes	Yr. 1 – \$4.9 million (a) Yr. 2 – \$16.2 million (a) Yr. 3 – \$23.1 million (a)
Amortizations to income of net regulatory (assets) and liabilities (b)	Yr. 1 – \$11.8 million Yr. 2 – \$13.5 million Yr. 3 – \$15.2 million
Other revenue sources	Potential earnings adjustment mechanism incentives for energy efficiency and other potential incentives of up to: Yr. 1 – \$3.3 million Yr. 2 – \$2.3 million Yr. 3 – \$4.0 million
Revenue decoupling mechanisms	Continuation of reconciliation of actual to authorized electric delivery revenues.
Recoverable energy costs	Continuation of current rate recovery of purchased power and fuel costs.
Negative revenue adjustments	Potential charges if certain performance targets relating to service, reliability, safety and other matters are not met: Yr. 1 – \$4.3 million Yr. 2 – \$4.4 million Yr. 3 – \$5.1 million
Cost reconciliations	Reconciliation of expenses for pension and other postretirement benefits, environmental remediation costs, property taxes (d), energy efficiency program (e), major storms, and certain other costs to amounts reflected in rates.
Net utility plant reconciliations	Target levels reflected in rates: Electric average net plant target Yr. 1 – \$1,175 million Yr. 2 – \$1,198 million Yr. 3 – \$1,304 million
Average rate base	Yr. 1 – \$1,021 million Yr. 2 – \$1,044 million Yr. 3 – \$1,144 million
Weighted average cost of capital (after-tax)	Yr. 1 – 6.77 percent Yr. 2 – 6.73 percent Yr. 3 – 6.72 percent
Authorized return on common equity	9.2 percent
Earnings sharing	Most earnings above an annual earnings threshold of 9.7 percent are to be applied to reduce regulatory assets for environmental remediation and other costs accumulated in the rate year.
Cost of long-term debt	Yr. 1 – 4.58 percent Yr. 2 – 4.51 percent Yr. 3 – 4.49 percent
Common equity ratio	48 percent

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

- (a) The Joint Proposal recommends that these base rate changes may be implemented with increases of: Yr. 1 - \$11.7 million; Yr. 2 - \$11.7 million; and Yr. 3 - \$11.7 million.
- (b) Reflects amortization of, among other things, previously incurred incremental deferred storm costs over a five-year period. See "Other Regulatory Matters," below.
- (c) If at the end of any year, Con Edison's investments in its non-utility businesses exceed 15 percent of Con Edison's total consolidated revenues, assets or cash flow, or if the ratio of holding company debt to total consolidated debt rises above 20 percent, O&R is required to notify the NYSPSC and submit a ring-fencing plan or a demonstration why additional ring-fencing measures are not necessary.
- (d) Deferrals for property taxes are limited to 90 percent of the difference from amounts reflected in rates, subject to an annual maximum for the remaining difference of not more than a maximum number of basis points impact on return on common equity: Yr. 1 - 10.0 basis points; Yr. 2 - 7.5 basis points; and Yr. 3 - 5.0 basis points.
- (e) Energy efficiency costs are expensed as incurred. Such costs are subject to a cumulative reconciliation that is evenly distributed over the term of the rate plan subject to the caps set forth in the January 2020 NYSPSC New Efficiency New York ("NENY") order. If the NYSPSC modifies O&R's NENY budgets during the rate term, such modifications will be reflected at the time of the cumulative reconciliations.

### O&R New York – Gas

Effective period	January 2022 – December 2024 (b)
Base rate changes	Yr. 1 – \$0.7 million (a) Yr. 2 – \$7.4 million (a) Yr. 3 – \$9.9 million (a)
Amortization to income of net regulatory (assets) and liabilities	Yr. 1 – \$0.8 million Yr. 2 – \$0.7 million Yr. 3 – \$0.3 million
Other revenue sources	Potential earnings adjustment mechanism incentives for energy efficiency and other potential incentives of up to: Yr. 1 - \$0.2 million Yr. 2 - \$0.2 million Yr. 3 - \$0.4 million  Potential positive rate adjustment for gas safety and performance of up to: Yr. 1 – \$1.2 million Yr. 2 – \$1.3 million Yr. 3 – \$1.4 million
Revenue decoupling mechanisms	Continuation of reconciliation of actual to authorized gas delivery revenues.
Recoverable energy costs	Continuation of current rate recovery of purchased gas costs.
Negative revenue adjustments	Potential charges if performance targets relating to service, safety and other matters are not met: Yr. 1 – \$6.3 million Yr. 2 – \$6.7 million Yr. 3 – \$7.3 million
Cost reconciliations	Reconciliation of expenses for pension and other postretirement benefits, environmental remediation costs, property taxes (c), energy efficiency program (d), major storms and certain other costs to amounts reflected in rates.
Net utility plant reconciliations	Target levels reflected in rates: Gas average net plant target Yr. 1 – \$720 million Yr. 2 – \$761 million Yr. 3 – \$803 million
Average rate base	Yr. 1 – \$566 million Yr. 2 – \$607 million Yr. 3 – \$649 million
Weighted average cost of capital (after-tax)	Yr. 1 – 6.77 percent Yr. 2 – 6.73 percent Yr. 3 – 6.72 percent
Authorized return on common equity	9.2 percent
Earnings sharing	Most earnings above an annual earnings threshold of 9.7 percent are to be applied to reduce regulatory assets for environmental remediation and other costs accumulated in the rate year.
Cost of long-term debt	Yr. 1 – 4.58 percent Yr. 2 – 4.51 percent Yr. 3 – 4.49 percent
Common equity ratio	48 percent

- (a) The Joint Proposal recommends that these base rate changes may be implemented with increases of: Yr. 1 – \$4.4 million; Yr. 2 - \$4.4 million; and Yr. 3 - \$4.4 million.
- (b) If at the end of any year, Con Edison's investments in its non-utility businesses exceed 15 percent of Con Edison's total consolidated revenues, assets or cash flow, or if the ratio of holding company debt to total consolidated debt rises above 20 percent, O&R is required to notify the NYSPSC and submit a ring-fencing plan or a demonstration why additional ring-fencing measures are not necessary.
- (c) Deferrals for property taxes are limited to 90 percent of the difference from amounts reflected in rates, subject to an annual maximum for the remaining difference of not more than a maximum number of basis points impact on return on common equity: Yr. 1 - 10.0 basis points; Yr. 2 - 7.5 basis points; and Yr. 3 - 5.0 basis points.
- (d) Energy efficiency costs are expensed as incurred. Such costs are subject to a cumulative reconciliation that is evenly distributed over the term of the rate plan subject to the caps set forth in the January 2020 NYSPSC NENY order. If the NYSPSC modifies O&R's NENY budgets during the rate term, such modifications will be reflected at the time of the cumulative reconciliations.

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

### Rockland Electric Company (RECO)

In May 2021, RECO filed a request with the NJBPU for an electric rate increase of \$16.9 million, effective February 2022. The filing reflected a return on common equity of 10.00 percent and a common equity ratio of 49.25 percent. RECO also seeks an increase in its annual storm allowance of \$1 million, recovery of deferred costs associated with Tropical Storm Isaias, and the collection of various deferred COVID-19 related costs. In October 2021, RECO filed an update to the request it filed in May 2021. RECO increased its requested February 2022 rate increase to \$19.5 million and decreased the common equity ratio to 48.84 percent. The updated filing continues to reflect a return on common equity of 10.00 percent.

In September 2021, RECO requested authorization from the NJBPU to defer \$3.7 million in incremental storm preparation costs for Tropical Storm Henri.

### COVID-19 Regulatory Matters

Governors, public utility commissions and other regulatory agencies in the states in which O&R and RECO operate have issued orders related to the COVID-19 pandemic that impact the companies as described below.

#### New York State Regulation

In March 2020, former New York State Governor Cuomo declared a State Disaster Emergency for the State of New York due to the COVID-19 pandemic and signed the "New York State on PAUSE" executive order that temporarily closed all non-essential businesses statewide. The former Governor then lifted these closures over time and ended the emergency declaration in June 2021. As a result of the emergency declaration, and due to economic conditions, the NYSPSC and the Company has worked to mitigate the potential impact of the COVID-19 pandemic on the Company, its customers and other stakeholders.

In March 2020, the Company began suspending service disconnections, certain collection notices, final bill collection agency activity, new late payment charges and certain other fees for all customers. The Company also began providing payment extensions for all customers that were scheduled to be disconnected prior to the start of the COVID-19 pandemic. In June 2020, the state of New York enacted a law prohibiting New York utilities, including O&R, from disconnecting residential customers, and starting in May 2021 small business customers, during the COVID-19 state of emergency, which ended in June 2021. In addition, such prohibitions will apply for an additional 180 days after the state of emergency ends (December 21, 2021) for residential and small business customers who have experienced a change in financial circumstances due to the COVID-19 pandemic. For the three and nine months ended September 30, 2021, the estimated late payment charges and fees that were not billed were approximately \$1 million and \$3 million lower than the amounts that were approved to be collected pursuant to O&R's rate plans, respectively (see Note J). For the three and nine months ended September 30, 2020, the estimated late payment charges and fees that were not billed were approximately \$1 million and \$2 million lower than the amounts that were approved to be collected pursuant to O&R's rate plans, respectively (see Note J). O&R resumed late payment charges for commercial and residential customers who have not experienced a change in financial circumstances due to the COVID-19 pandemic on October 1, 2021.

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

The Company's New York rate plans allow it to defer costs resulting from a change in legislation, regulation and related actions that have taken effect during the term of the rate plans once the costs exceed a specified threshold. The total reserve increase to the allowance for uncollectible accounts from January 1, 2020 through September 30, 2021 reflecting the impact of the COVID-19 pandemic for O&R electric and gas operations was \$7 million and was deferred pursuant to the legislative, regulatory and related actions provisions of the rate plans as a result of the New York State on PAUSE and related executive orders that have since been lifted, as described above. The Company's New York rate plans also provide for an allowance for write-offs of customer accounts receivable balances. The above amount deferred pursuant to the legislative, regulatory and related actions provisions was reduced by the amount that the actual write-offs of customer accounts receivable balance was below the allowance reflected in rates which difference was \$2 million from March 1, 2020 through September 30, 2021.

In June 2020, the NYSPSC established a generic proceeding on the impacts of the COVID-19 pandemic and sought comment on a variety of COVID-19 related issues. In July 2020, the Company submitted joint comments with other large utilities in New York State that included a formal request to defer all COVID-19 related costs and for a surcharge mechanism to collect such deferrals based upon the individual utility's need. In January 2021, the NYSDPS provided guidance to New York utilities that no additional mechanisms are required because there are already established mechanisms for utility recovery of unexpected material expenses through rate plan change in legislation, regulation and related actions provisions of their respective rate plans and the filing of individual deferral petitions. The guidance further provided that utilities deferring COVID-19 related costs pursuant to the provisions that allow deferral of costs resulting from a change in legislation, regulation and related actions must comply with the provisions of their rate plans, be able to demonstrate the nexus between the changes in law or regulation and the specific revenue and expense items, and consider any offsetting cost savings due to the pandemic.

In April 2021, New York State passed a law that creates a program that allows eligible residential renters in New York State who require assistance with rent and utility bills to have up to twelve months of electric and gas utility bill arrears forgiven, provided that such arrears were accrued on or after March 13, 2020. The program will be administered by the State Office of Temporary Disability Assistance in coordination with the NYSDPS. Under the program, O&R would qualify for a refundable tax credit for New York State gross-receipts tax equal to the amount of arrears waived by O&R in the year that the arrears are waived and certified by the NYSPSC.

In May 2021, O&R and Consolidated Edison Company of New York, Inc. (CECONY, and together with O&R, the Utilities), along with other large New York utilities, submitted joint comments to the NYSDPS' February 2021 report on New York State's Energy Affordability Policy. The report recommends, among other things, that residential and commercial customers' late payment fees and interest on deferred payment agreements be waived until two years after the expiration of the New York State moratorium on utility terminations (the moratorium will expire on December 21, 2021) and each utility develop an arrears management program to mitigate the financial burdens of the COVID-19 pandemic on New York households and that program costs be shared, perhaps equally, between shareholders and customers. The May 2021 joint comments stated that it is



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

not necessary for the NYSPSC to adopt the report's COVID-19 related recommendations because New York State already passed laws that address the issues in the report, as described above.

The Company's rate plans have revenue decoupling mechanisms in its New York electric and gas businesses that largely reconcile actual energy delivery revenues to the authorized delivery revenues approved by the NYSPSC per month and accumulate the deferred balances annually under O&R's New York electric and gas rate plans (January through December). The difference is accrued with interest each month for O&R's New York electric customers and after the annual deferral period ends for O&R's New York gas customers for refund to, or recovery from customers, as applicable. Generally, the refund to or recovery from customers begins February of each year over an ensuing twelve-month period for O&R's New York electric and gas customers.

### New Jersey State Regulation

In March 2020, New Jersey Governor Murphy declared a Public Health Emergency and State of Emergency for the State of New Jersey. In June 2021, the Governor ended the emergency declaration. As a result of the emergency declaration, and due to economic conditions, the NJBPU and RECO have worked to mitigate the potential impact of the COVID-19 pandemic on RECO, its customers and other stakeholders. In March 2020, RECO began suspending late payment charges, terminations for non-payment, and no access fees during the COVID-19 pandemic. The suspension of these fees continued through July 31, 2021 and are not material.

In July 2020, the NJBPU authorized RECO and other New Jersey utilities to create a COVID-19-related regulatory asset by deferring prudently incurred incremental costs related to the COVID-19 pandemic beginning on March 9, 2020, and has extended such deferrals through December 31, 2022. RECO deferred net incremental COVID-19 related costs of \$0.9 million through September 30, 2021.

### Other Regulatory Matters

O&R, under its current electric and gas rate plans, has reflected its net benefits of the federal Tax Cuts and Jobs Act of 2017 in its electric and gas rates beginning as of January 1, 2019. Under the rate plans, O&R is amortizing its net benefits prior to January 1, 2019 (\$22 million) over a three-year period, the protected portion of its net regulatory liability for future income taxes (\$123 million) over the remaining lives of the related assets and the unprotected portion (\$30 million) over a fifteen-year period. Pursuant to the October 2021 Joint Proposal, O&R will amortize the remaining unprotected portion of its net regulatory liability for future income taxes (\$34 million) over a six-year period beginning January 1, 2022.

In January 2018, the NYSPSC issued an order initiating a focused operations audit of the Company's financial accounting for income taxes. The audit is investigating the Company's inadvertent understatement of a portion, the amount of which may be material, of its calculation of total federal income tax expense for ratemaking purposes. The understatement was related to the calculation of plant retirement-related cost of removal. As a result of such understatement, the Company accumulated significant income tax regulatory assets that were not reflected in O&R's rate plans prior to 2014. As part of the audit, the Company plans to pursue a private letter ruling from the Internal Revenue Service (IRS) that is expected to confirm, among other things, that in order to

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

comply with IRS normalization rules, such understatement may not be corrected through a write-down of a portion of the regulatory asset and must be corrected through an increase in future years' revenue requirements. The regulatory asset (\$26 million and \$29 million as of September 30, 2021 and December 31, 2020, respectively) is netted against the future income tax regulatory liability on the Company's consolidated balance sheet. The Company is unable to estimate the amount or range of its possible loss, if any, related to this matter. At September 30, 2021, the Company has not accrued a liability related to this matter.

In October 2020, the NYSPSC issued an order instituting a proceeding to consider requiring New York's large, investor-owned utilities, including O&R, to annually disclose what risks climate change poses to their companies, investors and customers going forward. The order notes that some holding companies, including Con Edison, already disclose climate change risks at the holding company level, but states that the NYSPSC believes that climate-related risk disclosures should be issued specific to the operating companies in New York, such as O&R, and that such climate-related risk disclosures should be included annually with the utilities' financial reports. In December 2020, O&R, along with other large New York utilities, filed comments supporting climate change risk disclosures in annual reports filed with the NYSPSC and recommended the use of an industry-specific template.

In May 2020, the president of the United States issued the "Securing the United States Bulk-Power System" executive order. The executive order declares threats to the bulk-power system by foreign adversaries constitute a national emergency and prohibits the acquisition, importation, transfer or installation of certain bulk-power system electric equipment that is sourced from foreign adversaries. In January 2021, the president of the United States suspended the May 2020 executive order for 90 days. In April 2021, the executive order was reinstated (and expired shortly thereafter) and the Department of Energy (DOE) subsequently issued a request for information to assist the DOE in developing additional orders and/or regulations to secure the United States' critical electric infrastructure. In September 2021, the Cybersecurity and Infrastructure Security Agency and the National Institute of Standards and Technology issued preliminary cybersecurity goals for critical infrastructure control systems, with final goals to be issued by September 2022. The Company is unable to predict the impact on it of any orders or regulations that may be adopted regarding critical infrastructure.

In July 2021, the NYSPSC approved a settlement agreement among O&R, CECONY and the NYSDPS that fully resolves all issues and allegations that have been raised or could have been raised by the NYSPSC against O&R with respect to the August 2020 electric service interruptions to approximately 200,000 O&R customers following Tropical Storm Isaias (the "Tropical Storm Isaias Outages"). Pursuant to the settlement agreement, O&R agreed to a total settlement amount of \$7.0 million. O&R agreed to forgo recovery from customers of \$2.5 million associated with the return on existing storm hardening assets beginning with the next rate plan for the Company (over a period of 35 years). O&R also agreed to incur ongoing operations and maintenance costs of up to \$2.9 million, for, among other things, costs to maintain a certain level of contractor and vehicle storm emergency support and a storm preparation audit. The settlement agreement includes previously incurred costs of \$1.6 million to reimburse customers for food and medicine spoilage and other expenses related to the Tropical Storm Isaias Outages.

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

Additional information relating to Tropical Storm Isaias Outages follows.

**Tropical Storm Isaias Outages:** In August 2020, Tropical Storm Isaias caused significant damage to the Company's electric distribution systems and interrupted service to approximately 200,000 O&R electric customers. As of September 30, 2021, O&R incurred costs for Tropical Storm Isaias of \$26.5 million (including \$19.2 million of operation and maintenance expenses charged against a storm reserve pursuant to its New York electric rate plan, \$5.7 million of capital expenditures and \$1.6 million for food and medicine spoilage claims). As of September 30, 2021, RECO incurred costs for Tropical Storm Isaias of \$11.3 million (including \$7.5 million of operation and maintenance expenses charged against a storm reserve pursuant to its rate plan, \$2.5 million of capital expenditures and \$1.3 million for food and medicine spoilage claims). O&R's and RECO's electric rate plans provide for recovery of operating costs and capital expenditures under different provisions. Incremental operating costs attributable to storms are to be deferred for recovery as a regulatory asset under their electric rate plans, while capital expenditures, up to specified levels, are reflected in rates under their electric rate plans. The provisions of O&R's New York electric rate plan that impose negative revenue adjustments for operating performance provide for exceptions for major storms and catastrophic events beyond the control of the Company, including natural disasters such as hurricanes and floods.

In November 2020, the NYSPSC issued an order in its proceeding investigating O&R's and CECONY's preparation for and response to Tropical Storm Isaias that ordered the Company to show cause why (i) civil penalties or appropriate injunctive relief should not be imposed against O&R (in the amount of up to \$19 million relating to 38 alleged violations) to remedy such noncompliance, and (ii) a prudence proceeding should not be commenced against the Company for potentially imprudent expenditures of ratepayer funds related to the matter. The order stated that given the continuing nature of the investigation of this matter by the NYSDPS, the NYSPSC may amend the order to include any subsequently determined apparent violations identified by the NYSDPS. In addition, the order indicated that should the NYSPSC confirm some or all of the apparent violations identified in the order or other orders issued by the NYSPSC in the future in connection with this proceeding, and should such respective confirmed violations be classified as findings of repeated violations of the Public Service Law or rules or regulations adopted pursuant thereto that demonstrate a failure of O&R to continue to provide safe and adequate service, the NYSPSC would be authorized to commence a proceeding under Public Service Law Section 68(2) to revoke or modify O&R's certificate as it relates to its service territory or any portion thereof.

In December 2020, the Company filed a response to the NYSPSC order demonstrating why the NYSPSC should not commence penalty or prudence actions against it. The Company stated that the NYSPSC order misapplied Section 25-a of the Public Service Law by ignoring the reasonable compliance standard under the statute and instead, was imposing a strict liability standard. O&R also presented evidence that the order either misrepresented the applicable requirements or ignored that the Company was acting pursuant to practices approved by the NYSPSC. Finally, O&R stated that there was no basis to commence a prudence proceeding because the Company acted reasonably based on the information available and the circumstances at the time.

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

As described above, in July 2021 O&R entered into a settlement agreement that fully resolves all issues and allegations with respect to this matter.

### Regulatory Assets and Liabilities

Regulatory assets and liabilities at September 30, 2021 and December 31, 2020 were comprised of the following items:

<i>(Millions of Dollars)</i>	2021	2020
<b>Regulatory assets</b>		
Unrecognized pension and other postretirement costs	\$132	\$176
Deferred storm costs	122	112
Environmental remediation costs	67	74
Pension and other postretirement benefits deferrals	56	42
Revenue taxes	16	15
Deferred derivative losses - long term	12	9
COVID - 19 pandemic deferrals	6	2
Recoverable energy costs	5	4
Property tax reconciliation	—	2
Other	14	14
<b>Regulatory assets – noncurrent</b>	<b>430</b>	<b>450</b>
Deferred derivative losses - short term	11	14
Recoverable energy costs	7	9
<b>Regulatory assets – current</b>	<b>18</b>	<b>23</b>
<b>Total Regulatory Assets</b>	<b>\$448</b>	<b>\$473</b>
<b>Regulatory liabilities</b>		
Allowance for cost of removal less salvage	\$164	\$158
Future federal income tax	133	137
Pension and other postretirement benefit deferrals	45	39
Unrecognized other postretirement costs	12	11
Deferred derivative gains - long term	9	—
System benefits carrying charge	8	7
Tax Cuts and Job Act of 2017 (TCJA) net benefits	4	9
Carrying charges on deferred tax liability	4	7
Earnings sharing - electric and gas	2	5
Other	46	37
<b>Regulatory liabilities – noncurrent</b>	<b>427</b>	<b>410</b>
Refundable energy costs	26	24
Deferred derivative gains - short term	28	—
Other	8	—
<b>Regulatory liabilities – current</b>	<b>62</b>	<b>24</b>
<b>Total Regulatory Liabilities</b>	<b>\$489</b>	<b>\$434</b>

The recognition of the return on regulatory assets is determined by the Company's rate plans or orders issued by state regulators. In general, the Company receives or is being credited with a return at the Other Customer-Provided Capital rate for regulatory assets that have not been included in rate base, and receives or is being credited with a return at the pre-tax weighted average cost of capital once the asset is included in rate base. Similarly, the Company pays to or credits customers with a return at the Other Customer-Provided Capital rate for regulatory liabilities that have not been included in rate base, and pays to or credits customers with a return at the pre-tax weighted average cost of capital once the liability is included in rate base. The Other Customer-

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

Provided Capital rate for the nine months ended September 30, 2021 and 2020 was 1.80 percent and 2.65 percent, respectively.

In general, the Company is receiving or being credited with a return on its regulatory assets for which a cash outflow has been made (\$211 million and \$187 million at September 30, 2021 and December 31, 2020, respectively). Regulatory assets of RECO for which a cash outflow has been made (\$24 million and \$31 million at September 30, 2021 and December 31, 2020, respectively) are not receiving or being credited with a return. RECO recovers regulatory assets over a period of up to four years or until they are addressed in its next base rate case in accordance with the rate provisions approved by the NJBPU. Regulatory liabilities are treated in a consistent manner.

Regulatory assets that represent future financial obligations and were deferred in accordance with the Company's rate plans or orders issued by state regulators do not earn a return until such time as a cash outlay has been made. Regulatory liabilities are treated in a consistent manner. At September 30, 2021 and December 31, 2020, regulatory assets that did not earn a return consisted of the following items:

### Regulatory Assets Not Earning a Return\*

<i>(Millions of Dollars)</i>	2021	2020
Unrecognized pension and other postretirement costs	\$132	\$176
Environmental remediation costs	67	74
Revenue taxes	15	13
Deferred derivative losses - long term	12	9
Other	—	1
Deferred derivative losses - current	11	13
Total	\$237	\$286

\*This table includes regulatory assets not earning a return for which no cash outlay has been made.

The recovery periods for regulatory assets for which a cash outflow has not been made and that do not earn a return have not yet been determined, except as noted below, and are expected to be determined pursuant to O&R's future rate plans to be filed or orders issued by the state regulators in connection therewith.

The Company recovers unrecognized pension and other postretirement costs over 10 years pursuant to NYSPSC policy.

The deferral for revenue taxes represents the New York State metropolitan transportation business tax surcharge on the cumulative temporary differences between the book and tax basis of assets and liabilities of the Company, as well as the difference between taxes collected and paid by the Company to fund mass transportation. The Company recovers the majority of the revenue taxes over the remaining book lives of the electric and gas plant assets.

The Company recovers deferred derivative losses – current within one year, and noncurrent generally within three years.

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

### Note C – Capitalization

In September 2021, O&R agreed to issue in December 2021 \$45 million aggregate principal amount of 2.31 percent debentures, due 2031 and \$30 million aggregate principal amount of 3.17 percent debentures, due 2051.

The carrying amounts and fair values of long-term debt at September 30, 2021 and December 31, 2020 were:

<i>(Millions of Dollars)</i>	2021		2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-Term Debt (including current portion) (a)	\$893	\$1,044	\$893	\$1,105

(a) Amounts shown are net of unamortized debt expense and unamortized debt discount of \$7 million at September 30, 2021 and December 31, 2020.

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

### Note D – Short-Term Borrowing

At September 30, 2021 and December 31, 2020, O&R had \$88 million and \$45 million of commercial paper outstanding, respectively. The weighted average interest rate at September 30, 2021 and December 31, 2020 was 0.1 percent and 0.3 percent, respectively. At September 30, 2021 and December 31, 2020, no loans were outstanding under the Company's December 2016 credit agreement (Credit Agreement). An immaterial amount of letters of credit were outstanding under the Credit Agreement as of September 30, 2021 and December 31, 2020.

### 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, 2021 and 2020 were as follows:

<i>(Millions of Dollars)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Service cost – including administrative expenses	\$5	\$5	\$16	\$14
Interest cost on projected benefit obligation	7	8	21	25
Expected return on plan assets	(14)	(13)	(43)	(40)
Recognition of net actuarial loss	10	9	31	28
Recognition of prior service cost	1	1	3	3
<b>TOTAL PERIODIC BENEFIT COST</b>	<b>\$9</b>	<b>\$10</b>	<b>\$28</b>	<b>\$30</b>
Cost capitalized	(2)	(2)	(6)	(5)
Reconciliation to rate level	(2)	(3)	(7)	(8)
<b>Total expense recognized</b>	<b>\$5</b>	<b>\$5</b>	<b>\$15</b>	<b>\$17</b>

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

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

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, 2021, O&R expects to make contributions to the pension plans during 2021 of \$38 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 2021, the Company contributed \$37 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, 2021 and 2020 were as follows:

<i>(Millions of Dollars)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Service cost – including administrative expenses	\$2	\$1	\$5	\$3
Interest cost on projected other postretirement benefit obligation	1	1	4	4
Expected return on plan assets	(3)	(3)	(9)	(8)
Recognition of net actuarial loss	1	—	3	1
Recognition of prior service credit	—	—	(1)	(1)
TOTAL PERIODIC OTHER POSTRETIREMENT BENEFIT COST	\$1	\$(1)	\$2	\$(1)
Cost capitalized	(1)	—	(2)	(1)
Reconciliation to rate level	1	2	3	6
Total expense recognized	\$1	\$1	\$3	\$4

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

### Expected Contributions

Based on estimates as of September 30, 2021, O&R does not expect to make a contribution to the other postretirement benefit plans in 2021. 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,

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

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 the sites and the cost to remediate the sites, if remediation is necessary and if a reasonable estimate of such cost can be made. 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, 2021 and December 31, 2020 were as follows:

<i>(Millions of Dollars)</i>	2021	2020
Accrued Liabilities:		
Manufactured gas plant sites	\$75	\$76
Other Superfund Sites	1	1
Total	\$76	\$77
Regulatory assets	\$67	\$74

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, 2021 and 2020 were as follows:

<i>(Millions of Dollars)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Remediation costs incurred	\$0.2	\$0.4	\$0.9	\$0.8

Insurance and other third-party recoveries received by the Company for the three and nine months ended September 30, 2021 and 2020 were immaterial.

In 2020, 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



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

contaminants could range up to \$127 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, 2021 and December 31, 2020, 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) costs 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, 2021 and December 31, 2020 were as follows:

<i>(Millions of Dollars)</i>	2021	2020
Accrued liability – asbestos suits	\$0.4	\$0.4
Regulatory assets – asbestos suits	\$0.4	\$0.4
Accrued liability – workers' compensation	\$3.4	\$4.2

### Note H – Leases

Operating lease cost and cash paid for amounts included in the measurement of lease liabilities for the three and nine months ended September 30, 2021 and 2020 were as follows:

<i>(Millions of Dollars)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Operating lease cost	\$0.3	\$0.3	\$0.8	\$0.8
Operating lease cash flows	\$0.3	\$0.3	\$0.8	\$0.8

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

As of September 30, 2021, assets recorded as finance leases for O&R were \$0.9 million and the accumulated amortization associated with finance leases for O&R was \$2.0 million. As of December 31, 2020, assets recorded as finance leases for O&R were \$0.9 million and the accumulated amortization associated with finance leases for O&R was \$1.8 million. For the three and nine months ended September 30, 2021 and 2020, finance lease costs and cash flows for O&R were immaterial.

Right-of-use assets obtained in exchange for operating lease obligations for O&R were immaterial for the three and nine months ended September 30, 2021, and immaterial and \$0.3 million for the three and nine months ended September 30, 2020, respectively.

Other information related to leases for O&R at September 30, 2021 and December 31, 2020 were as follows:

	2021	2020
Weighted Average Remaining Lease Term:		
Operating leases	3.5 years	3.4 years
Finance leases	14.6 years	18.2 years
Weighted Average Discount Rate:		
Operating leases	3.5%	3.6%
Finance leases	2.9%	3.1%

Future minimum lease payments under non-cancellable leases at September 30, 2021 were as follows:

*(Millions of Dollars)*

Year Ending September 30,	Operating Leases	Finance Leases
2022	\$0.8	\$—
2023	0.1	—
2024	0.1	0.1
2025	0.1	0.1
2026	—	0.1
All years thereafter	0.1	0.6
Total future minimum lease payments	\$1.2	\$0.9
Less: imputed interest	(0.1)	(0.2)
Total	\$1.1	\$0.7
Reported as of September 30, 2021		
Operating lease liabilities (current)	\$0.8	\$—
Operating lease liabilities (noncurrent)	0.3	—
Other noncurrent liabilities	—	0.7
Total	\$1.1	\$0.7

At September 30, 2021, the Company did not have material obligations under operating or finance leases that had not yet commenced.

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, 2021 and 2020.

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

### Note I – Income Tax

O&R's income tax expense decreased to \$7 million for the three months ended September 30, 2021 from \$8 million for the three months ended September 30, 2020. The decrease in income tax expense is primarily due to lower income before income tax expense.

O&R's income tax expense decreased to \$14 million for the nine months ended September 30, 2021 from \$16 million for the nine months ended September 30, 2020. The decrease in income tax expense is primarily due to lower income before income tax expense.

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, 2021 and 2020 is as follows:

<i>(% of Pre-tax income)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
STATUTORY TAX RATE				
Federal	21 %	21 %	21 %	21 %
Changes in computed taxes resulting from:				
State income taxes, net of federal income tax benefit	5	6	5	6
Cost of removal	2	2	3	2
Amortization of excess deferred federal income taxes	(4)	(5)	(6)	(7)
Research and development credits	(1)	—	(1)	—
Other	(1)	—	(1)	—
Effective tax rate	22 %	24 %	21 %	22 %

In response to the economic impacts of the COVID-19 pandemic, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law on March 27, 2020. The CARES Act provides relief to corporate taxpayers by permitting a five-year carryback of net operating losses (NOLs) for tax years 2018, 2019 and 2020, temporarily removing the 80 percent limitation when applying the NOLs to carryback years, increasing the 30 percent limitation on interest deductibility to 50 percent of adjusted taxable income (ATI) for tax years 2019 and 2020, and provides for certain employee retention tax credits and refunds for eligible employers. For 2021, the limitation on interest expense for computing ATI has reverted back to 30 percent. There was no material impact from the CARES Act on income tax expense of the Company for the three or nine months ended September 30, 2021 and 2020.

In April 2021, New York State passed a law that increased the corporate franchise tax rate on business income from 6.5% to 7.25%, retroactive to January 1, 2021, for taxpayers with taxable income greater than \$5 million. The law also reinstated the business capital tax at 0.1875%, not to exceed a maximum tax liability of \$5 million per taxpayer. New York State requires a corporate franchise taxpayer to calculate and pay the highest amount of tax under the three alternative methods: a tax on business income; a tax on business capital; or a fixed dollar minimum. The provisions to increase the corporate franchise tax rate and reinstate a business capital tax are scheduled to expire after 2023 and are not expected to have a material impact on the Company's financial position, results of operations or liquidity.

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

### Uncertain Tax Positions

At September 30, 2021, the estimated liability for uncertain tax positions for O&R was an immaterial amount. 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 nine months ended September 30, 2021, O&R recognized no interest expense or penalties for uncertain tax positions in its consolidated income statement.

### Note J – Revenue Recognition

The following table presents, for the three and nine months ended September 30, 2021 and 2020, revenue from contracts with customers as defined in Accounting Standards Codification Topic 606, "Revenue from Contracts with Customers," as well as additional revenue from sources other than contracts with customers, disaggregated by major source.

<i>(Millions of Dollars)</i>	For the Three Months Ended September 30, 2021			For the Three Months Ended September 30, 2020		
	Revenues from contracts with customers	Other revenues (a)	Total operating revenues	Revenues from contracts with customers	Other revenues (a)	Total operating revenues
Electric	\$229	\$(6)	\$223	\$210	\$(2)	\$208
Gas	32	2	34	27	3	30
<b>Total</b>	<b>\$261</b>	<b>\$(4)</b>	<b>\$257</b>	<b>\$237</b>	<b>\$1</b>	<b>\$238</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, 2021			For the Nine Months Ended September 30, 2020		
	Revenues from contracts with customers	Other revenues (a)	Total operating revenues	Revenues from contracts with customers	Other revenues (a)	Total operating revenues
Electric	\$535	\$(13)	\$522	\$478	\$5	\$483
Gas	184	(7)	177	156	8	164
<b>Total</b>	<b>\$719</b>	<b>\$(20)</b>	<b>\$699</b>	<b>\$634</b>	<b>\$13</b>	<b>\$647</b>

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

In March 2020, the Company began suspending new late payment charges and certain other fees for all customers. For the three and nine months ended September 30, 2021, the estimated late payment charges and fees that were not billed by the Company were approximately \$1 million and \$3 million lower than the amounts that were approved to be collected pursuant to the Company's rate plans, respectively. For the three and nine months ended September 30, 2020, the estimated late payment charges and fees that were not billed by the Company were approximately \$1 million and \$2 million lower than the amounts that were approved to be collected pursuant to the Company's rate plans, respectively. The Company also began providing payment extensions for all customers that were scheduled to be disconnected prior to the start of the COVID-19 pandemic. See "COVID-19 Regulatory Matters" in Note B.

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

### Note K – Current Expected Credit Losses

In January 2020, the Company adopted Accounting Standards Update (ASU) 2016-13, “Financial Instruments- Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”.

#### Allowance for Uncollectible Accounts

The Company’s “Accounts receivable - customers” balance consists of utility bills due (bills are generally due the month following billing) from customers who have energy delivered, generated, or services provided by the Company. The balance also reflects the Company’s purchase of receivables from energy service companies to support the retail choice programs.

“Other receivables” balance generally reflects costs billed by the Company for goods and services provided to external parties, such as accommodation work for private parties and certain governmental entities, real estate rental and pole attachments.

The Company develops expected loss estimates using past events' data and also considers current conditions and future reasonable and supportable forecasts. Changes to the Company’s reserve balances that result in write-offs of customer accounts receivable balances above existing rate allowances are not reflected in rates during the term of the current rate plans. For the Company’s customer accounts receivable allowance for uncollectible accounts, past events considered include write-offs relative to customer accounts receivable; current conditions include macro-and micro-economic conditions related to trends in the local economy and bankruptcy rates, and aged customer accounts receivable balances, among other factors; and forecasts about the future include assumptions related to the level of write-offs and recoveries. Generally, the Company writes off customer accounts receivables as uncollectible 90 days after the account is turned off for non-payment, or the account is closed during the collection process. See "COVID-19 Regulatory Matters" in Note B.

Other receivables allowance for uncollectible accounts is calculated based on a historical average of collections relative to total other receivables, including current receivables. Current macro-and micro-economic conditions are also considered when calculating the current reserve. Probable outcomes of pending litigation, whether favorable or unfavorable to the Company, are also included in the consideration.

Starting in 2020, the potential economic impact of the COVID-19 pandemic was also considered in forward-looking projections related to write-off and recovery rates and resulted in an increase to the allowance for uncollectible accounts. The increases to the allowance for uncollectible customer accounts were \$0.1 million and \$3.9 million for the three and nine months ended September 30, 2021, respectively, and \$1.4 million and \$2.8 million for the three and nine months ended September 30, 2020, respectively.

Customer accounts receivable and the associated allowance for uncollectible accounts are included in the line “Accounts receivable - customers” on the Company’s consolidated balance sheet. Other receivables and the associated allowance for uncollectible accounts are included in “Other receivables” on the consolidated balance sheet.

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

The table below presents a rollforward by major portfolio segment type for the three and nine months ended September 30, 2021 and 2020:

<i>(Millions of Dollars)</i>	For the Three Months Ended September 30,			
	Accounts receivable - customers		Other receivables	
	2021	2020	2021	2020
Allowance for credit losses				
Beginning Balance at July 1,	\$12.5	\$6	\$2.4	\$2.2
Recoveries	0.3	0.3	—	—
Write-offs	(1.6)	(0.7)	(0.2)	(0.4)
Reserve adjustments	1.4	1.8	—	0.7
Ending Balance September 30,	\$12.6	\$7.4	\$2.2	\$2.5

<i>(Millions of Dollars)</i>	For the Nine Months Ended September 30,			
	Accounts receivable - customers		Other receivables	
	2021	2020	2021	2020
Allowance for credit losses				
Beginning Balance at January 1,	\$8.7	\$4.6	\$2.4	\$1.4
Recoveries	1.2	1.1	—	0.1
Write-offs	(3.7)	(2.7)	(0.6)	(0.7)
Reserve adjustments	6.4	4.4	0.4	1.7
Ending Balance September 30,	\$12.6	\$7.4	\$2.2	\$2.5

### Note L – 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 M), 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.

## 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, 2021 and December 31, 2020 were:

<i>(Millions of Dollars)</i>	2021			2020		
<b>Balance Sheet Location</b>	<b>Gross Amounts of Recognized Assets/ (Liabilities)</b>	<b>Gross Amounts Offset</b>	<b>Net Amounts of Assets/ (Liabilities) (a)</b>	<b>Gross Amounts of Recognized Assets/ (Liabilities)</b>	<b>Gross Amounts Offset</b>	<b>Net Amounts of Assets/ (Liabilities) (a)</b>
<b>Fair value of derivative assets</b>						
Current	\$27	\$(10)	\$17 (b)	\$1	\$(1)	\$— (b)
Noncurrent	9	(2)	7	1	—	1
<b>Total fair value of derivative assets</b>	<b>\$36</b>	<b>\$(12)</b>	<b>\$24</b>	<b>\$2</b>	<b>\$(1)</b>	<b>\$1</b>
<b>Fair value of derivative liabilities</b>						
Current	\$(11)	\$1	\$(10)	\$(13)	\$—	\$(13)
Noncurrent	(12)	2	(10)	(9)	—	(9)
<b>Total fair value of derivative liabilities</b>	<b>\$(23)</b>	<b>\$3</b>	<b>\$(20)</b>	<b>\$(22)</b>	<b>\$—</b>	<b>\$(22)</b>
<b>Net fair value derivative assets/(liabilities)</b>	<b>\$13</b>	<b>\$(9)</b>	<b>\$4</b>	<b>\$(20)</b>	<b>\$(1)</b>	<b>\$(21)</b>

(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 September 30, 2021 and December 31, 2020, margin deposits of an immaterial amount and \$1 million, respectively, 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 CECONY 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 M.

## 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, 2021 and 2020:

<i>(Millions of Dollars)</i>	Balance Sheet Location	For the Three Months Ended September 30,	
		2021	2020
Pre-tax gains/(losses) deferred in accordance with accounting rules for regulated operations:			
Current	Deferred derivative gains	\$16	\$2
Noncurrent	Deferred derivative gains	5	1
Total deferred gains/(losses)		\$21	\$3
Current	Deferred derivative losses	\$(2)	\$1
Current	Recoverable energy costs	4	(4)
Noncurrent	Deferred derivative losses	(7)	(2)
Total deferred gains/(losses)		\$(5)	\$(5)
Net deferred gains/(losses)		\$16	\$(2)

<i>(Millions of Dollars)</i>	Balance Sheet Location	For the Nine Months Ended September 30, 2021	
		2021	2020
Pre-tax gains/(losses) deferred in accordance with accounting rules for regulated operations:			
Current	Deferred derivative gains	\$27	\$2
Noncurrent	Deferred derivative gains	8	1
Total deferred gains/(losses)		\$35	\$3
Current	Deferred derivative losses	\$3	\$4
Current	Recoverable energy costs	(1)	(19)
Noncurrent	Deferred derivative losses	(3)	(3)
Total deferred gains/(losses)		\$(1)	\$(18)
Net deferred gains/(losses)		\$34	\$(15)

The following table presents the hedged volume of the Company's commodity derivative transactions at September 30, 2021:

Electric Energy (MWh) (a)	Capacity (MW) (a)	Natural Gas (Dt) (a)
2,475,330	4,950	14,850,000

(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 energy 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 September 30, 2021, the Company had \$29 million 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.



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

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, 2021:

*(Millions of Dollars)*

Aggregate fair value – net liabilities (a)	\$18
Collateral posted	6
Additional collateral (b) (downgrade one level from current ratings)	6
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 September 30, 2021. 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 Company's collateral requirements. The Company measures 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, 2021, if the Company had been downgraded to below investment grade, the Company would have been required to post \$3 million of additional collateral.

### Note M – 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

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

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, 2021 and December 31, 2020 are summarized below.

<i>(Millions of Dollars)</i>	2021					2020				
	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	\$31	\$—	\$(11)	\$24	\$—	\$2	\$—	\$—	\$2
Other (a)(b)(d)	19	8	—	—	27	20	6	—	—	26
Total assets	\$23	\$39	\$—	\$(11)	\$51	\$20	\$8	\$—	\$—	\$28
Derivative liabilities:										
Commodity (a)(b)(c)	\$—	\$10	\$13	\$(3)	\$20	\$—	\$11	\$11	\$—	\$22

- (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 during the nine months ended September 30, 2021 and year ended December 31, 2020.
- (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 September 30, 2021 and December 31, 2020, 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 non-qualified retirement plan.
- (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.

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

The employees in CECONY's risk management group develop and maintain the valuation policies and procedures for, and verify 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, 2021 (Millions of Dollars)</b>	<b>Valuation Techniques</b>	<b>Unobservable Inputs</b>	<b>Range</b>
Electricity	\$(2)	Discounted Cash Flow	Forward energy prices (a)	\$25.25-\$86.25 per MWh
	(11)	Discounted Cash Flow	Forward capacity prices (a)	\$0.70-\$5.15 per KW-month
<b>Total - Commodity</b>	<b>\$(13)</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, 2021 and 2020 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>2021</b>	<b>2020</b>
Beginning balance as of July 1,	\$(7)	\$(7)
Included in earnings	1	(1)
Included in regulatory assets and liabilities	(7)	(2)
Settlements	—	1
Ending balance as of September 30,	\$(13)	\$(9)

<b>(Millions of Dollars)</b>	<b>For the Nine Months Ended September 30,</b>	
	<b>2021</b>	<b>2020</b>
Beginning balance as of January 1,	\$(11)	\$(9)
Included in earnings	(2)	(6)
Included in regulatory assets and liabilities	(2)	—
Settlements	2	6
Ending balance as of September 30,	\$(13)	\$(9)

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.

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

### Note N – 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, 2021 and 2020 were as follows:

<i>(Millions of Dollars)</i>	For the Three Months Ended September 30,	
	2021	2020
Cost of services provided	\$5	\$4
Cost of services received	\$16	\$16

<i>(Millions of Dollars)</i>	For the Nine Months Ended September 30,	
	2021	2020
Cost of services provided	\$15	\$13
Cost of services received	\$49	\$45

At September 30, 2021 and December 31, 2020, O&R's net receivable and net payable to Con Edison and its other subsidiaries associated with these services were \$3 million and \$2 million, respectively.

In addition, CECONY and O&R have joint gas supply arrangements, in connection with which O&R purchased from CECONY \$17 million and \$9 million of natural gas for the three months ended September 30, 2021 and 2020, respectively, and \$59 million and \$40 million for the nine months ended September 30, 2021 and 2020, respectively. These amounts are net of the effect of related hedging transactions. At September 30, 2021 and December 31, 2020, O&R's net payable to CECONY associated with these gas purchases was \$5 million and \$8 million, respectively.

At September 30, 2021 and December 31, 2020, the Company's net payable to Con Edison for income taxes was \$1 million.

FERC has authorized CECONY to lend funds to O&R, for periods of not more than 12 months, in an amount not to exceed \$250 million at prevailing market rates. At September 30, 2021 and December 31, 2020, there were no loans outstanding for O&R.

### Note O – New Financial Accounting Standards

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting (ASU 2020-04). In 2017, the United Kingdom's Financial

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

Conduct Authority announced that it intends to stop persuading or compelling banks to submit the London Interbank Offered Rate (LIBOR), a benchmark interest rate referenced in a variety of agreements, after 2021. In March 2021, the United Kingdom's Financial Conduct Authority confirmed that U.S. Dollar LIBOR will no longer be published after December 31, 2021 for one-week and two-month U.S. Dollar LIBOR tenors, and after June 30, 2023 for all other U.S. Dollar LIBOR tenors. ASU 2020-04 provides entities with optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. In January 2021, the FASB issued amendments to the guidance through ASU 2021-01 to include all contract modifications and hedging relationships affected by reference rate reform, including those that do not directly reference LIBOR or another reference rate expected to be discontinued, and clarify which optional expedients may be applied to them. The guidance can be applied prospectively. The optional relief is temporary and generally cannot be applied to contract modifications and hedging relationships entered into or evaluated after December 31, 2022. The Company does not expect the new guidance to have a material impact on its financial position, results of operations or liquidity.