

Orange and Rockland Utilities, Inc.
Consolidated Financial Statements (Unaudited)
Third Quarter 2020



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, 2020, the related consolidated statements of income, comprehensive income, and shareholder's equity for the three-month and nine-month periods ended September 30, 2020 and 2019 and the related consolidated statement of cash flows for the nine-month periods ended September 30, 2020 and 2019.

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, 2019, and the related consolidated statements of income, comprehensive income, cash flows, and of shareholder's equity for the year then ended (not



presented herein), and in our report dated March 9, 2020, 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, 2019, 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 13, 2020

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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, | |
|---|---|-------------|--|-------------|
| | 2020 | 2019 | 2020 | 2019 |
| OPERATING REVENUES | | | | |
| Electric | \$208 | \$210 | \$483 | \$493 |
| Gas | 30 | 31 | 164 | 185 |
| TOTAL OPERATING REVENUES | 238 | 241 | 647 | 678 |
| OPERATING EXPENSES | | | | |
| Purchased power | 56 | 61 | 127 | 146 |
| Gas purchased for resale | 9 | 10 | 43 | 68 |
| Other operations and maintenance | 79 | 81 | 232 | 225 |
| Depreciation and amortization | 23 | 22 | 67 | 63 |
| Taxes, other than income taxes | 22 | 21 | 64 | 63 |
| TOTAL OPERATING EXPENSES | 189 | 195 | 533 | 565 |
| OPERATING INCOME | 49 | 46 | 114 | 113 |
| OTHER INCOME (DEDUCTIONS) | | | | |
| Allowance for equity funds used during construction | 1 | — | 2 | 2 |
| Other deductions | (5) | (3) | (13) | (10) |
| TOTAL OTHER INCOME (DEDUCTIONS) | (4) | (3) | (11) | (8) |
| INCOME BEFORE INTEREST AND INCOME TAX EXPENSE | 45 | 43 | 103 | 105 |
| INTEREST EXPENSE | | | | |
| Interest on long-term debt | 10 | 10 | 29 | 29 |
| Other interest | 1 | 1 | 2 | 2 |
| Allowance for borrowed funds used during construction | (1) | (1) | (1) | (1) |
| NET INTEREST EXPENSE | 10 | 10 | 30 | 30 |
| INCOME BEFORE INCOME TAX EXPENSE | 35 | 33 | 73 | 75 |
| INCOME TAX EXPENSE | 8 | 8 | 16 | 15 |
| NET INCOME | \$27 | \$25 | \$57 | \$60 |

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, | |
|---|---|------|--|------|
| | 2020 | 2019 | 2020 | 2019 |
| NET INCOME | \$27 | \$25 | \$57 | \$60 |
| OTHER COMPREHENSIVE INCOME, NET OF TAXES | | | | |
| Pension and other postretirement benefit plan liability adjustments, net of taxes | 1 | 1 | 7 | 5 |
| TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAXES | 1 | 1 | 7 | 5 |
| COMPREHENSIVE INCOME | \$28 | \$26 | \$64 | \$65 |

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

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

| <i>(Millions of Dollars)</i> | For the Nine Months Ended September 30, | |
|---|--|--------------|
| | 2020 | 2019 |
| OPERATING ACTIVITIES | | |
| Net income | \$57 | \$60 |
| PRINCIPAL NON-CASH CHARGES/(CREDITS) TO INCOME | | |
| Depreciation and amortization | 67 | 63 |
| Deferred income taxes | 13 | (3) |
| Rate case amortizations | (1) | (1) |
| Common equity component of allowance for funds used during construction | (2) | (2) |
| Unbilled revenue | 17 | 7 |
| Other non-cash items, net | 23 | 7 |
| CHANGES IN ASSETS AND LIABILITIES | | |
| Accounts receivable - customers | (18) | 11 |
| Accounts receivable from affiliated companies | 1 | 5 |
| Materials and supplies, including gas in storage | — | (4) |
| Revenue decoupling mechanism | (7) | — |
| Prepayments, other receivables and other current assets | (23) | (25) |
| Accounts payable | 19 | 39 |
| Accounts payable to affiliated companies | (3) | — |
| Pensions and retiree benefits obligations, net | 10 | 18 |
| Pensions and retiree benefits contributions | (40) | (31) |
| Accrued taxes | 5 | — |
| Accrued taxes to affiliated companies | (12) | 7 |
| Accrued interest | 1 | — |
| System benefit charge | (3) | (1) |
| Superfund and environmental remediation costs, net | 6 | 3 |
| Deferred charges, noncurrent assets and other regulatory assets | (33) | 4 |
| Deferred credits and other regulatory liabilities | 8 | 10 |
| Other current and noncurrent liabilities | (3) | 1 |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | 82 | 168 |
| INVESTING ACTIVITIES | | |
| Utility construction expenditures | (146) | (157) |
| Cost of removal less salvage | (4) | (6) |
| NET CASH FLOWS USED IN INVESTING ACTIVITIES | (150) | (163) |
| FINANCING ACTIVITIES | | |
| Net issuance (payment) of short-term debt | 1 | (13) |
| Issuance of long-term debt | 75 | — |
| Retirement of long-term debt | — | (2) |
| Capital contribution by parent | 10 | 30 |
| Dividend to parent | (36) | (35) |
| NET CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES | 50 | (20) |
| CASH, TEMPORARY CASH INVESTMENTS, AND RESTRICTED CASH: | | |
| NET CHANGE FOR THE PERIOD | (18) | (15) |
| BALANCE AT BEGINNING OF PERIOD | 32 | 52 |
| BALANCE AT END OF PERIOD | \$14 | \$37 |
| SUPPLEMENTAL DISCLOSURE OF CASH INFORMATION | | |
| Cash paid during the period for: | | |
| Interest | \$29 | \$29 |
| Income taxes | \$15 | \$12 |
| SUPPLEMENTAL DISCLOSURE OF NON-CASH INFORMATION | | |
| Construction expenditures in accounts payable | \$12 | \$15 |
| Software licenses acquired but unpaid as of end of period | \$3 | \$4 |

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, 2020 | December 31, 2019 |
|--|-----------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and temporary cash investments | \$14 | \$32 |
| Accounts receivable – customers, less allowance for uncollectible accounts of \$7 and \$5 in 2020 and 2019, respectively | 86 | 70 |
| Other receivables, less allowance for uncollectible accounts of \$3 and \$1 in 2020 and 2019, respectively | 14 | 8 |
| Taxes receivable | — | 1 |
| Accrued unbilled revenue | 25 | 42 |
| Accounts receivable from affiliated companies | 3 | 4 |
| Gas in storage, at average cost | 10 | 11 |
| Materials and supplies, at average cost | 24 | 23 |
| Prepayments | 46 | 33 |
| Regulatory assets | 22 | 15 |
| Revenue decoupling mechanism | 7 | — |
| Other current assets | 4 | 4 |
| TOTAL CURRENT ASSETS | 255 | 243 |
| INVESTMENTS | | |
| | 26 | 26 |
| UTILITY PLANT, AT ORIGINAL COST | | |
| Electric | 1,960 | 1,877 |
| Gas | 892 | 864 |
| General | 292 | 291 |
| TOTAL | 3,144 | 3,032 |
| Less: Accumulated depreciation | 865 | 819 |
| Net | 2,279 | 2,213 |
| Construction work in progress | 131 | 123 |
| NET UTILITY PLANT | 2,410 | 2,336 |
| OTHER NONCURRENT ASSETS | | |
| Regulatory assets | 377 | 373 |
| Operating lease right-of-use asset | 2 | 3 |
| Other deferred charges and noncurrent assets | 24 | 25 |
| TOTAL OTHER NONCURRENT ASSETS | 403 | 401 |
| TOTAL ASSETS | \$3,094 | \$3,006 |

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, 2020 | December 31, 2019 |
|---|-----------------------|----------------------|
| LIABILITIES AND SHAREHOLDER'S EQUITY | | |
| CURRENT LIABILITIES | | |
| Notes payable | 18 | 17 |
| Accounts payable | 100 | 88 |
| Accounts payable to affiliated companies | 14 | 17 |
| Customer deposits | 15 | 12 |
| Accrued taxes | 7 | 2 |
| Accrued taxes to affiliated companies | — | 12 |
| Accrued interest | 10 | 9 |
| Accrued wages | 10 | 10 |
| Fair value of derivative liabilities | 11 | 12 |
| Regulatory liabilities | 27 | 39 |
| System benefit charge | 57 | 60 |
| Operating lease liabilities | 1 | 1 |
| Other current liabilities | 24 | 32 |
| TOTAL CURRENT LIABILITIES | 294 | 311 |
| NONCURRENT LIABILITIES | | |
| Provision for injuries and damages | 7 | 5 |
| Pensions and retiree benefits | 210 | 277 |
| Superfund and other environmental costs | 79 | 80 |
| Asset retirement obligation | 3 | 3 |
| Deferred income taxes and unamortized investment tax credits | 337 | 316 |
| Regulatory liabilities | 426 | 391 |
| Operating lease liabilities | 1 | 2 |
| Other deferred credits and noncurrent liabilities | 45 | 41 |
| TOTAL NONCURRENT LIABILITIES | 1,108 | 1,115 |
| LONG-TERM DEBT | 893 | 818 |
| SHAREHOLDER'S EQUITY (See Statement of Shareholder's Equity) | 799 | 762 |
| TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY | \$3,094 | \$3,006 |

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, 2018 | 1,000 | \$— | \$349 | \$375 | \$(12) | \$712 |
| Net income | | | | 32 | | 32 |
| Common stock dividend to parent | | | | (12) | | (12) |
| Other comprehensive income | | | | | 3 | 3 |
| BALANCE AS OF MARCH 31, 2019 | 1,000 | \$— | \$349 | \$395 | \$(9) | \$735 |
| Net income | | | | 2 | | 2 |
| Common stock dividend to parent | | | | (11) | | (11) |
| Capital contribution by parent | | | 10 | | | 10 |
| Other comprehensive income | | | | | 1 | 1 |
| BALANCE AS OF JUNE 30, 2019 | 1,000 | \$— | \$359 | \$386 | \$(8) | \$737 |
| Net income | | | | 25 | | 25 |
| Common stock dividend to parent | | | | (12) | | (12) |
| Capital contribution by parent | | | 20 | | | 20 |
| Other comprehensive income | | | | | 1 | 1 |
| BALANCE AS OF SEPTEMBER 30, 2019 | 1,000 | \$— | \$379 | \$399 | \$(7) | \$771 |
| 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 |

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

Notes to the Financial Statements (Unaudited)

General

These notes accompany and form an integral part of the financial statements of Orange and Rockland Utilities, Inc., a New York corporation, and its subsidiaries (the Company or O&R). The Company is a regulated utility, the equity of which is owned entirely by Consolidated Edison, Inc. (Con Edison). O&R has one regulated utility subsidiary: Rockland Electric Company (RECO). For the nine months ended September 30, 2020 and 2019, operating revenues for RECO were 20.8 percent and 20.4 percent, respectively, of O&R's consolidated operating revenues. O&R, along with RECO, provides electric service in southeastern New York and adjacent areas of northern New Jersey and gas service in southeastern New York. RECO has a subsidiary, Rockland Electric Company Transition Funding LLC (Transition Funding), which was formed in 2004 in connection with the securitization of certain purchased power costs and is expected to be dissolved after November 15, 2020.

The Company is subject to regulation by the Federal Energy Regulatory Commission (FERC), the New York State Public Service Commission (NYSPSC) and the New Jersey Board of Public Utilities (NJBPU) with respect to rates and accounting.

The interim consolidated financial statements as of September 30, 2020 and for the three and nine month periods ended September 30, 2020 and 2019 (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, 2019 and 2018 and for each of the three years ended December 31, 2019, including the notes thereto and the separate unaudited consolidated financial statements of the Company as of March 31, 2020 and June 30, 2020 and for the three and six month periods ended March 31, 2020 and June 30, 2020 and 2019 including the notes thereto. Certain prior period amounts have been reclassified to conform to the current period presentation.

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 A, Note B, Note I and Note J.

Subsequent Events

The Company has, pursuant to the accounting rules for subsequent events, evaluated events or transactions that occurred after September 30, 2020 through the posting on its website (November 13, 2020) of the Third Quarter Financial Statements for potential recognition or disclosure in the Third Quarter Financial Statements.

Note A – Summary of Significant Accounting Policies

Financial Instruments – Credit Losses

Adoption of New Standard

Notes to the Consolidated Financial Statements (Unaudited) - continued

In January 2020, the Company adopted Accounting Standards Update 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," (CECL). The amendments replace the incurred loss impairment methodology which involved delayed recognition of credit losses. The amendments introduce an expected credit loss impairment model which requires immediate recognition of anticipated losses over the instrument's life. A broader range of reasonable and supportable information must be considered in developing the credit loss estimates. The Company's financial instruments subject to the amendments are included in the lines "Accounts receivable - customers" and "Other receivables". Substantially all of these in-scope financial instruments are expected to be collected within one year of billing.

The Company adopted the amendments using the modified retrospective method for all financial instruments measured at amortized costs. Results for reporting periods beginning after January 1, 2020 are presented under Accounting Standards Codification (ASC) 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. No prior period adjustment or charge to retained earnings for cumulative impact was required as a result of the Company adoption of the amendments.

Allowance for Uncollectible Accounts

The Company's "Account 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 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.

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.

Notes to the Consolidated Financial Statements (Unaudited) - continued

During the first nine months of 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 accounts were \$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.

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

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

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

Utility Plant

General utility plant included \$5 million at September 30, 2020 and December 31, 2019, related to a May 2018 acquisition of software licenses. The estimated aggregate annual amortization expense related to the software licenses is immaterial. The accumulated amortization was \$1 million at September 30, 2020 and December 31, 2019.

Notes to the Consolidated Financial Statements (Unaudited) - continued

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

For the three and nine months ended September 30, 2020 and 2019, changes to accumulated other comprehensive income/(loss) (OCI) were as follows:

| <i>(Millions of Dollars)</i> | For the Three Months Ended September 30, | |
|---|--|-------|
| | 2020 | 2019 |
| Beginning balance, accumulated OCI, net of taxes (a) | \$(9) | \$(8) |
| Amounts reclassified from accumulated OCI related to pension plan liabilities, net of tax of \$(1) in 2020 (a)(b) | 1 | 1 |
| Current period OCI, net of taxes | 1 | 1 |
| Ending balance, accumulated OCI, net of taxes | \$(8) | \$(7) |

| <i>(Millions of Dollars)</i> | For the Nine Months Ended September 30, | |
|--|---|--------|
| | 2020 | 2019 |
| Beginning balance, accumulated OCI, net of taxes (a) | \$(15) | \$(12) |
| OCI before reclassifications, net of tax of \$(2) and \$(1) in 2020 and 2019, respectively | 3 | 2 |
| Amounts reclassified from accumulated OCI related to pension plan liabilities, net of tax of \$(1) in 2020 and 2019 (a)(b) | 4 | 3 |
| Current period OCI, net of taxes | 7 | 5 |
| Ending balance, accumulated OCI, net of taxes | \$(8) | \$(7) |

- (a) Only RECO's portion of unrecognized pension and other postretirement benefit costs are recorded into, and amortized out of, OCI. All other such costs are recorded through regulatory assets. The net actuarial losses and prior service costs recognized during the period are included in the computation of total periodic pension and other postretirement benefit cost.
- (b) Tax reclassified from accumulated OCI is reported in the income tax expense line item of the consolidated income statement.

Reconciliation of Cash, Temporary Cash Investments and Restricted Cash

Cash, temporary cash investments and restricted cash are presented on a combined basis in the Company's consolidated statement of cash flows. At September 30, 2020 and 2019, cash, temporary cash investments and restricted cash were as follows:

| <i>(Millions of Dollars)</i> | At September 30, | |
|--|------------------|------|
| | 2020 | 2019 |
| Cash and temporary cash investments | \$14 | \$36 |
| Restricted cash (a) | — | 1 |
| Total cash, temporary cash investments and restricted cash | \$14 | \$37 |

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

Note B – Regulatory Matters

COVID-19 Regulatory Matters

Governors, public utility commissions, federal authorities 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, 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 closed all non-essential businesses statewide. New York State designated utilities, including O&R, as essential businesses that were able to continue a portion of their work during the effectiveness of the PAUSE order. In

Notes to the Consolidated Financial Statements (Unaudited) - continued

May 2020, the "New York Forward" plan went into effect. New York Forward is a phased plan to reopen businesses in geographic areas of New York State that meet metrics established by various public health organizations. In October 2020, Governor Cuomo announced a new cluster action initiative to address COVID-19 hotspots that have arisen in various areas of New York within the Company's service territory and that imposes new rules and restrictions targeted to areas with the highest concentration of COVID-19 cases and the surrounding communities. As a result of these COVID-19 clusters, the Company has limited its work in customer premises in the impacted areas to only address emergency, safety-related and selected service connections requested by customers. Since the emergency declaration, and due to economic conditions, the NYSPSC and O&R have worked to mitigate the potential impact of the COVID-19 pandemic on the Company, their 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 during the COVID-19 state of emergency. In addition, such prohibition will apply for an additional 180 days after the state of emergency ends for residential customers who have experienced a change in financial circumstances due to the COVID-19 pandemic. The law expires on March 31, 2021. For the three and nine months ended September 30, 2020, the estimated foregone revenues that were not collected by O&R were \$1.0 million and \$2.4 million, respectively. Also in March 2020, the Company requested and the NYSPSC granted an extension to file its 2019 Earnings Adjustment Mechanisms (EAMs) report, which was filed in July 2020. The earned EAM incentives of approximately \$3 million are expected to be recovered from customers over a twelve-month period that began September 2020.

The Company's New York rate plans allow it to defer costs resulting from a change in regulation, legislation and related actions that have taken effect during the term of the rate plans once the costs exceed a specified threshold. For the nine months ended September 30, 2020, the reserve increases to the allowance for uncollectible accounts associated with the COVID-19 pandemic for O&R electric operations were \$2 million and were deferred pursuant to the legislative, regulatory and related actions provisions of the New York electric rate plan as a result of the New York State on PAUSE and related executive orders. The reserve increase to the allowance for uncollectible accounts associated with the COVID-19 pandemic for O&R's gas operations of \$1 million did not meet the deferral threshold at September 30, 2020. 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 were reduced by the amount that the actual write-offs of customer accounts receivable balances were below the allowance reflected in rates, which difference was \$1 million for O&R for the nine months ended September 30, 2020.

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, including its affiliate Consolidated Edison Company of New York,

Notes to the Consolidated Financial Statements (Unaudited) - continued

Inc., 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.

The Company's rate plans have revenue decoupling mechanisms in its New York electric and gas businesses that 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 New York's electric and gas rate plans (January through December). The difference is accrued with interest each month for O&R New York's electric customers and after the annual deferral period ends for O&R New York's 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 New York's 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. Since that declaration, the NJBPU and RECO have mitigated the potential impact of the COVID-19 pandemic on RECO, its customers and other stakeholders. New Jersey designated utilities, including RECO, as essential businesses that were able to continue a portion of their work. RECO modified or suspended certain work in the state. 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 is not expected to be 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 COVID-19 beginning on March 9, 2020, and through the later of September 30, 2021, or 60 days after the emergency declaration is no longer in effect. RECO deferred net incremental COVID-19 related costs of \$0.3 million through September 30, 2020.

Federal Regulation

In March 2020, the North American Electric Reliability Corporation (NERC) issued guidance that the effects of the COVID-19 pandemic will be considered an acceptable basis for non-compliance with certain NERC Reliability Standards requirements that would have required action between March 1, 2020 and July 31, 2020. In addition, it suspended on-site NERC compliance audits until December 31, 2020.

Also in March 2020, FERC announced several actions to ease regulatory obligations in response to the COVID-19 pandemic. These include postponement of certain filing deadlines and the suspension of all audit site visits and investigative testimony.

In April 2020, FERC announced it would expeditiously review and act on requests for relief in response to the COVID-19 pandemic, give priority to processing filings that contribute to the business continuity of regulated entities' energy infrastructure and exercise prosecutorial discretion when addressing events arising during the COVID-19 pandemic. FERC also approved a blanket waiver of requirements in Open Access Transmission Tariffs that require entities to hold meetings in-person and to provide or obtain notarized documents. The blanket waivers were subsequently extended through January 29, 2021.

Notes to the Consolidated Financial Statements (Unaudited) - continued

Gas Safety

In March 2020, the U.S. Department of Transportation's Pipeline and Hazardous Materials Safety Administration (PHMSA) issued a notice staying enforcement of certain federal operator qualification, control room management and drug testing requirements during the COVID-19 pandemic. The notice also announced that PHMSA would exercise discretion in its overall enforcement of other parts of the pipeline safety regulations. The NYSPSC also provided guidance that it was staying enforcement of many of the same pipeline safety requirements identified in the March 2020 PHMSA notice.

In April 2020, the NYSPSC issued an order that extended the deadlines to complete certain gas inspections by all New York gas utilities, including O&R, from April 1, 2020 to August 1, 2020. The deadlines were subsequently extended to September 2, 2020, and the Company has taken all reasonable measures to complete such inspections.

Other Regulatory Matters

O&R, under its current electric and gas rate plans, has reflected the 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.

In January 2018, the NYSPSC issued an order initiating a focused operations audit of the income tax accounting of certain utilities, including O&R. The Company is unable to estimate the amount or range of its possible loss related to this matter. At September 30, 2020, the Company had not accrued a liability related to this matter.

In March 2018, Winter Storms Riley and Quinn caused damage to the Company's electric distribution systems and interrupted service to approximately 93,000 O&R customers and 44,000 RECO customers. At September 30, 2020, O&R and RECO costs related to 2018 storms amounted to \$43 million and \$17 million, respectively, most of which were deferred as regulatory assets pursuant to their electric rate plans. In January 2019, O&R began recovering its deferred storm costs over a six-year period in accordance with its New York electric rate plan. In February 2020, RECO began recovering its deferred storm costs over a four-year period in accordance with its New Jersey electric rate plan. The NYSPSC investigated the preparation and response to the storms by O&R, and other New York electric utilities, including all aspects of their emergency response plans. In April 2019, following the issuance of a NYSPSC staff report on the investigation, the NYSPSC ordered the utilities to show cause why the NYSPSC should not commence a penalty action against them for violating their emergency response plans. At June 30, 2020, O&R accrued \$0.85 million related to this matter. In August 2020, the NYSPSC approved a July 2020 settlement agreement that provides for the Company to set aside \$0.85 million for the benefit of O&R electric customers.

Notes to the Consolidated Financial Statements (Unaudited) - continued

In May 2020, an executive order was issued prohibiting the acquisition, importation, transfer or installation of certain bulk-power system electric equipment that is sourced from foreign adversaries. The scope and effect will be determined by regulations to be issued pursuant to the order. The Company is unable to predict the impact on it of such regulations.

In August 2020, Tropical Storm Isaias caused significant damage to the Company's electric distribution system and interrupted service to approximately 200,000 O&R electric customers. As of September 30, 2020, O&R incurred costs for Tropical Storm Isaias of \$30 million (including \$23 million of operation and maintenance expenses charged against a storm reserve pursuant to its New York electric rate plan and \$7 million of capital expenditures). The Company's electric rate plan provides for recovery of operating costs and capital expenditures under different provisions. The Company's incremental operating costs attributable to storms are to be deferred for recovery as a regulatory asset under its electric rate plan, while capital expenditures, up to specified levels, are reflected in rates under its electric rate plan. In addition, O&R reserved for customer benefit \$2 million for food and medicine spoilage claims as of September 30, 2020. The provisions of the Company'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 August 2020, the New York State Department of Public Service (NYSDPS) issued to O&R a Notice of Apparent Violations Related to Tropical Storm Isaias. The notice, among other things, asserted that, based on NYSDPS' initial investigations, the Company was in apparent violation of the New York State Public Service Law for allegedly failing to follow the requirements of its emergency response plan and asserted that the NYSPSC may seek to commence administrative penalty proceedings against the Company. The notice also provided for several corrective actions that the Company has since implemented. The notice further asserted that: the NYSPSC is authorized to revoke or modify utility certificates to operate based on findings of repeated violations that demonstrate a failure of a utility corporation to continue to provide safe and adequate service; the NYSPSC has on other occasions deemed the Company's response to a major storm event to be inadequate; and the NYSDPS intends to specifically determine as part of its ongoing investigations whether the Company's alleged violations warrant revocation of its certificate to operate. The Company is unable to estimate the amount or range of its possible additional loss in connection with the storm.

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. The NYSPSC solicited comments by November 16, 2020 on, among other things: the costs and benefits of providing climate-related risk disclosure; whether utility operating companies in New York should be required to make climate risk disclosure in annual financial statements, sustainability reports, or other public filings; which framework for such climate risk disclosure utility operating companies in New York should be required to adopt; and why and how utility operating companies should implement those recommended disclosures.

Notes to the Consolidated Financial Statements (Unaudited) - continued

Regulatory Assets and Liabilities

Regulatory assets and liabilities at September 30, 2020 and December 31, 2019 were comprised of the following items:

| <i>(Millions of Dollars)</i> | 2020 | 2019 |
|---|--------------|--------------|
| Regulatory assets | | |
| Unrecognized pension and other postretirement costs | \$116 | \$138 |
| Deferred storm costs | 98 | 77 |
| Environmental remediation costs | 78 | 85 |
| Pension and other postretirement benefits deferrals | 38 | 23 |
| Revenue taxes | 14 | 14 |
| Deferred derivative losses | 11 | 8 |
| Property tax reconciliation | 3 | 8 |
| Recoverable energy costs | 2 | 5 |
| Other | 17 | 15 |
| Regulatory assets – noncurrent | 377 | 373 |
| Deferred derivative losses | 11 | 15 |
| Recoverable energy costs | 11 | — |
| Regulatory assets – current | 22 | 15 |
| Total Regulatory Assets | \$399 | \$388 |
| Regulatory liabilities | | |
| Allowance for cost of removal less salvage | \$153 | \$146 |
| Future federal income tax | 138 | 143 |
| Pension and other postretirement benefit deferrals | 36 | 28 |
| Unrecognized other postretirement costs | 33 | 9 |
| Tax Cuts and Job Act of 2017 (TCJA) net benefits | 11 | 17 |
| Carrying charges on deferred tax liability | 8 | 11 |
| Earnings sharing - electric and gas | 6 | 6 |
| Other | 41 | 31 |
| Regulatory liabilities – noncurrent | 426 | 391 |
| Refundable energy costs | 25 | 32 |
| Deferred derivative gains | 2 | — |
| Revenue decoupling mechanism | — | 7 |
| Regulatory liabilities – current | 27 | 39 |
| Total Regulatory Liabilities | \$453 | \$430 |

Note C – Capitalization

In September 2020, O&R issued \$35 million aggregate principal amount of 2.02 percent debentures, due 2030 and \$40 million aggregate principal amount of 3.24 percent debentures, due 2050.

The carrying amounts and fair values of long-term debt at September 30, 2020 and December 31, 2019 were:

| <i>(Millions of Dollars)</i> | 2020 | | 2019 | |
|--|-----------------|------------|-----------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Long-Term Debt (including current portion) (a) | \$893 | \$1,105 | \$818 | \$934 |

(a) Amounts shown are net of unamortized debt expense and unamortized debt discount of \$7 million at September 30, 2020 and December 31, 2019.

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

Notes to the Consolidated Financial Statements (Unaudited) - continued

Note D – Short-Term Borrowing

At September 30, 2020 and December 31, 2019, O&R had \$18 million and \$17 million of commercial paper outstanding, respectively. The weighted average interest rate at September 30, 2020 and December 31, 2019 was 0.1 percent and 2.0 percent, respectively. At September 30, 2020 and December 31, 2019, an immaterial amount of letters of credit were outstanding for O&R under the Credit Agreement.

Note E – Pension Benefits

Total Periodic Benefit Cost

The components of the Company's total periodic benefit cost for the three and nine months ended September 30, 2020 and 2019 were as follows:

| <i>(Millions of Dollars)</i> | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|--|---|------------|--|-------------|
| | 2020 | 2019 | 2020 | 2019 |
| Service cost – including administrative expenses | \$5 | \$4 | \$14 | \$12 |
| Interest cost on projected benefit obligation | 8 | 9 | 25 | 28 |
| Expected return on plan assets | (13) | (13) | (40) | (38) |
| Recognition of net actuarial loss | 9 | 7 | 28 | 20 |
| Recognition of prior service cost | 1 | 1 | 3 | 1 |
| TOTAL PERIODIC BENEFIT COST | \$10 | \$8 | \$30 | \$23 |
| Cost capitalized | (2) | (1) | (5) | (4) |
| Reconciliation to rate level | (3) | (1) | (8) | (2) |
| Total expense recognized | \$5 | \$6 | \$17 | \$17 |

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

Expected Contributions

Based on estimates as of September 30, 2020, O&R expects to make contributions to the pension plans during 2020 of \$41 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 2020, the Company contributed \$40 million to the pension plans.

Notes to the Consolidated Financial Statements (Unaudited) - continued

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, 2020 and 2019 were as follows:

| <i>(Millions of Dollars)</i> | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|--|---|------------|--|------------|
| | 2020 | 2019 | 2020 | 2019 |
| Service cost – including administrative expenses | \$1 | \$2 | \$3 | \$4 |
| Interest cost on projected other postretirement benefit obligation | 1 | 2 | 4 | 6 |
| Expected return on plan assets | (3) | (3) | (8) | (9) |
| Recognition of net actuarial loss | — | — | 1 | 1 |
| Recognition of prior service credit | — | — | (1) | — |
| TOTAL PERIODIC OTHER POSTRETIREMENT BENEFIT COST/(CREDIT) | \$(1) | \$1 | \$(1) | \$2 |
| Cost capitalized | — | (1) | (1) | (2) |
| Reconciliation to rate level | 2 | 1 | 6 | 4 |
| Total expense recognized | \$1 | \$1 | \$4 | \$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, 2020, O&R does not expect to make a contribution to the other postretirement benefit plans in 2020. O&R's policy is to fund the total periodic benefit cost of the plans to the extent tax deductible.

Note G – Environmental Matters

Superfund Sites

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

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

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

Notes to the Consolidated Financial Statements (Unaudited) - continued

manufactured gas plant sites) for which O&R is managing the investigation and remediation, the accrued liability represents an estimate of the Company's share of the undiscounted cost to investigate and remediate the sites, 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, 2020 and December 31, 2019 were as follows:

| <i>(Millions of Dollars)</i> | 2020 | 2019 |
|------------------------------|------|------|
| Accrued Liabilities: | | |
| Manufactured gas plant sites | \$78 | \$79 |
| Other Superfund Sites | 1 | 1 |
| Total | \$79 | \$80 |
| Regulatory assets | \$78 | \$85 |

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, 2020 and 2019 were as follows:

| <i>(Millions of Dollars)</i> | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|------------------------------|---|-------|--|-------|
| | 2020 | 2019 | 2020 | 2019 |
| Remediation costs incurred | \$0.4 | \$1.3 | \$0.8 | \$4.7 |

Insurance and other third-party recoveries received by the Company for the three and nine months ended September 30, 2020 and 2019 were immaterial.

In 2019, O&R estimated that for its manufactured gas plant sites, each of which has been investigated, the aggregate undiscounted potential liability for the remediation of coal tar and/or other environmental contaminants could range up to \$136 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.

Notes to the Consolidated Financial Statements (Unaudited) - continued

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, 2020 and December 31, 2019, the Company had accrued its estimated aggregate undiscounted potential liability for these suits and additional suits that may be brought over the next 15 years as shown in the following table. The estimates were based upon a combination of modeling, historical data analysis and risk factor assessment. Courts have begun, and unless otherwise determined on appeal may continue, to apply different standards for determining liability in asbestos suits than the standard that applied historically. As a result, the Company currently believes that there is a reasonable possibility of an exposure to loss in excess of the liability accrued for the suits. The Company is unable to estimate the amount or range of such loss. In addition, certain current and former employees have claimed or are claiming workers' compensation benefits based on alleged disability from exposure to asbestos. The Company defers as regulatory assets (for subsequent recovery through rates) liabilities incurred for asbestos claims by employees and third-party contractors relating to its divested generating plants.

The Company's accrued liability for asbestos suits and workers' compensation proceedings (including those related to asbestos exposure) and the amounts deferred as regulatory assets for the Company at September 30, 2020 and December 31, 2019 were as follows:

| <i>(Millions of Dollars)</i> | 2020 | 2019 |
|---|-------|-------|
| Accrued liability – asbestos suits | \$0.4 | \$0.4 |
| Regulatory assets – asbestos suits | \$0.4 | \$0.4 |
| Accrued liability – workers' compensation | \$4.4 | \$5.0 |

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, 2020 and 2019 were as follows:

| <i>(Millions of Dollars)</i> | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|------------------------------|---|-------|--|-------|
| | 2020 | 2019 | 2020 | 2019 |
| Operating lease cost | \$0.3 | \$0.3 | \$0.8 | \$0.7 |
| Operating lease cash flows | \$0.3 | \$0.3 | \$0.8 | \$0.7 |

As of September 30, 2020 and December 31, 2019, assets recorded as finance leases for O&R were \$1.0 million, and the accumulated amortization associated with finance leases for O&R was \$1.8 million and \$1.7 million, respectively. For the three and nine months ended September 30, 2020 and 2019, finance lease costs and cash flows for O&R were immaterial.

Notes to the Consolidated Financial Statements (Unaudited) - continued

Right-of-use assets obtained in exchange for operating lease obligations for O&R were immaterial and \$0.3 million for the three and nine months ended September 30, 2020, respectively, and immaterial for the three and nine months ended September 30, 2019.

Other information related to leases for O&R at September 30, 2020 and December 31, 2019 were as follows:

| | 2020 | 2019 |
|--|------------|------------|
| Weighted Average Remaining Lease Term: | | |
| Operating leases | 3.5 years | 3.7 years |
| Finance leases | 18.4 years | 19.2 years |
| Weighted Average Discount Rate: | | |
| Operating leases | 3.6% | 3.8% |
| Finance leases | 3.1% | 3.1% |

Future minimum lease payments under non-cancellable leases at September 30, 2020 were as follows:

| <i>(Millions of Dollars)</i> | | |
|--|------------------|----------------|
| Year Ending September 30, | Operating Leases | Finance Leases |
| 2021 | \$1.0 | \$— |
| 2022 | 0.7 | — |
| 2023 | 0.1 | — |
| 2024 | 0.1 | — |
| 2025 | 0.1 | 0.1 |
| All years thereafter | 0.2 | 0.7 |
| Total future minimum lease payments | \$2.2 | \$0.8 |
| Less: imputed interest | (0.1) | (0.2) |
| Total | \$2.1 | \$0.6 |
| Reported as of September 30, 2020 | | |
| Operating lease liabilities (current) | \$1.0 | \$— |
| Operating lease liabilities (noncurrent) | 1.1 | — |
| Other noncurrent liabilities | — | 0.6 |
| Total | \$2.1 | \$0.6 |

At September 30, 2020, 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, 2020 and 2019.

Note I – Income Tax

O&R's income tax expense is \$8 million for the three months ended September 30, 2020 and 2019.

O&R's income tax expense increased to \$16 million for the nine months ended September 30, 2020 from \$15 million for the nine months ended September 30, 2019. The increase in income tax expense is primarily due to lower flow-through tax benefits on plant-related items in 2020 as compared to 2019.

Notes to the Consolidated Financial Statements (Unaudited) - continued

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, 2020 and 2019 is as follows:

| <i>(% of Pre-tax income)</i> | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|--|---|------|--|------|
| | 2020 | 2019 | 2020 | 2019 |
| STATUTORY TAX RATE | | | | |
| Federal | 21 % | 21 % | 21 % | 21 % |
| Changes in computed taxes resulting from: | | | | |
| State income tax | 6 | 6 | 6 | 6 |
| Cost of removal | 2 | 2 | 2 | 2 |
| Other plant-related items | — | (1) | — | (1) |
| Amortization of excess deferred federal income taxes | (5) | (3) | (7) | (6) |
| Research and development credits | — | — | — | (1) |
| Other | — | (1) | — | (1) |
| Effective tax rate | 24 % | 24 % | 22 % | 20 % |

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, removing the 80 percent limitation when applying the NOLs to carryback years, and increasing the 30 percent limitation on interest deductibility to 50 percent of adjusted taxable income for tax years 2019 and 2020, and provides for certain employment tax credits and refunds for eligible employers. There is no material impact from the CARES Act on income tax expense of the Company for the three or nine months ended September 30, 2020.

Uncertain Tax Positions

At September 30, 2020, 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, 2020, 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, 2020 and 2019, revenue from contracts with customers as defined in ASC Topic 606, "Revenue from Contracts with Customers," as well as additional revenue from sources other than contracts with customers, disaggregated by major source.

Notes to the Consolidated Financial Statements (Unaudited) - continued

| | For the Three Months Ended September 30, 2020 | | | For the Three Months Ended September 30, 2019 | | |
|------------------------------|---|--------------------|--------------------------|---|--------------------|--------------------------|
| <i>(Millions of Dollars)</i> | Revenues from contracts with customers | Other revenues (a) | Total operating revenues | Revenues from contracts with customers | Other revenues (a) | Total operating revenues |
| Electric | \$210 | \$(2) | \$208 | \$205 | \$5 | \$210 |
| Gas | 27 | 3 | 30 | 25 | 6 | 31 |
| Total | \$237 | \$1 | \$238 | \$230 | \$11 | \$241 |

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

| | For the Nine Months Ended September 30, 2020 | | | For the Nine Months Ended September 30, 2019 | | |
|------------------------------|--|--------------------|--------------------------|--|--------------------|--------------------------|
| <i>(Millions of Dollars)</i> | Revenues from contracts with customers | Other revenues (a) | Total operating revenues | Revenues from contracts with customers | Other revenues (a) | Total operating revenues |
| Electric | \$478 | \$5 | \$483 | \$488 | \$5 | \$493 |
| Gas | 156 | 8 | 164 | 178 | 7 | 185 |
| Total | \$634 | \$13 | \$647 | \$666 | \$12 | \$678 |

(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. The estimated amount of these foregone revenues for the three and nine months ended September 30, 2020 was \$1.0 million and \$2.4 million, 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.

Note K – Derivative Instruments and Hedging Activities

The Company hedges market price fluctuations associated with physical purchases and sales of electricity, natural gas and, to a lesser extent, refined fuels by using derivative instruments including futures, forwards and options. These are economic hedges, for which the Company does not elect hedge accounting. Derivatives are recognized on the consolidated balance sheet at fair value (see Note L), unless an exception is available under the accounting rules for derivatives and hedging. Qualifying derivative contracts that have been designated as normal purchases or normal sales contracts are not reported at fair value under the accounting rules.

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, 2020 and December 31, 2019 were:

| <i>(Millions of Dollars)</i> | 2020 | | | 2019 | | |
|---|--|-----------------------------|---|--|-----------------------------|---|
| Balance Sheet Location | Gross Amounts of Recognized Assets/ (Liabilities) | Gross Amounts Offset | Net Amounts of Assets/ (Liabilities) (a) | Gross Amounts of Recognized Assets/ (Liabilities) | Gross Amounts Offset | Net Amounts of Assets/ (Liabilities) (a) |
| Fair value of derivative assets | | | | | | |
| Current | \$4 | \$(2) | \$2 (b) | \$— | \$— | \$— (b) |
| Noncurrent | 2 | (1) | 1 | — | — | — |
| Total fair value of derivative assets | \$6 | \$(3) | \$3 | \$— | \$— | \$— |
| Fair value of derivative liabilities | | | | | | |
| Current | \$(12) | \$1 | \$(11) | \$(13) | \$1 | \$(12) |
| Noncurrent | (11) | — | (11) | (8) | 1 | (7) |
| Total fair value of derivative liabilities | \$(23) | \$1 | \$(22) | \$(21) | \$2 | \$(19) |
| Net fair value derivative assets/(liabilities) | \$(17) | \$(2) | \$(19) | \$(21) | \$2 | \$(19) |

(a) Derivative instruments and collateral were offset on the consolidated balance sheet as applicable under the accounting rules. The Company enters into master agreements for its commodity derivatives. These agreements typically provide offset in the event of contract termination. In such case, generally the non-defaulting party's payable will be offset by the defaulting party's payable. The non-defaulting party will customarily notify the defaulting party within a specific time period and come to an agreement on the early termination amount.

(b) At December 31, 2019, margin deposits of \$1 million were classified as derivative assets on the consolidated balance sheet, but not included in the table. Margin is collateral, typically cash, that the holder of a derivative instrument is required to deposit in order to transact on an exchange and to cover its potential losses with its broker or the exchange.

The Company generally recovers its prudently incurred purchased power and gas costs, including hedging gains and losses, in accordance with rate provisions approved by the applicable state utility regulators. In accordance with the accounting rules for regulated operations, the Company records a regulatory asset or regulatory liability to defer recognition of unrealized gains and losses on its electric and gas derivatives. As gains and losses are realized in future periods, they will be recognized as purchased power, gas and fuel costs in the Company's consolidated income statements.

O&R and Consolidated Edison Company of New York, Inc. (CECONY, and together with O&R, the Utilities) have combined their gas requirements, and contracts to meet those requirements, into a single portfolio. The combined portfolio is administered by, and related management services (including hedging market price fluctuations associated with the physical purchase of gas) are provided by, CECONY (for itself and as agent for O&R) and costs (net of the effect of the related hedging transactions) are allocated between the Utilities in accordance with provisions approved by the NYSPSC. See Note L.

Notes to the Consolidated Financial Statements (Unaudited) - continued

The following table presents the realized and unrealized gains or losses on commodity derivatives that have been deferred for the three and nine months ended September 30, 2020 and 2019:

| <i>(Millions of Dollars)</i> | Balance Sheet Location | For the Three Months Ended September 30, | |
|---|----------------------------|---|------|
| | | 2020 | 2019 |
| Pre-tax gains/(losses) deferred in accordance with accounting rules for regulated operations: | | | |
| Current | Deferred derivative gains | \$2 | \$— |
| Noncurrent | Deferred derivative gains | 1 | — |
| Total deferred gains/(losses) | | \$3 | \$— |
| Current | Deferred derivative losses | \$1 | \$1 |
| Current | Recoverable energy costs | (4) | (3) |
| Noncurrent | Deferred derivative losses | (2) | 3 |
| Total deferred gains/(losses) | | \$(5) | \$1 |
| Net deferred gains/(losses) | | \$(2) | \$1 |

| <i>(Millions of Dollars)</i> | Balance Sheet Location | For the Nine Months Ended September 30, | |
|---|----------------------------|--|--------|
| | | 2020 | 2019 |
| Pre-tax gains/(losses) deferred in accordance with accounting rules for regulated operations: | | | |
| Current | Deferred derivative gains | \$2 | \$— |
| Noncurrent | Deferred derivative gains | 1 | (2) |
| Total deferred gains/(losses) | | \$3 | \$(2) |
| Current | Deferred derivative losses | \$4 | \$(4) |
| Current | Recoverable energy costs | (19) | (12) |
| Noncurrent | Deferred derivative losses | (3) | (3) |
| Total deferred gains/(losses) | | \$(18) | \$(19) |
| Net deferred gains/(losses) | | \$(15) | \$(21) |

The following table presents the hedged volume of the Company's commodity derivative transactions at September 30, 2020:

| Electric Energy (MWh) (a) | Capacity (MW) (a) | Natural Gas (Dt) (a) |
|---------------------------|-------------------|----------------------|
| 2,065,220 | 5,100 | 15,910,000 |

(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, 2020, the Company had \$2 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, 2020:

(Millions of Dollars)

| | |
|--|--------|
| Aggregate fair value – net liabilities (a) | \$21 |
| Collateral posted | 12 |
| Additional collateral (b) (downgrade one level from current ratings) | 7 |
| 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, 2020. For certain other such non-derivative transactions, the Company could be required to post collateral under certain circumstances, including in the event counterparties had reasonable grounds for insecurity.
- (b) The additional collateral amounts shown above are based upon the estimated O&R allocation of the Utilities' collateral requirements. The Utilities measure the collateral requirements by taking into consideration the fair value amounts of derivative instruments that contain credit-risk-related contingent features that are in a net liabilities position plus amounts owed to counterparties for settled transactions and amounts required by counterparties for minimum financial security. The fair value amounts represent unrealized losses, net of any unrealized gains where the Company has a legally enforceable right of offset.
- (c) Derivative instruments that are net assets have been excluded from the table. At September 30, 2020, if the Company had been downgraded to below investment grade, it would have been required to post an immaterial amount of collateral for such derivative instruments.

Note L – Fair Value Measurements

The accounting rules for fair value measurements and disclosures define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in a principal or most advantageous market. Fair value is a market-based measurement that is determined based on inputs, which refer broadly to assumptions that market participants use in pricing assets or liabilities. These inputs can be readily observable, market corroborated, or generally unobservable firm inputs. The Company often makes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, and the risks inherent in the inputs to valuation techniques. The Company uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

The accounting rules for fair value measurements and disclosures established a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value in three broad levels. The rules require 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, 2020 and December 31, 2019 are summarized below.

| <i>(Millions of Dollars)</i> | 2020 | | | | | 2019 | | | | |
|------------------------------|-------------|-------------|------------|------------------------|-------------|-------------|------------|------------|------------------------|-------------|
| | Level 1 | Level 2 | Level 3 | Netting Adjustment (e) | Total | Level 1 | Level 2 | Level 3 | Netting Adjustment (e) | Total |
| Derivative assets: | | | | | | | | | | |
| Commodity (a)(b)(c) | \$1 | \$4 | \$— | \$(2) | \$3 | \$— | \$— | \$— | \$1 | \$1 |
| Other (a)(b)(d) | 20 | 6 | — | 0 | 26 | 20 | 6 | — | — | 26 |
| Total assets | \$21 | \$10 | \$— | \$(2) | \$29 | \$20 | \$6 | \$— | \$1 | \$27 |
| Derivative liabilities: | | | | | | | | | | |
| Commodity (a)(b)(c) | \$— | \$13 | \$9 | \$— | \$22 | \$1 | \$11 | \$9 | \$(2) | \$19 |

- (a) The Company's policy is to review the fair value hierarchy and recognize transfers into and transfers out of the levels at the end of each reporting period. There were no transfers between levels 1, 2 and 3 for the nine months ended September 30, 2020. There were \$2 million of commodity derivative liabilities transferred from level 3 to level 2 during the year ended December 31, 2019 because of availability of observable market data due to the decrease in the terms of certain contracts from beyond three years as of September 30, 2019 to less than three years as of December 31, 2019.
- (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, 2020 and December 31, 2019, the Company determined that nonperformance risk would have no material impact on its financial position or results of operation.
- (d) Other assets are comprised of assets such as life insurance contracts within the deferred compensation plan and non-qualified retirement plans.
- (e) Amounts represent the impact of legally-enforceable master netting agreements that allow the Company to net gain and loss positions and cash collateral held or placed with the same counterparties.

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.

| Commodity | Fair Value of Level 3 at September 30, 2020 (Millions of Dollars) | Valuation Techniques | Unobservable Inputs | Range |
|------------------|--|---------------------------------|-----------------------------|----------------------------|
| Electricity | \$(9) | Discounted Cash Flow | Forward capacity prices (a) | \$0.19-\$7.45 per KW-month |

(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, 2020 and 2019 and classified as Level 3 in the fair value hierarchy:

| (Millions of Dollars) | For the Three Months Ended September 30, | |
|---|---|-------------|
| | 2020 | 2019 |
| Beginning balance as of July 1, | \$(7) | \$(12) |
| Included in earnings | (1) | — |
| Included in regulatory assets and liabilities | (2) | — |
| Settlements | 1 | — |
| Ending balance as of September 30, | \$(9) | \$(12) |

| (Millions of Dollars) | For the Nine Months Ended September 30, | |
|---|--|-------------|
| | 2020 | 2019 |
| Beginning balance as of January 1, | \$(9) | \$(9) |
| Included in earnings | (6) | (5) |
| Included in regulatory assets and liabilities | — | (3) |
| Settlements | 6 | 5 |
| Ending balance as of September 30, | \$(9) | \$(12) |

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 M – Related Party Transactions

The Company provides and receives administrative and other services to and from Con Edison and its subsidiaries pursuant to cost allocation procedures developed in accordance with rules approved by the NYSPPSC and/or other regulatory authorities, as applicable. The services received include substantial administrative support operations, such as corporate secretarial and associated managerial duties, accounting, treasury, investor relations, information technology, legal, human resources, fuel supply and energy management services. The costs of administrative and other services provided by the Company, and received from Con Edison and its other subsidiaries for the three and nine months ended September 30, 2020 and 2019 were as follows:

| <i>(Millions of Dollars)</i> | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|------------------------------|--|------|---|------|
| | 2020 | 2019 | 2020 | 2019 |
| Cost of services provided | \$4 | \$4 | \$13 | \$14 |
| Cost of services received | \$16 | \$15 | \$45 | \$42 |

At September 30, 2020 and December 31, 2019, O&R's payable to Con Edison and its other subsidiaries associated with these services were \$8 million and \$4 million, respectively.

In addition, CECONY and O&R have joint gas supply arrangements, in connection with which O&R purchased from CECONY \$9 million and \$12 million of natural gas for the three months ended September 30, 2020 and 2019, respectively and \$40 million and \$53 million for the nine months ended September 30, 2020 and 2019, respectively. These amounts are net of the effect of related hedging transactions. At September 30, 2020 and December 31, 2019, O&R's net payable to CECONY associated with these gas purchases was \$4 million and \$8 million, respectively.

At September 30, 2020 and December 31, 2019, the Company's net receivable and net payable to Con Edison for income taxes was \$1 million and \$12 million, respectively.

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, 2020 and December 31, 2019, there were no loans outstanding for O&R.

Note N – New Financial Accounting Standards

In December 2019, the FASB issued amendments to the guidance for income taxes through ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes." The amendments in this update simplify the accounting for income taxes by removing certain exceptions such as: 1) the incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items, 2) the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment, 3) the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary, and 4) the general

Notes to the Consolidated Financial Statements (Unaudited) - continued

methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year. The amendments are effective for fiscal years beginning after December 15, 2021 and interim periods within fiscal years beginning after December 15, 2022, with early adoption permitted. The Company does not expect the new guidance to have a material impact on its financial position, results of operations or liquidity.

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"). The United Kingdom's Financial Conduct Authority has 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. 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. The guidance is applied prospectively from any date beginning March 12, 2020. 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.