

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

Financial Statements (Unaudited)

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

	September 30, 2005	December 31, 2004
	(Millions of Dollars)	
ASSETS		
UTILITY PLANT, AT ORIGINAL COST		
Electric	\$ 833	\$ 812
Gas	346	336
General	124	121
Total	1,303	1,269
Less: Accumulated depreciation	395	382
Net	908	887
Construction work in progress	35	26
NET PLANT	943	913
CURRENT ASSETS		
Cash and temporary cash investments	26	12
Restricted cash	2	2
Accounts receivable - customers, less allowance for uncollectible accounts of \$2 in 2005 and 2004	61	31
Accrued unbilled revenue	23	28
Other receivables, less allowance for uncollectible accounts of \$2 in 2005 and 2004	22	24
Accounts receivable from affiliated companies	48	25
Gas in storage, at average cost	58	43
Materials and supplies, at average cost	6	5
Prepayments	21	12
Fair value of derivative assets	72	5
Other current assets	10	11
TOTAL CURRENT ASSETS	349	198
DEFERRED CHARGES, REGULATORY ASSETS AND NONCURRENT ASSETS		
Regulatory assets	271	253
Other deferred charges and noncurrent assets	41	26
TOTAL DEFERRED CHARGES, REGULATORY ASSETS AND NONCURRENT ASSETS	312	279
TOTAL ASSETS	\$ 1,604	\$ 1,390

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

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

	September 30, 2005	December 31, 2004
(Millions of Dollars)		
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION		
Common shareholder's equity (See Statement of Common Shareholder's Equity)	\$ 369	\$ 388
Long-term debt	384	345
TOTAL CAPITALIZATION	753	733
NONCURRENT LIABILITIES		
Provision for injuries and damages	9	10
Pensions and retiree benefits	96	98
Superfund and other environmental costs	57	57
Hedges on variable rate long-term debt	15	16
TOTAL NONCURRENT LIABILITIES	177	181
CURRENT LIABILITIES		
Long-term debt due within one year	2	2
Notes payable	70	-
Accounts payable	98	66
Accounts payable to affiliated companies	34	41
Customer deposits	14	16
Accrued taxes	16	2
Accrued interest	7	6
Deferred derivative gains	88	15
Other current liabilities	7	10
TOTAL CURRENT LIABILITIES	336	158
DEFERRED CREDITS AND REGULATORY LIABILITIES		
Deferred income taxes and investment tax credits	199	198
Regulatory liabilities	136	112
Other deferred credits	3	8
TOTAL DEFERRED CREDITS AND REGULATORY LIABILITIES	338	318
TOTAL CAPITALIZATION AND LIABILITIES	\$ 1,604	\$ 1,390

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

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

	For the Three Months		For the Nine Months	
	Ended September 30,		Ended September 30,	
	2005	2004	2005	2004
	(Millions of Dollars)			
OPERATING REVENUES				
Electric	\$ 201	\$ 159	\$ 446	\$ 400
Gas	23	21	154	149
TOTAL OPERATING REVENUES	224	180	600	549
OPERATING EXPENSES				
Purchased power	110	75	228	198
Gas purchased for resale	13	12	95	91
Other operations and maintenance	44	45	129	128
Depreciation and amortization	9	8	26	25
Taxes, other than income taxes	12	12	36	37
Income taxes	13	10	29	23
TOTAL OPERATING EXPENSES	201	162	543	502
OPERATING INCOME	23	18	57	47
OTHER INCOME (DEDUCTIONS)				
Investment and other income	1	-	1	1
INTEREST EXPENSE				
Interest on long-term debt	5	5	15	14
Other interest	1	-	2	1
NET INTEREST EXPENSE	6	5	17	15
NET INCOME	\$ 18	\$ 13	\$ 41	\$ 33

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2005	2004	2005	2004
(Millions of Dollars)				
NET INCOME	\$ 18	\$ 13	\$ 41	\$ 33
OTHER COMPREHENSIVE INCOME, NET OF TAXES				
Minimum pension liability adjustments, net of \$(1) taxes in 2004	-	-	-	(1)
Unrealized gains on derivatives qualified as cash flow hedges, net of \$4, \$-, \$4 and \$2 taxes in 2005 and 2004, respectively	5	-	5	2
Less: Reclassification adjustment for gains included in net income, net of \$-, \$-, \$- and \$1 taxes in 2005 and 2004, respectively	1	-	1	1
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAXES	4	-	4	-
COMPREHENSIVE INCOME	\$ 22	\$ 13	\$ 45	\$ 33

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

Orange and Rockland Utilities, Inc.
CONSOLIDATED STATEMENT OF COMMON SHAREHOLDER'S EQUITY
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004
(Unaudited)

(Millions of Dollars/Except Share Data)	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
	Shares	Amount				
BALANCE AS OF DECEMBER 31, 2003	1,000	\$ -	\$ 194	\$ 186	\$(10)	\$ 370
Net Income				15		15
Common stock dividend to parent				(7)		(7)
Other comprehensive loss					(2)	(2)
BALANCE AS OF MARCH 31, 2004	1,000	\$ -	\$ 194	\$ 194	\$(12)	\$ 376
Net Income				5		5
Common stock dividend to parent				(7)		(7)
Other comprehensive income					2	2
BALANCE AS OF JUNE 30, 2004	1,000	\$ -	\$ 194	\$ 192	\$(10)	\$ 376
Net Income				13		13
Common stock dividend to parent				(7)		(7)
BALANCE AS OF SEPTEMBER 30, 2004	1,000	\$ -	\$ 194	\$ 198	\$(10)	\$ 382
BALANCE AS OF DECEMBER 31, 2004	1,000	\$ -	\$ 194	\$ 204	\$(10)	\$ 388
Net Income				17		17
Common stock dividend to parent				(7)		(7)
Other comprehensive income					2	2
BALANCE AS OF MARCH 31, 2005	1,000	\$ -	\$ 194	\$ 214	\$(8)	\$ 400
Net Income				6		6
Common stock dividend to parent				(50)		(50)
Other comprehensive loss					(2)	(2)
BALANCE AS OF JUNE 30, 2005	1,000	\$ -	\$ 194	\$ 170	\$(10)	\$ 354
Net Income				18		18
Common stock dividend to parent				(7)		(7)
Other comprehensive income					4	4
BALANCE AS OF SEPTEMBER 30, 2005	1,000	\$ -	\$ 194	\$ 181	\$(6)	\$ 369

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,	
	2005	2004
	(Millions of Dollars)	
OPERATING ACTIVITIES		
Net income	\$ 41	\$ 33
PRINCIPAL NON-CASH CHARGES/(CREDITS) TO INCOME		
Depreciation and amortization	26	25
Deferred income taxes	(3)	5
Other non-cash items (net)	1	(2)
CHANGES IN ASSETS AND LIABILITIES		
Accounts receivable - customers, less allowance for uncollectibles	(30)	11
Accounts receivable from affiliated companies	(7)	(10)
Materials and supplies, including gas in storage	(16)	(22)
Prepayments, other receivables and other current assets	(1)	(12)
Recoverable energy costs	(8)	89
Accounts payable	32	1
Accounts payable to affiliated companies	(7)	3
Pensions and retiree benefits	(2)	(1)
Accrued taxes	14	1
Accrued interest	1	1
Deferred charges and other regulatory assets	(15)	(90)
Deferred credits and regulatory liabilities	(1)	(10)
Other assets	6	(1)
Other liabilities	(6)	27
NET CASH FLOWS FROM OPERATING ACTIVITIES	25	48
INVESTING ACTIVITIES		
Utility construction expenditures	(54)	(51)
Cost of removal less salvage	(2)	(2)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(56)	(53)
FINANCING ACTIVITIES		
Net proceeds from/(retirement of) short-term debt	70	(9)
Issuance of long-term debt	40	43
Retirement of long-term debt	(1)	-
Common stock dividend to parent	(64)	(21)
NET CASH FLOWS FROM FINANCING ACTIVITIES	45	13
CASH AND TEMPORARY CASH INVESTMENTS:		
NET CHANGE FOR THE PERIOD	14	8
BALANCE AT BEGINNING OF PERIOD	12	9
BALANCE AT END OF PERIOD	\$ 26	\$ 17
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	\$ 14	\$ 12
Income Taxes	\$ 20	\$ 29

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

Notes to the Financial Statements (Unaudited)

General

These notes accompany and form an integral part of the interim financial statements of Orange and Rockland Utilities, Inc. and its subsidiaries (the Company or O&R), a New York corporation. The Company is a regulated utility, which is a wholly owned subsidiary of Consolidated Edison, Inc. (Con Edison). The Company is subject to regulation by the Federal Energy Regulatory Commission (FERC), the New York Public Service Commission (PSC), the New Jersey Board of Public Utilities and the Pennsylvania Public Utility Commission with respect to rates and accounting.

The interim consolidated financial statements of O&R are unaudited but, in the opinion of its management, reflect all adjustments (which include only normally recurring adjustments) necessary for a fair presentation of the results for the interim periods presented. O&R's interim consolidated financial statements should be read together with its separate audited financial statements (including the combined notes thereto) included in Item 8 of the combined Annual Report of Con Edison, Consolidated Edison Company of New York, Inc. (Con Edison of New York) and O&R on Form 10-K for the year ended December 31, 2004 (the Form 10-K); the separate unaudited financial statements of Con Edison and Con Edison of New York (including the combined notes thereto) included in Item 1 of the combined Quarterly Report on Form 10-Q for the quarterly periods ended March 31, 2005 (the First Quarter Form 10-Q) and June 30, 2005 (the Second Quarter Form 10-Q) and; O&R's separate unaudited financial statements (including notes thereto) for the quarterly periods ended March 31, 2005 (the First Quarter Report) and June 30, 2005 (the Second Quarter Report) which are available on the O&R website (www.oru.com). Certain prior period amounts have been reclassified to conform to the current period presentation. Results for interim periods are not necessarily indicative of results for the entire fiscal year.

Note A – Regulatory Matters

Reference is made to "Rate and Restructuring Agreements" in Note B to the financial statements in Item 8 of the Form 10-K for information pertaining to the Company's current rate agreements.

Notes to the Financial Statements (Unaudited) - Continued

Regulatory Assets and Liabilities

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

(Millions of Dollars)	2005	2004
Regulatory Assets		
Transition bond charges	\$ 71	\$ 74
Environmental remediation costs	62	59
Pension and other postretirement benefits deferrals	53	42
Future federal income tax	47	47
Recoverable energy costs	23	18
Other	15	13
Total Regulatory Assets	\$271	\$253
Regulatory Liabilities		
Allowance for cost of removal less salvage	\$ 57	\$ 57
Refundable energy costs	26	29
Unrealized gains on hedging	24	1
NYS tax law changes	11	11
Earnings sharing reserve	5	-
Other	13	14
Regulatory Liabilities	136	112
Deferred derivative gains – current	88	15
Regulatory Liabilities	\$224	\$127

Note B – Stock-Based Compensation

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

Note C – Long-Term Debt

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

Note D – Short-Term Borrowing and Credit Agreements

For information about O&R’s commercial paper program and revolving credit agreements, see Note D to the financial statements in the First and Second Quarter Reports, which are available on the O&R website. At September 30, 2005, O&R had \$69.9 million of commercial paper outstanding. The weighted average interest

Notes to the Financial Statements (Unaudited) - Continued

rate for the nine-month period was 3.55 percent. At September 30, 2005, O&R had no loans outstanding under any of the credit agreements and \$11.1 million of letters of credit were outstanding.

Note E – Other Material Contingencies

Timing of Deduction of Construction-Related Costs

In August 2005, the Internal Revenue Service (IRS) issued Revenue Ruling 2005-53 with respect to when federal income tax deductions can be taken for certain construction-related costs. O&R used the “simplified service cost method” (SSCM) to determine the extent to which these costs could be deducted in 2002, 2003 and 2004, and as a result reduced their current tax expense by \$24 million. Under Revenue Ruling 2005-53, the Company may be required to repay, with interest, a portion of its past SSCM tax benefits and to capitalize and depreciate over a period of years costs it previously deducted under SSCM. The interest could range from zero to approximately \$3.6 million. Repayment of the SSCM tax benefits would not otherwise affect O&R’s results of operations because deferred taxes have been previously provided for the related temporary differences between the SSCM deductions taken for federal income tax purposes and the corresponding amounts charged to expense for financial reporting purposes.

Generating Assets Sold To Mirant

In June 1999, O&R completed the sale of all of its generating assets to affiliates of Mirant Corporation (formerly Southern Energy, Inc.) including its interest in a facility, Bowline Point, owned jointly with Con Edison of New York. The total gross proceeds to O&R from the sale amounted to \$343 million. In 2003, Mirant and most of its subsidiaries filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code.

O&R has entered into an agreement with Mirant, its affiliated debtors and debtors in possession, and the Official Committee of Unsecured Creditors for Mirant Corporation tolling the running of any statute of limitations with respect to any claim Mirant, its affiliated debtors or debtors in possession, or the Official Committee of Unsecured Creditors for Mirant Corporation may have against the Company. Mirant has indicated that it is considering a lawsuit against the Company in which it may seek to claim that some portion of what was paid in 1999 to purchase the generating assets exceeded the fair value of the assets.

Mirant has also indicated that it may pursue claims against O&R for compensation for certain system reliability services it alleges it provided to O&R since November 1999, as well as claims related to certain of the former O&R facilities. Both Con Edison of New York and O&R believe that these purported claims are without merit and would vigorously defend against them if they are pursued by Mirant.

In addition, Mirant has indicated in its Amended Plan of Reorganization that under certain circumstances it would retire its Lovett generating units in 2007 and 2008. O&R is in the process of upgrading its transmission and distribution system to meet anticipated load growth, and believes that by 2007 it would be able to meet existing transmission reliability criteria in the event that the Lovett units were shut down.

Notes to the Financial Statements (Unaudited) - Continued

O&R is unable to predict whether or not any Mirant related lawsuits or other actions will have a material adverse effect on their financial position, results of operations or liquidity.

Note F – Pension Benefits

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

Net Periodic Benefit Cost

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

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

(Millions of Dollars)	For the Nine Months Ended September 30,	
	2005	2004
Service cost – including administrative expenses	\$7	\$6
Interest cost on projected benefit obligation	21	20
Expected return on plan assets	(18)	(17)
Amortization of net actuarial loss	13	9
Amortization of prior service costs	1	-
TOTAL PERIODIC BENEFIT COST	\$24	\$18
Cost capitalized	(5)	(4)
Cost deferred	(9)	(2)
Cost charged to operating expenses	\$10	\$12

Expected Contributions

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

Note G – Other Postretirement Benefits

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

Net Periodic Benefit Cost

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

Notes to the Financial Statements (Unaudited) - Continued

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

(Millions of Dollars)	For the Nine Months Ended September 30,	
	2005	2004
Service cost	\$3	\$2
Interest cost on accumulated other postretirement benefit obligation	7	7
Expected return on plan assets	(4)	(4)
Amortization of net actuarial loss	7	4
Amortization of prior service cost	-	-
NET PERIODIC POSTRETIREMENT BENEFIT COST	\$13	\$9
Cost capitalized	(3)	(3)
Cost deferred	(4)	(2)
Cost charged to operating expenses	\$6	\$4

Expected Contributions

Based on current estimates, O&R expects to make contributions of \$13 million to the other postretirement benefit plans in 2005, of which \$6.5 million was paid in August of 2005.

Note H – Environmental Matters

Hazardous substances, such as coal tar and asbestos, have been used or generated in the course of operations of O&R and its predecessors and are present at sites and in facilities and equipment they currently or previously owned, including seven sites at which gas was manufactured (the MGP Sites).

MGP Sites

The New York State Department of Environmental Conservation (DEC) requires O&R to develop and implement remediation programs for their MGP Sites. O&R has investigated and detected soil and/or groundwater contamination to varying degrees at all of their MGP Sites and has completed an Interim Remedial Measure at one MGP Site. In addition, in 2004 the DEC approved a remedial action plan for another of O&R's MGP Sites. Additional investigation and determination of the remediation and monitoring methods will be required at their other MGP Sites. At September 30, 2005 and December 31, 2004, O&R had an accrued liability of \$57 million for their MGP Sites. In 2004, O&R estimated that the aggregate undiscounted potential liability for the remediation of the MGP Sites could range from approximately \$31 million to \$87 million. These estimates were based on assumptions regarding the extent of contamination and the type and extent of remediation that may be required in light of the information available, applicable remediation standards and experience with similar sites. Actual experience may be materially different. O&R is permitted under its current rate agreements to recover or defer as regulatory assets (for subsequent recovery through rates) certain site investigation and remediation costs. At

Notes to the Financial Statements (Unaudited) - Continued

September 30, 2005 and December 31, 2004, O&R's regulatory asset for recovery of these costs was \$62 million and \$59 million, respectively. The environmental remediation costs for the three and nine months ended September 30, 2005 were approximately \$1 and \$4 million, respectively. For the three and nine months ended September 30, 2004 such costs were \$1 million. There were no insurance recoveries during these periods.

Asbestos Proceedings

Suits have been brought against O&R and many other defendants, wherein a large number of plaintiffs sought large amounts of damages for deaths and injuries allegedly caused by exposure to asbestos at various O&R premises. The suits that have been resolved, which are many, have been resolved without any payment by O&R, or for amounts that were not, in the aggregate, material to O&R. The amounts specified in all the remaining suits total millions of dollars but O&R believes that these amounts are greatly exaggerated, as experienced through the disposition of previous claims.

In addition, certain current and former employees have claimed or are claiming workers' compensation benefits based on alleged disability from exposure to asbestos. O&R defers as regulatory assets (for subsequent recovery through rates) liabilities incurred for asbestos claims by employees and third-party contractors relating to its divested generating plants.

O&R's accrued liability for asbestos suits and workers' compensation proceedings (including those related to asbestos exposure) and the amounts deferred as regulatory assets at September 30, 2005 and December 31, 2004 were as follows:

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

Note I – Financial Information By Business Segment

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

Notes to the Financial Statements (Unaudited) - Continued

The financial data for the business segments are as follows:

For the Three Months Ended September 30,								
(Millions of Dollars)	Operating Revenues		Intersegment Revenues		Depreciation and Amortization		Operating Income	
	2005	2004	2005	2004	2005	2004	2005	2004
Electric*	\$201	\$ 159	\$ -	\$ -	\$7	\$ 6	\$ 25	\$ 21
Gas	23	21	-	-	2	2	(2)	(3)
Total	\$224	\$ 180	\$ -	\$ -	\$9	\$ 8	\$23	\$ 18

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

For the Nine Months Ended September 30,								
(Millions of Dollars)	Operating Revenues		Intersegment Revenues		Depreciation and Amortization		Operating Income	
	2005	2004	2005	2004	2005	2004	2005	2004
Electric*	\$446	\$ 400	\$ -	\$ -	\$19	\$ 18	\$48	\$ 40
Gas	154	149	-	-	7	7	9	7
Total	\$600	\$ 549	\$ -	\$ -	\$26	\$ 25	\$57	\$ 47

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

Note J – Derivative Instruments and Hedging Activities

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

Energy Price Hedging

O&R hedges market price fluctuations associated with physical purchases and sales of electricity and natural gas by using derivative instruments including futures, forwards, basis swaps, transmission congestion contracts and financial transmission rights contracts. The fair value of derivative assets for O&R increased at September 30, 2005 as compared with year-end 2004 due primarily to higher mark-to-market gains on commodity hedges. The fair values of these hedges at September 30, 2005 and December 31, 2004 were as follows:

(Millions of Dollars)	2005	2004
Fair value of net assets	\$115	\$14

Pursuant to SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," the Company defers recognition in income of gains and losses on a hedge until the underlying transaction is completed. In accordance with rate provisions that permit the recovery of the cost of purchased power, O&R credits or charges to its customers' gains and losses on hedges and related transaction costs. See "Recoverable Energy Costs" in Note A to the financial statements in Item 8 of the Form 10-K.

Cash Flow Hedges

O&R designates a portion of its derivative instruments as cash flow hedges under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." Under cash flow hedge accounting, to the extent a hedge is determined to be "effective," the unrealized gain or loss on the hedge is recorded in other comprehensive income (OCI) and reclassified to earnings at the time the underlying transaction is completed. A gain or loss relating to any portion of the hedge determined to be "ineffective" is recognized in earnings in the period in which such

Notes to the Financial Statements (Unaudited) - Continued

determination is made. The unrealized net gains and losses relating to the hedge ineffectiveness of these cash flow hedges that were recognized in earnings for the three and nine months ended September 30, 2005 and 2004 were immaterial to the results of operations of O&R for those periods. The following table presents selected information related to these cash flow hedges included in the accumulated OCI at September 30, 2005:

(Millions of Dollars)	Accumulated Other Comprehensive Income/(Loss) Net of Tax	Portion Expected to be Reclassified to Earnings during the Next 12 Months
Energy Price Hedges	\$4	\$3

The actual amounts that will be reclassified to earnings may vary from the expected amounts presented above as a result of changes in market prices. The effect of reclassification from accumulated OCI to earnings will generally be offset by the recognition of the hedged transaction in earnings. The maximum term for O&R's cash flow hedges is fifteen months.

Interest Rate Hedging

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

(Millions of Dollars)	2005	2004
Fair value of interest rate swaps	\$(14)	\$(16)

Cash Flow Hedges

O&R's interest rate swaps are designated as cash flow hedges under SFAS No. 133. Any gain or loss on the hedges is recorded in OCI and reclassified to interest expense and included in earnings during the periods in which the hedged interest payments occur. The following table presents amounts related to these cash flow hedges included in the accumulated OCI at September 30, 2005:

(Millions of Dollars)	Accumulated Other Comprehensive Income/(Loss) Net of Tax	Portion Expected to be Reclassified to Earnings during the Next 12 Months
Interest Rate Swaps	\$(8)	\$(1)

The actual amounts that will be reclassified to earnings may vary from the expected amounts presented above as a result of changes in interest rates. For the Company, these costs are recovered in rates and the reclassification will have no impact on results of operations.

Note K – Related Party Transactions

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

O&R provides and receives administrative and other services to and from Con Edison and its subsidiaries pursuant to cost allocation procedures developed in accordance with rules approved by the PSC and/or other regulatory authorities, as applicable. The services received include substantial administrative support operations,

Notes to the Financial Statements (Unaudited) - Continued

such as corporate secretarial and associated ministerial duties, accounting, treasury, investor relations, information resources, legal, human resources, fuel supply, and energy management services. The costs of administrative and other services provided by O&R, and received from Con Edison and its subsidiaries for the three and nine months ended September 30, 2005 and 2004 were as follows:

(Millions of Dollars)	For the Three Months		For the Nine Months	
	Ended September 30, 2005	2004	Ended September 30, 2005	2004
Cost of services provided	\$3	\$3	\$11	\$ 10
Cost of services received	\$6	\$6	\$19	\$ 17

In addition, O&R purchased from Con Edison of New York \$42 million of natural gas for the three months ended September 30, 2005 and 2004, respectively, and \$116 million and \$107 million for the nine months ended September 30, 2005 and 2004, respectively. These amounts are net of the effect of related hedging transactions.

O&R also purchased from Consolidated Edison Energy, Inc., a wholly owned subsidiary of Con Edison, \$1 million of electricity for its New Jersey regulated subsidiary for the three months ended September 30, 2004, and \$2 million and \$8 million for the nine months ended September 30, 2005 and 2004, respectively, pursuant to a statewide energy auction.

In December 2003, the FERC authorized Con Edison of New York to lend funds to O&R, for periods of not more than 12 months, in amounts not to exceed \$150 million outstanding at any time, at prevailing market rates. O&R has not borrowed any funds from Con Edison of New York.

Note L – New Financial Accounting Standards

In July 2005, the Financial Accounting Standards Board (FASB) issued Exposure Draft titled “Accounting for Uncertain Tax Positions,” an interpretation of FASB Statement No. 109, “Accounting for Income Taxes” (the Exposure Draft). The proposed interpretation would clarify the accounting for uncertain tax positions in accordance with FASB Statement No. 109. Under the interpretation, an enterprise would not be allowed to recognize, in its financial statements, the benefit of a tax position unless that position is probable of being sustained on audit by taxing authorities based solely on the technical merits of the position. The IRS has completed its audits of O&R’s tax returns through 1996. O&R’s tax returns for subsequent years, which the IRS is reviewing, reflect certain tax positions with which the IRS may not ultimately agree, including tax positions with respect to O&R’s deduction of certain construction-related costs. See “Timing of Deduction of Construction-Related Costs” in Note E. As to O&R’s other tax positions, the Company is unable to predict whether the Exposure Draft, if adopted in its present form, would have a material impact on its financial position, results of operations or liquidity.

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