

**Orange and Rockland Utilities, Inc.**  
**Third Quarter 2007 Financial Statements and Notes**

Financial Statements (Unaudited)

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

	September 30, 2007	December 31, 2006
	(Millions of Dollars)	
<b>ASSETS</b>		
<b>UTILITY PLANT, AT ORIGINAL COST</b>		
Electric	\$ 942	\$ 903
Gas	397	385
General	128	125
Total	1,467	1,413
Less: Accumulated depreciation	417	409
Net	1,050	1,004
Construction work in progress	29	39
<b>NET UTILITY PLANT</b>	<b>1,079</b>	<b>1,043</b>
<b>CURRENT ASSETS</b>		
Cash and temporary cash investments	4	21
Restricted cash	2	2
Accounts receivable - customers, less allowance for uncollectible accounts of \$2 in 2007 and 2006	63	48
Accrued unbilled revenue	28	36
Other receivables, less allowance for uncollectible accounts of \$1 in 2007 and 2006	19	43
Accounts receivable from affiliated companies	23	5
Gas in storage, at average cost	53	57
Materials and supplies, at average cost	7	7
Prepayments	23	10
Fair value of derivative assets	1	2
Deferred derivative losses	3	24
Recoverable energy costs	18	22
Other current assets	1	-
<b>TOTAL CURRENT ASSETS</b>	<b>245</b>	<b>277</b>
<b>INVESTMENTS</b>	<b>12</b>	<b>11</b>
<b>DEFERRED CHARGES, REGULATORY ASSETS AND NONCURRENT ASSETS</b>		
Regulatory assets	420	414
Other deferred charges and noncurrent assets	41	23
<b>TOTAL DEFERRED CHARGES, REGULATORY ASSETS AND NONCURRENT ASSETS</b>	<b>461</b>	<b>437</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,797</b>	<b>\$ 1,768</b>

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

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

	September 30, 2007	December 31, 2006
	(Millions of Dollars)	
<b>CAPITALIZATION AND LIABILITIES</b>		
<b>CAPITALIZATION</b>		
Common shareholder's equity (See Statement of Common Shareholder's Equity)	\$ 421	\$ 360
Long-term debt	434	436
<b>TOTAL CAPITALIZATION</b>	<b>855</b>	<b>796</b>
<b>NONCURRENT LIABILITIES</b>		
Provision for injuries and damages	7	6
Pensions and retiree benefits	268	299
Superfund and other environmental costs	56	49
Hedges on variable rate long-term debt	10	12
Uncertain income taxes	12	-
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>353</b>	<b>366</b>
<b>CURRENT LIABILITIES</b>		
Long-term debt due within one year	3	22
Notes payable	54	34
Accounts payable	80	77
Accounts payable to affiliated companies	44	68
Customer deposits	14	14
Accrued taxes	6	5
Accrued interest	14	10
Deferred derivative gains	1	1
Deferred income taxes - recoverable energy costs	8	9
Other current liabilities	21	30
<b>TOTAL CURRENT LIABILITIES</b>	<b>245</b>	<b>270</b>
<b>DEFERRED CREDITS AND REGULATORY LIABILITIES</b>		
Deferred income taxes and investment tax credits	207	199
Regulatory liabilities	134	134
Other deferred credits	3	3
<b>TOTAL DEFERRED CREDITS AND REGULATORY LIABILITIES</b>	<b>344</b>	<b>336</b>
<b>TOTAL CAPITALIZATION AND LIABILITIES</b>	<b>\$1,797</b>	<b>\$1,768</b>

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2007	2006	2007	2006
	(Millions of Dollars)			
<b>OPERATING REVENUES</b>				
Electric	\$ 205	\$ 205	\$ 514	\$ 455
Gas	30	26	189	166
<b>TOTAL OPERATING REVENUES</b>	<b>235</b>	<b>231</b>	<b>703</b>	<b>621</b>
<b>OPERATING EXPENSES</b>				
Purchased power	117	108	297	236
Gas purchased for resale	17	15	116	108
Other operations and maintenance	52	53	144	143
Depreciation and amortization	10	9	28	26
Taxes, other than income taxes	11	12	32	36
Income taxes	7	10	23	20
<b>TOTAL OPERATING EXPENSES</b>	<b>214</b>	<b>207</b>	<b>640</b>	<b>569</b>
<b>OPERATING INCOME</b>	<b>21</b>	<b>24</b>	<b>63</b>	<b>52</b>
<b>OTHER INCOME (DEDUCTIONS)</b>				
Investment and other income	1	1	-	2
Income taxes	-	-	1	(1)
<b>TOTAL OTHER INCOME (DEDUCTIONS)</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>
<b>INTEREST EXPENSE</b>				
Interest on long-term debt	6	6	19	16
Other interest	2	2	6	5
<b>NET INTEREST EXPENSE</b>	<b>8</b>	<b>8</b>	<b>25</b>	<b>21</b>
<b>NET INCOME</b>	<b>\$ 14</b>	<b>\$ 17</b>	<b>\$ 39</b>	<b>\$ 32</b>

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

	For the Three Months		For the Nine Months	
	Ended September 30,		Ended September 30,	
	2007	2006	2007	2006
	(Millions of Dollars)			
NET INCOME	\$ 14	\$ 17	\$ 39	\$ 32
OTHER COMPREHENSIVE INCOME/(LOSS), NET OF TAXES				
Pension plan liability adjustments, net of \$0 and \$2 taxes in 2007	2	-	4	(1)
Unrealized gains/(losses) on derivatives qualified as cash flow hedges, net of \$(1) and \$(2) taxes in 2006	-	(1)	1	(2)
Less: Reclassification adjustment losses included in net income, net of \$(1) taxes in 2006	-	-	(1)	(1)
<b>TOTAL OTHER COMPREHENSIVE INCOME/(LOSS), NET OF TAXES</b>	<b>2</b>	<b>(1)</b>	<b>6</b>	<b>(2)</b>
<b>COMPREHENSIVE INCOME</b>	<b>\$ 16</b>	<b>\$ 16</b>	<b>\$ 45</b>	<b>\$ 30</b>

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**Orange and Rockland Utilities, Inc.**  
**CONSOLIDATED STATEMENT OF COMMON SHAREHOLDER'S EQUITY**  
**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006**  
**(Unaudited)**

(Millions of Dollars/Except Share Data)	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount				
BALANCE AS OF DECEMBER 31, 2005	1,000	\$ -	\$ 194	\$ 183	\$ (8)	\$ 369
Net Income				12		12
Common stock dividend to parent				(7)		(7)
Other comprehensive loss					(2)	(2)
BALANCE AS OF MARCH 31, 2006	1,000	\$ -	\$ 194	\$ 188	\$ (10)	\$ 372
Net Income				3		3
Common stock dividend to parent				(7)		(7)
Other comprehensive income					1	1
BALANCE AS OF JUNE 30, 2006	1,000	\$ -	\$ 194	\$ 184	\$ (9)	\$ 369
Net Income				17		17
Common stock dividend to parent				(7)		(7)
Other comprehensive loss					(1)	(1)
BALANCE AS OF SEPTEMBER 30, 2006	1,000	\$ -	\$ 194	\$ 194	\$ (10)	\$ 378
BALANCE AS OF DECEMBER 31, 2006	1,000	\$ -	\$ 194	\$ 200	\$ (34)	\$ 360
Net Income				19		19
Common stock dividend to parent				(8)		(8)
Other comprehensive income					3	3
BALANCE AS OF MARCH 31, 2007	1,000	\$ -	\$ 194	\$ 211	\$ (31)	\$ 374
Net Income				6		6
Common stock dividend to parent				(8)		(8)
Other comprehensive income					1	1
Capital contribution by parent			40			40
BALANCE AS OF JUNE 30, 2007	1,000	\$ -	\$ 234	\$ 209	\$ (30)	\$ 413
Net Income				14		14
Common stock dividend to parent				(8)		(8)
Other comprehensive income					2	2
BALANCE AS OF SEPTEMBER 30, 2007	1,000	\$ -	\$ 234	\$ 215	\$ (28)	\$ 421

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,	
	2007	2006
	(Millions of Dollars)	
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 39	\$ 32
<b>PRINCIPAL NON-CASH CHARGES/(CREDITS) TO INCOME</b>		
Depreciation and amortization	28	26
Deferred income taxes	12	12
Other non-cash items (net)	3	-
<b>CHANGES IN ASSETS AND LIABILITIES</b>		
Accounts receivable - customers, less allowance for uncollectibles	(15)	10
Accounts receivable from affiliated companies	(18)	(2)
Materials and supplies, including gas in storage	4	1
Prepayments, other receivables and other current assets	19	(12)
Recoverable energy costs	(7)	(1)
Accounts payable	3	-
Accounts payable to affiliated companies	(4)	17
Pensions and retiree benefits	(39)	(3)
Accrued taxes	1	(1)
Accrued interest	4	4
Deferred charges, noncurrent assets and other regulatory assets	(2)	-
Deferred credits and regulatory liabilities	5	(2)
Other assets	(1)	(1)
Other liabilities	(1)	6
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>31</b>	<b>86</b>
<b>INVESTING ACTIVITIES</b>		
Utility construction expenditures	(61)	(74)
Cost of removal less salvage	(2)	(2)
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>(63)</b>	<b>(76)</b>
<b>FINANCING ACTIVITIES</b>		
Net proceeds from short-term debt	20	10
Retirement of long-term debt	(21)	(2)
Capital contribution from parent	40	-
Dividend to parent	(24)	(21)
<b>NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES</b>	<b>15</b>	<b>(13)</b>
<b>CASH AND TEMPORARY CASH INVESTMENTS:</b>		
<b>NET CHANGE FOR THE PERIOD</b>	<b>(17)</b>	<b>(3)</b>
<b>BALANCE AT BEGINNING OF PERIOD</b>	<b>21</b>	<b>9</b>
<b>BALANCE AT END OF PERIOD</b>	<b>\$ 4</b>	<b>\$ 6</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the period for:		
Interest	\$ 15	\$ 15
Income Taxes	\$ 30	\$ 21

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 unaudited interim financial statements of Orange and Rockland Utilities, Inc., a New York corporation, and its subsidiaries (the Company or O&R). The Company is a regulated utility, the equity of which is owned entirely by Consolidated Edison, Inc. (Con Edison). O&R has two regulated utility subsidiaries: Rockland Electric Company (RECO) and Pike County Light & Power Company (Pike). For the nine months ended September 30, 2007 and 2006, operating revenues for RECO and Pike were 23.1 percent and 0.7 percent and 22.1 percent and 1.3 percent, respectively, of O&R's consolidated operating revenues. O&R, along with its regulated utility subsidiaries, provides electric service in southeastern New York and adjacent areas of northern New Jersey and eastern Pennsylvania and gas service in southeastern New York and adjacent areas of eastern Pennsylvania. RECO owns Rockland Electric Company Transition Funding LLC, which was formed in 2004 in connection with the securitization of certain purchased power costs.

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 (NJBPU) and the Pennsylvania Public Utility Commission (PPUC) with respect to rates, service 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 audited financial statements (including the notes thereto) for the year ended December 31, 2006 (2006 Annual Financial Statements). 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 2006 Annual Financial Statements.

#### Rate and Restructuring Agreements

##### Electric

In October 2007, the PSC issued an order that continues O&R's rates for electric service rendered in New York at current levels. The order, which is based on an allowed annual rate of return on common equity of 9.1 percent increases, effective July 1, 2007, by \$13.1 million annually the amount recognized for pension and other postretirement benefit costs. Because O&R, in accordance with applicable New York regulatory provisions, defers the difference between the actual amount of such costs and the amounts for such costs reflected in rates, the effect of the increase will be to decrease the company's deferrals of such costs and increase other operations and maintenance expense by a like amount. As required by the order, the company also has reduced other operating revenues and recorded a regulatory liability of \$5 million at September 30, 2007 primarily for earnings attributable to its New York electric business in excess of a 9.1 percent annual rate of return on common equity applicable to the period March through June 2007. In June 2007, O&R commenced an action in New York State

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

Supreme Court seeking to annul the March 2007 PSC order that initiated the proceeding in which the October 2007 order was issued.

In August 2007, O&R filed a request with the PSC for an increase in the rates it charges for electric service rendered in New York, effective July 2008, of \$47.8 million. The filing reflects a return on common equity of 11.5 percent and a common equity ratio of 48.6 percent. The filing proposes continuation of the current provisions with respect to recovery from customers of the cost of purchased power, and the reconciliation of actual expenses allocable to the electric business to the amounts for such costs reflected in electric rates for pension and other postretirement benefit costs, environmental and research and development costs.

In October 2007, O&R submitted to the PSC a revenue decoupling proposal applicable to the company's electric service in New York. Under the proposal, the company's actual electric delivery revenues for most customer service classifications would be compared, on a monthly basis, with the forecasted delivery revenues reflected in electric rates for each service classification. The difference is then accrued, with interest, for refund to or recovery from customers, as applicable, and the company would engage in programs to advance energy efficiency.

In March 2007, the NJBPU approved a new three-year electric base rate plan for RECO that went into effect on April 1, 2007. The plan provides for a \$6.4 million rate increase during the first year, with no further increase during the final two years. The plan reflects a return on common equity of 9.75 percent and a common equity ratio of 46.5 percent of capitalization.

In July 2007, Pike and a majority of the 50 customers that filed complaints with the PPUC regarding a January 2006 increase in the Pike's default service rates entered into a joint Petition for Settlement, which is subject to PPUC approval, resolving all issues pertaining to the complaints. In October 2007, the presiding Judge issued a decision recommending that the PAPUC approve the joint Petition for Settlement. O&R does not expect that the PPUC's decision on these complaints will have a material adverse effect on its financial position, results of operation or liquidity.

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

### Regulatory Assets and Liabilities

Regulatory assets and liabilities at September 30, 2007 and December 31, 2006 were comprised of the following items:

(Millions of Dollars)	2007	2006
Regulatory assets		
Unrecognized pension and other postretirement costs	\$130	\$152
Transition bond charges	64	67
Pension and other postretirement benefits deferrals	63	59
Environmental remediation costs	74	63
Future federal income tax	58	54
Other	31	19
Regulatory assets	420	414
Deferred derivative losses – current	3	24
Recoverable energy costs – current	18	22
<b>Total regulatory assets</b>	<b>\$441</b>	<b>\$460</b>
Regulatory liabilities		
Allowance for cost of removal less salvage	\$62	\$60
Refundable energy costs	29	40
NYS tax law changes	9	10
Property tax deferral	5	5
Unrealized gains on hedging	7	1
Other	22	18
Regulatory liabilities	134	134
Deferred derivative gains – current	1	1
<b>Total regulatory liabilities</b>	<b>\$135</b>	<b>\$135</b>

### Note B – Short-Term Borrowing and Credit Agreements

Reference is made to Note D to the 2006 Annual Financial Statements.

In June 2007, Con Edison and its subsidiaries' credit agreement, which was to expire in June 2011 was extended for an additional year, with a maximum of \$200 million available to O&R.

At September 30, 2007 and 2006, O&R had \$54 million and \$111 million of commercial paper outstanding, at a weighted average interest rate of 5.28 percent and 5.36 percent, respectively. At September 30, 2007 and 2006, \$25 million and \$7 million of letters of credit were outstanding under the agreements, respectively.

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

### Note C – Pension Benefits

Reference is made to Note E to the 2006 Annual Financial Statements.

#### Net Periodic Benefit Cost

The components of the Company's net periodic benefit costs for the three and nine months ended September 30, 2007 and 2006 were as follows:

(Millions of Dollars)	For the Three Months Ended September 30,	
	2007	2006
Service cost – including administrative expenses	\$2	\$2
Interest cost on projected benefit obligation	8	8
Expected return on plan assets	(7)	(6)
Amortization of net actuarial loss	5	5
Amortization of prior service cost	1	-
<b>NET PERIODIC BENEFIT COST</b>	<b>\$9</b>	<b>\$9</b>
Cost capitalized	(2)	(2)
Cost deferred	-	(3)
<b>Cost charged to operating expenses</b>	<b>\$7</b>	<b>\$4</b>

(Millions of Dollars)	For the Nine Months Ended September 30,	
	2007	2006
Service cost – including administrative expenses	\$7	\$7
Interest cost on projected benefit obligation	24	22
Expected return on plan assets	(21)	(18)
Amortization of net actuarial loss	16	16
Amortization of prior service cost	1	1
<b>NET PERIODIC BENEFIT COST</b>	<b>\$27</b>	<b>\$28</b>
Cost capitalized	(7)	(6)
Cost deferred	(4)	(10)
<b>Cost charged to operating expenses</b>	<b>\$16</b>	<b>\$12</b>

### Note D – Other Postretirement Benefits

Reference is made to Note F to the 2006 Annual Financial Statements.

#### Net Periodic Benefit Cost

The components of the Company's net periodic postretirement benefit costs for the three and nine months ended September 30, 2007 and 2006 were as follows:

(Millions of Dollars)	For the Three Months Ended September 30,	
	2007	2006
Service cost	\$-	\$1
Interest cost on accumulated other postretirement benefit obligation	3	2
Expected return on plan assets	(2)	(1)
Amortization of net actuarial loss	2	2
<b>NET PERIODIC POSTRETIREMENT BENEFIT COST</b>	<b>\$3</b>	<b>\$4</b>
Cost capitalized	(1)	(2)
Cost deferred	-	-
<b>Cost charged to operating expenses</b>	<b>\$2</b>	<b>\$2</b>

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

(Millions of Dollars)	For the Nine Months Ended September 30,	
	2007	2006
Service cost	\$2	\$3
Interest cost on accumulated other postretirement benefit obligation	8	7
Expected return on plan assets	(5)	(4)
Amortization of net actuarial loss	6	7
<b>NET PERIODIC POSTRETIREMENT BENEFIT COST</b>	<b>\$11</b>	<b>\$13</b>
Cost capitalized	(4)	(4)
Cost deferred	(2)	(3)
Cost charged to operating expenses	\$5	\$6

### Note E – Environmental Matters

Hazardous substances, such as coal tar and asbestos, have been used or created 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 its MGP Sites. O&R has investigated and detected soil and/or groundwater contamination to varying degrees at its MGP Sites. Remediation has been completed at one MGP site and is currently underway at another MGP site. Additional investigation will be required for three of the remaining MGP sites and remediation required at all of them. At September 30, 2007 and December 31, 2006, O&R had an accrued liability of \$56 million and \$49 million, respectively, for its MGP Sites.

In the third quarter of 2007, 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 such contaminants could range up to \$143 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.

O&R is permitted under its New York rate agreements to recover or defer as regulatory assets (for subsequent recovery through rates) certain site investigation and remediation costs. At September 30, 2007 and December 31, 2006, O&R's regulatory asset for recovery of these costs was \$74 million and \$63 million, respectively. The environmental remediation costs for the three and nine months ended September 30, 2007 were approximately \$3 million and \$5 million, respectively, and approximately \$2 million and \$7 million for the three and nine months ended September 30, 2006, respectively. There were no insurance recoveries during these periods.

In February 2006, a suit was brought against the Company seeking unspecified compensatory and punitive damages with respect to two decedents whose deaths were allegedly caused by exposure to contaminants from an O&R MGP site. In December 2007, the court granted the Company's summary judgement motion to dismiss the suit.

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

### Asbestos Proceedings

Suits have been brought 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.

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) was \$6 million at September 30, 2007 and December 31, 2006.

### Note F – Other Material Contingencies

#### Generating Assets Sold to Mirant

Reference is made to Note H to the 2006 Annual Financial Statements.

In June 2007, the United States Bankruptcy Court for the Northern District of Texas approved the settlement of the legal proceedings relating to the June 1999 sale of generating assets by Con Edison of New York and O&R to affiliates of Mirant Corporation (which had filed a petition for reorganization under the U.S. Bankruptcy Code). Pursuant to the settlement, the proceedings against O&R were dismissed, with prejudice, and O&R paid certain amounts to the Mirant affiliates, which, in aggregate, were not material to O&R.

The generating assets sold to Mirant affiliates included the Lovett generating station, which has pollution control equipment that was financed by O&R with the proceeds of \$99 million of tax-exempt debt that remains outstanding. The Mirant affiliate that owns the generating station has indicated that it will discontinue all operations at the station in April 2008. O&R is reviewing whether actions by the Mirant affiliate may adversely affect the tax-exempt debt. If O&R were to redeem the tax-exempt debt, the interest rate swap agreement applicable to \$55 million of the debt could also be terminated. If the swap agreement had been terminated on September 30, 2007, O&R would have been required to pay an estimated settlement amount of approximately \$6 million after-tax. See "Long-Term Debt" and "Significant Debt Covenants" in Note C to the 2006 Annual Financial Statements and "Interest Rate Hedging - Cash Flow Hedges" in Note J below.

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

### Note G – Income Tax

#### Uncertain Tax Positions

In January 2007, Con Edison and its subsidiaries adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" (FIN 48). This interpretation clarifies 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 more likely than not to be sustained upon examination by taxing authorities, including resolution of any related appeals and litigation processes, based solely on the technical merits of the position.

The IRS has essentially completed its audits of Con Edison's federal income tax returns, which include O&R, through 2001 and for tax year 2005. Con Edison's federal income tax returns for 2002 through 2004, which the IRS is reviewing, reflect certain tax positions with which the IRS does not or may not agree, including tax positions with respect to the deduction of certain construction-related costs for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility.

The Company's uncertain tax positions include use of the "simplified service cost method" (SSCM) to determine the extent to which construction-related costs could be deducted in 2002 through 2005. The Company expects that it will be required to repay, with interest, a portion of its past SSCM tax benefits (\$28 million) and to capitalize and depreciate over a period of years costs it previously deducted under SSCM. Interest on all past SSCM tax benefits for O&R could be approximately \$9 million. Repayment of the SSCM tax benefits would not otherwise affect the Company's result 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.

Upon adoption of FIN 48, the Company reclassified previously recorded tax liabilities of \$11 million, which primarily related to SSCM, to a liability for uncertain tax positions. At September 30, 2007, the liability for uncertain tax positions was \$12 million, and accrued interest on the liability amounted to \$4 million, of which \$1 million, a portion related to the Company's New York operations, was deferred as a regulatory asset pending recovery through rates. The Company recognizes interest accrued related to the liability for uncertain tax positions in interest expense and penalties, if any, in operating expenses in the Company's consolidated income statements. The Company recognized interest expense of \$0.1 million and \$2 million for uncertain tax positions for the three and nine months ended September 30, 2007, respectively.

In June 2007, Con Edison paid \$160 million to the Internal Revenue Service, \$13 million of which is attributable to O&R, as a deposit for the repayment, including related interest, that the Company expects will be required with respect to the past SSCM benefits. As a result, for federal income tax purposes, interest will continue to accrue

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

only on the portion of the liability, if any, that exceeds the deposit. O&R has recorded the deposit as a noncurrent asset on its consolidated balance sheet.

The Company does not expect the total amounts of uncertain tax positions to significantly increase or decrease within the next 12 months.

### Note H – Stock-Based Compensation

For a description of stock-based compensation, including stock options, restricted stock units (RSUs), including performance based-restricted stock units and the stock purchase plan, reference is made to Note L to the 2006 Annual Financial Statements.

In accordance with SFAS No. 123(R), "Share-Based Payment," the Company has recognized the cost of stock-based compensation as an expense using a fair value measurement method. The following table summarizes stock-based compensation expense recognized by the Company in the three and nine months ended September 30, 2007:

(Thousands of Dollars)	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2007	2006	2007	2006
Stock options	\$19	\$316	\$37	\$664
Restricted stock units	25	-	(75)	-
Performance-based restricted stock	153	90	212	773
Total	\$197	\$406	\$174	\$1,437

### Stock Options

A summary of changes in the status of stock options for O&R during the three and nine months ended September 30, 2007, and 2006 were as follows:

	Shares	Weighted Average Exercise Price
Outstanding at 12/31/05	538,000	\$40.79
Granted	77,000	46.88
Exercised	(1,000)	37.75
Forfeited	-	-
Outstanding at 3/31/06	614,000	\$41.56
Granted	47,000	43.50
Exercised	(6,000)	38.47
Forfeited	-	-
Outstanding at 6/30/06	655,000	\$41.73
Granted	-	-
Exercised	(22,900)	37.92

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

Forfeited	-	-
Outstanding at 9/30/06	632,100	\$41.86
Outstanding at 12/31/06	614,850	\$41.95
Granted	-	-
Exercised	(28,650)	38.75
Forfeited	-	-
Outstanding at 3/31/07	586,200	\$42.10
Granted	-	-
Exercised	(13,500)	41.22
Forfeited	-	-
Outstanding at 6/30/07	572,700	\$42.12
Granted	-	-
Exercised	-	-
Forfeited	-	-
Outstanding at 9/30/07	572,700	\$42.12

The change in the fair value of all outstanding options from their grant dates to September 30, 2007 and 2006 (aggregate intrinsic value) for O&R was \$2 million and \$3 million, respectively. The aggregate intrinsic value of options exercised by employees of Con Edison's affiliates, including O&R, in the period ended September 30, 2007 and 2006 was \$0.05 million and \$2 million, respectively, and the cash received by Con Edison for payment of the exercise price was \$0.3 million and \$9 million, respectively. The weighted average remaining contractual life of options outstanding is six years as of September 30, 2007.

The following table summarizes O&R employees' stock options outstanding at September 30, 2007 for each plan year:

Plan Year	Remaining Contractual Life	Options Outstanding	Weighted Average Exercise Price	Options Exercisable
2006	9	124,000	\$45.599	-
2005	8	105,000	43.031	-
2004	7	89,500	43.777	89,500
2003	6	81,200	39.911	81,200
2002	5	87,000	42.510	87,000
2001	4	57,000	37.750	57,000
2000	3	29,000	32.500	29,000
Total		572,700	\$42.123	343,700

There were no awards granted in 2007. The exercise prices of options awarded in 2006 range from \$43.50 to \$46.88. The total expense to be recognized in future periods for the unvested stock options outstanding as of September 30, 2007 is \$0.1 million for O&R.

### Restricted Stock Units

At September 30, 2007 and 2006, there were 36,200 and 35,000 units outstanding for O&R, respectively. The weighted average fair value as of the grant date of the outstanding units for September 30, 2007 and 2006 was \$35.32 and \$34.78 per unit for O&R.

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

A summary of changes in the status of the Performance RSUs' Total Shareholder Return (TSR) portion during the three and nine months ended September 30, 2007 and 2006 were as follows:

	Units	Weighted Average Fair Value*
Outstanding at 12/31/05	7,300	\$34.37
Granted	4,900	35.64
Exercised	-	-
Forfeited	-	-
Outstanding at 3/31/06	12,200	\$28.78
Granted	-	-
Exercised	-	-
Forfeited	-	-
Outstanding at 6/30/06	12,200	\$30.66
Granted	-	-
Exercised	-	-
Forfeited	-	-
Outstanding at 9/30/06	12,200	\$24.20
Outstanding at 12/31/06	8,575	\$18.58
Granted	10,250	45.73
Exercised	-	-
Forfeited	-	-
Outstanding at 3/31/07	18,825	\$36.12
Granted	2,475	48.06
Exercised	-	-
Forfeited	-	-
Outstanding at 6/30/07	21,300	\$19.97
Granted	-	-
Exercised	-	-
Forfeited	-	-
Outstanding at 9/30/07	21,300	\$22.36

\* Fair value is determined using the Monte Carlo simulation.

A summary of changes in the status of the Performance RSUs' Executive Incentive Plan (EIP) portion during the three and nine months ended September 30, 2007 and 2006 were as follows:

	Units	Weighted Average Fair Value*
Outstanding at 12/31/05	7,300	\$43.39
Granted	4,900	46.88
Exercised	-	-
Forfeited	-	-

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

Outstanding at 3/31/06	12,200	\$43.50
Granted	-	-
Exercised	-	-
Forfeited	-	-
Outstanding at 6/30/06	12,200	\$44.44
Granted	-	-
Exercised	-	-
Forfeited	-	-
Outstanding at 9/30/06	12,200	\$46.20
Outstanding at 12/31/06	8,575	\$48.07
Granted	10,250	47.53
Exercised	-	-
Forfeited	-	-
Outstanding at 3/31/07	18,825	\$51.06
Granted	2,475	51.06
Exercised	-	-
Forfeited	-	-
Outstanding at 6/30/07	21,300	\$45.12
Granted	-	-
Exercised	-	-
Forfeited	-	-
Outstanding at 9/30/07	21,300	\$46.30

The total expense to be recognized by O&R in future periods for unvested Performance RSUs outstanding as of September 30, 2007 is \$0.9 million.

### Note I – Financial Information By Business Segment

Reference is made to Note M to the 2006 Annual Financial Statements.

The financial data for the business segments are as follows:

(Millions of Dollars)	For the Three Months Ended September 30,							
	Operating Revenues		Inter-segment Revenues		Depreciation and Amortization		Operating Income	
	2007	2006	2007	2006	2007	2006	2007	2006
Electric	\$205	\$205	\$-	\$ -	\$7	\$7	\$22	\$25
Gas	30	26	-	-	3	2	(1)	(1)
Total	\$235	\$231	\$-	\$ -	\$10	\$9	\$21	\$24

(Millions of Dollars)	For the Nine Months Ended September 30,							
	Operating Revenues		Inter-segment Revenues		Depreciation and Amortization		Operating Income	
	2007	2006	2007	2006	2007	2006	2007	2006
Electric	\$514	\$455	\$ -	\$ -	\$20	\$19	\$47	\$43
Gas	189	166	-	-	8	7	16	9
Total	\$703	\$621	\$ -	\$ -	\$28	\$26	\$63	\$52

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

### Note J – Derivative Instruments and Hedging Activities

Reference is made to Note N to the 2006 Annual Financial Statements.

#### Energy Price Hedging

The Company hedges market price fluctuations associated with physical purchases and sales of electricity and natural gas by using derivative instruments including futures, forwards, basis swaps, or options. The fair values of these hedges at September 30, 2007 and December 31, 2006 were as follows:

(Millions of Dollars)	2007	2006
Fair value of net assets	\$1	\$(19)

#### Credit Exposure

The Company is exposed to credit risk related to transactions entered into primarily for the various energy supply and hedging activities. 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 had \$14 million of credit exposure in connection with energy supply and hedging activities, net of collateral and reserves, at September 30, 2007. The Company's entire credit exposure was with investment-grade counterparties.

#### Cash Flow Hedges

The Company designates a portion of its derivative instruments as cash flow hedges under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133). 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 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 determination is made.

At September 30, 2007, the cash flow hedges included in accumulated OCI had a maximum term of three months and the portion expected to be reclassified to earnings during the next 12 months was immaterial to the results of operation of the Company. The actual amounts that will be reclassified to earnings may vary from the expected amounts 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 unrealized net gains and losses relating to the hedge ineffectiveness of these cash flow hedges that were recognized in net earnings for the three and nine months ended September 30, 2007 and 2006 were immaterial to the results of operations of the Company for those periods.

## Notes to the 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.

### Interest Rate Hedging

The Company uses interest rate swaps to manage interest rate exposure associated with debt. The fair value of the interest rate swap at September 30, 2007 and December 31, 2006 was as follows:

(Millions of Dollars)	2007	2006
Fair value of interest rate swaps	\$(9)	\$(12)

### Cash Flow Hedges

The Company's interest rate swap is designated as a cash flow hedge under SFAS No. 133. Any gain or loss on the hedge is recorded in OCI and reclassified to interest expense and included in earnings during the periods in which the hedged interest payments occur. See "Interest Rate Hedging" in Note N to the 2006 Annual Financial Statements for the contractual components of the interest rate swap accounted for as cash flow hedges.

The following table presents selected information related to these cash flow hedges included in accumulated OCI at September 30, 2007:

(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	\$(6)	\$(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 generally recovered in rates and the reclassification will have no impact on results of operations.

### Note K – Related Party Transactions

Reference is made to Note P to the 2006 Annual Financial Statements.

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 PSC and/or other regulatory authorities, as applicable. The services received include substantial administrative support operations, 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 other subsidiaries, for the three and nine months ended September 30, 2007 and 2006 were as follows:

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

(Millions of Dollars)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2007	2006	2007	2006
Cost of services provided	\$4	\$4	\$12	\$12
Cost of services received	\$7	\$6	\$22	\$20

In addition, O&R purchased from Con Edison of New York \$32 million of natural gas for the three months ended September 30, 2007 and 2006 in each period, and \$119 million and \$114 million of natural gas for the nine months ended September 30, 2007 and 2006, respectively. These amounts are net of the effect of related hedging transactions.

Electric hedging transactions executed by Con Edison of New York on behalf of O&R resulted in a charge to purchase power of \$1 million and \$2 million for the three months ended September 30, 2007 and 2006, respectively, and \$4 million and \$6 million for the nine months ended September 30, 2007 and 2006, respectively.

At September 30, 2007 and December 31, 2006, the Company has a net payable to Con Edison of New York associated with derivatives for energy price hedging of \$5 million and \$49 million, respectively.

As of September 30, 2007 and December 31, 2006, the Company's receivable from Con Edison for income taxes was \$18 million and \$0.1 million, respectively. See Note A to the 2006 Financial Statements.

Pike paid the following amounts to purchase electricity from Consolidated Edison Energy, Inc., a wholly owned subsidiary of Con Edison, \$0.01 million and \$1.2 million for the nine months ended September 30, 2007 and 2006, respectively, pursuant to statewide energy auctions.

In December 2006, 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 \$200 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

Reference is made to Note Q to the 2006 Annual Financial Statements.

In June 2007, the FASB issued Emerging Issues Task Force (EITF) Issue No. 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services to be used in Future Research and Development Activities." The EITF concluded that nonrefundable advance payments for future research and development activities should be deferred and capitalized. Such amounts should be recognized as an expense as the related goods are delivered or the related services are performed. If an entity does not expect the goods to be delivered or services to be rendered, the capitalized advance payment should be charged to expense. The guidance in this EITF becomes effective for fiscal years beginning after December 15, 2007. The Company does not expect this EITF to have a material effect on its financial position, results of operations or liquidity.

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

In June 2007, the FASB ratified the consensus reached by the EITF in Issue No. 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards", which is effective for fiscal years beginning after December 15, 2007. The EITF concluded that a realized income tax benefit from dividends or dividend equivalents that are charged to retained earnings and are paid to employees for equity classified as nonvested equity shares, nonvested equity share units, and outstanding equity share options should be recognized as an increase to additional paid-in capital. The amount recognized in additional paid-in capital for the realized income tax benefit from dividends on those awards should be included in the pool of excess tax benefits available to absorb tax deficiencies on share-based payment awards. The Company is currently evaluating the impact of this issue on its financial position, results of operations and liquidity.

In May 2007, the FASB issued FASB Staff Position (FSP) No. FIN 48-1, "Definition of Settlement in FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes." The guidance in this FSP clarifies how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. The guidance in this FSP becomes effective upon adoption of the FASB Interpretation No. 48, which the Company adopted in January 2007. See Note F. The application of this FSP did not have a material impact on the Company's financial position, results of operations or liquidity.

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115." This Statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The guidance in this Statement becomes effective for fiscal periods beginning after November 15, 2007. The Company is currently evaluating the impact of this Statement on its financial position, results of operations and liquidity.

In September 2006, the FASB issued EITF Issue 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements." This Issue requires employers to record a liability for future benefits for endorsement split-dollar life insurance arrangements that provide a postretirement benefit to an employee. The guidance in this EITF becomes effective for fiscal periods beginning after December 15, 2007. The Company does not expect this EITF to have a material impact on its financial position, results of operations or liquidity.

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements." This Statement defines fair value, establishes a framework for measuring fair value and expands the disclosures about fair value measurements. It applies to other accounting pronouncements that require fair value measurements and, accordingly, does not require any new fair value measurements. The guidance in this Statement becomes effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of this Statement on its financial position, results of operations and liquidity.