

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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ORANGE & ROCKLAND UTILITIES INC

CIK: **74778** | IRS No.: **131727729** | State of Incorporation: **NY** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-04315** | Film No.: **94528087**
SIC: **4931** Electric & other services combined

Mailing Address
*ONE BLUE HILL PLAZA
PEARL RIVER NY 10965*

Business Address
*ONE BLUE HILL PLZ
PEARL RIVER NY 10965
9143526000*

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1994

OR

— TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-4315

ORANGE AND ROCKLAND UTILITIES, INC.
(Exact name of registrant as specified in its charter)

New York 13-1727729
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

One Blue Hill Plaza, Pearl River, New York 10965
(Address of principal executive offices) (Zip Code)

(914) 352-6000
(Registrant's telephone number, including area code)

NONE
(Former name, former address and former fiscal year, if changed since
last report)

Indicate by check mark whether the registrant (1) has filed all
reports required to be filed by Section 13 or 15(d) of the Securities
Exchange Act of 1934 during the preceding 12 months (or for such
shorter period that the registrant was required to file such reports),
and (2) has been subject to such filing requirements for the past
90 days. Yes X No

Indicate the number of shares outstanding of each of the issuer's
class of common stock, as of the close of the latest practicable date.

Common Stock - \$5 Par Value 13,532,446 Shares
(Class) (Outstanding at April 30, 1994)

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ORANGE AND ROCKLAND UTILITIES, INC. AND SUBSIDIARIES
Consolidated Balance Sheets (Unaudited)
Assets

<CAPTION>

| | March 31, 1994 | December 31, 1993 |
|-------------------------------|-------------------|----------------------|
| | (Thousands | of Dollars) |
| <S> | <C> | <C> |
| Utility Plant: | | |
| Electric | \$ 935,099 | \$ 931,827 |
| Gas | 190,430 | 189,000 |
| Common | 52,570 | 52,525 |
| Utility Plant in Service | 1,178,099 | 1,173,352 |
| Less accumulated depreciation | 380,203 | 372,279 |
| Net Utility Plant in Service | 797,896 | 801,073 |

| | | |
|---|-------------|-------------|
| Construction work in progress | 31,675 | 30,907 |
| Net Utility Plant | 829,571 | 831,980 |
| Non-utility Property: | | |
| Non-utility property | 35,144 | 35,049 |
| Less accumulated depreciation, depletion and amortization | 13,288 | 13,041 |
| Net Non-utility Property | 21,856 | 22,008 |
| Current Assets: | | |
| Cash and cash equivalents | 3,298 | 14,256 |
| Temporary cash investments | 1,454 | 1,447 |
| Customer accounts receivable, less allowance for uncollectible accounts of \$2,020 and \$2,026 | 74,998 | 60,289 |
| Accrued utility revenue | 20,302 | 23,017 |
| Other accounts receivable, less allowance for uncollectible accounts of \$170 and \$60 | 11,679 | 11,619 |
| Gas marketing accounts receivable, less allowance for uncollectible accounts of \$533 and \$513 | 51,712 | 49,206 |
| Materials and supplies (at average cost) | 27,745 | 39,062 |
| Prepayments and other current assets | 61,003 | 40,626 |
| Total Current Assets | 252,191 | 239,522 |
| Deferred Debits: | | |
| Income tax recoverable in future rates | 75,095 | 75,468 |
| Extraordinary property loss - Sterling nuclear project | 14,146 | 15,481 |
| Deferred Order No. 636 transition costs | 17,680 | 21,500 |
| Deferred revenue taxes | 17,753 | 17,588 |
| Deferred pension and other postretirement benefits | 9,111 | 7,277 |
| Unamortized debt expense (amortized over term of securities) | 8,286 | 8,565 |
| Other deferred debits | 37,178 | 41,584 |
| Total Deferred Debits | 179,249 | 187,463 |
| Total | \$1,282,867 | \$1,280,973 |

The accompanying notes are an integral part of these statements.

/TABLE

<TABLE>

ORANGE AND ROCKLAND UTILITIES, INC. AND SUBSIDIARIES
Consolidated Balance Sheets (Unaudited)
Capitalization and Liabilities

<CAPTION>

| | March 31, 1994 | December 31, 1993 |
|---|-------------------|----------------------|
| | (Thousands | of Dollars) |
| | <C> | <C> |
| <S> | | |
| Capitalization: | | |
| Common stock (13,532,446 and 13,532,055 shares outstanding) | \$ 67,662 | \$ 67,660 |
| Premium on capital stock | 130,320 | 130,313 |
| Capital stock expense | (6,107) | (6,108) |
| Retained earnings | 188,908 | 184,179 |
| Total Common Stock Equity | 380,783 | 376,044 |
| Non-redeemable preferred stock (428,443 shares outstanding) | 42,844 | 42,844 |
| Non-redeemable cumulative preference stock (13,321 and 13,590 shares outstanding) | 434 | 443 |
| Total Non-Redeemable Stock | 43,278 | 43,287 |
| Redeemable preferred stock (41,580 shares outstanding) | 4,158 | 4,158 |
| Long-term debt | 380,093 | 380,266 |

| | | |
|--|-------------|-------------|
| Total Capitalization | 808,312 | 803,755 |
| Non-current Liabilities: | | |
| Reserve for claims and damages | 4,068 | 3,830 |
| Postretirement benefits | 9,165 | 6,719 |
| Pension costs | 35,442 | 34,275 |
| Obligation under capital leases | 666 | 793 |
| Total Non-current Liabilities | 49,341 | 45,617 |
| Current Liabilities: | | |
| Lease obligations due within one year | 489 | 479 |
| Long-term debt due within one year | 990 | 984 |
| Preferred stock to be redeemed within one year | 1,384 | 1,384 |
| Notes payable | 3,100 | 1,200 |
| Commercial paper | 36,250 | 45,000 |
| Accounts payable | 55,403 | 57,359 |
| Gas marketing accounts payable | 52,796 | 54,247 |
| Dividends payable | 3 | 752 |
| Customer deposits | 5,780 | 5,807 |
| Accrued Federal income and other taxes | 18,331 | 9,586 |
| Accrued interest | 4,192 | 9,877 |
| Refundable gas costs | 3,755 | 8,967 |
| Other current liabilities | 17,095 | 17,114 |
| Total Current Liabilities | 199,568 | 212,756 |
| Deferred Taxes and Other: | | |
| Deferred Federal income taxes | 170,100 | 172,672 |
| Deferred investment tax credits | 17,796 | 18,004 |
| Accrued Order No. 636 transition costs | 17,680 | 21,500 |
| Refundable fuel costs | 17,299 | 4,405 |
| Other deferred credits | 2,771 | 2,264 |
| Total Deferred Taxes and Other | 225,646 | 218,845 |
| Total | \$1,282,867 | \$1,280,973 |

The accompanying notes are an integral part of these statements.

/TABLE

<TABLE>

ORANGE AND ROCKLAND UTILITIES, INC. AND SUBSIDIARIES
Consolidated Statements of Income (Unaudited)

<CAPTION>

| | Three Months Ended March 31, | |
|-------------------------------------|---------------------------------|-----------|
| | 1994 | 1993 |
| | (Thousands of Dollars) | |
| | <C> | <C> |
| Operating Revenues: | | |
| Electric | \$111,146 | \$109,156 |
| Gas | 81,403 | 70,782 |
| Electric sales to other utilities | 3,141 | 1,740 |
| Total Utility Revenues | 195,690 | 181,678 |
| Diversified activities | 96,985 | 82,352 |
| Total Operating Revenues | 292,675 | 264,030 |
| Operating Expenses: | | |
| Operations: | | |
| Fuel used in electric production | 25,055 | 16,298 |
| Electricity purchased for resale | 10,972 | 17,225 |
| Gas purchased for resale | 50,166 | 41,997 |
| Non-utility gas marketing purchases | 91,075 | 78,418 |

| | | |
|--|-----------|-----------|
| Other expenses of operation | 36,051 | 35,671 |
| Maintenance | 10,072 | 9,057 |
| Depreciation and amortization | 8,711 | 8,476 |
| Amortization of property losses | 1,416 | 1,304 |
| Taxes other than income taxes | 26,155 | 24,404 |
| Federal income taxes | 11,097 | 11,879 |
| Deferred Federal income taxes | (2,230) | (4,350) |
| Deferred investment tax credit | (30) | (80) |
| Total Operating Expenses | 268,510 | 240,299 |
| Income from Operations | 24,165 | 23,731 |
| Other Income and (Deductions): | | |
| Allowance for other funds used during construction | 30 | (1) |
| Investigation costs | (3,212) | - |
| Other - net | 399 | (189) |
| Taxes other than income taxes | (26) | (27) |
| Federal income taxes | 1,080 | 195 |
| Deferred Federal income taxes | (39) | (34) |
| Deferred investment tax credit | 178 | 197 |
| Total Other Income and (Deductions) | (1,590) | 141 |
| Income Before Interest Charges | 22,575 | 23,872 |
| Interest Charges: | | |
| Interest on long-term debt | 7,492 | 7,885 |
| Other interest | 796 | 717 |
| Amortization of debt premium and expense-net | 301 | 218 |
| Allowance for borrowed funds used during construction | (82) | (32) |
| Total Interest Charges | 8,507 | 8,788 |
| Net Income | 14,068 | 15,084 |
| Dividends on preferred and preference stock, at required rates | 813 | 841 |
| Earnings applicable to common stock | \$ 13,255 | \$ 14,243 |
| | | |
| Avg. number of common shares outstanding (000's) | 13,532 | 13,531 |
| | | |
| Earnings per average common share outstanding | \$.98 | \$ 1.05 |
| | | |
| Dividends declared per common share outstanding | \$.63 | \$.62 |

The accompanying notes are an integral part of these statements.

/TABLE

<TABLE>

ORANGE AND ROCKLAND UTILITIES, INC. AND SUBSIDIARIES
Consolidated Cash Flow Statements (Unaudited)

<CAPTION>

| | Three Months Ended March 31, | |
|---|---------------------------------|----------|
| | 1994 | 1993 |
| | (Thousands of Dollars) | |
| | <C> | <C> |
| <S> | | |
| Cash Flow from Operations: | | |
| Net income | \$14,068 | \$15,084 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 8,865 | 8,502 |
| Deferred Federal income taxes | (2,198) | (4,326) |
| Deferred investment tax credit | (208) | (277) |
| Deferred and refundable fuel and gas costs | 7,682 | 12,045 |

| | | |
|---|----------|----------|
| Allowance for funds used during construction | (112) | (31) |
| Changes in certain current assets and liabilities: | | |
| Temporary cash investments | (7) | 878 |
| Accounts and gas marketing accounts receivable, net and accrued utility revenues | (14,560) | (15,468) |
| Materials and supplies | 11,317 | 10,338 |
| Prepayments and other current assets | (20,377) | (4,419) |
| Operating and gas marketing accounts payable | (3,407) | (12,088) |
| Accrued Federal Income and other taxes | 8,745 | 16,785 |
| Accrued interest | (5,685) | (868) |
| Other current liabilities | (46) | 3,915 |
| Other-net | 8,862 | (2,148) |
| Net Cash Provided from Operations | 12,939 | 27,922 |
| Cash Flow from Investing Activities: | | |
| Additions to plant | (6,766) | (8,332) |
| Allowance for funds used during construction | 112 | 31 |
| Net Cash Used in Investing Activities | (6,654) | (8,301) |
| Cash Flow from Financing Activities: | | |
| Proceeds from: | | |
| Issuance of long-term debt | - | 75,000 |
| Retirements of: | | |
| Long-term debt | (189) | (74,516) |
| Capital lease obligations | (117) | (108) |
| Net repayments under short-term debt arrangements* | (6,850) | (250) |
| Dividends on preferred and common stock | (9,338) | (9,163) |
| Change in dividends payable | (749) | 1 |
| Net Cash Used in Financing Activities | (17,243) | (9,036) |
| Net Change in Cash and Cash Equivalents | (10,958) | 10,585 |
| Cash and Cash Equivalents at Beginning of Period | 14,256 | 15,378 |
| Cash and Cash Equivalents at End of Period | \$ 3,298 | \$25,963 |

Supplemental Disclosure of Cash Flow Information:

Cash paid during the period for:

| | | |
|--------------------------------------|----------|----------|
| Interest, net of amounts capitalized | \$13,972 | \$ 9,334 |
| Federal income taxes | \$ - | \$ 1,050 |

* Debt with maturities of 90 days or less.

The accompanying notes are an integral part of these statements.

/TABLE

ORANGE AND ROCKLAND UTILITIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The consolidated balance sheet as of March 31, 1994, the consolidated statements of income for the three month periods ended March 31, 1994 and 1993, and the consolidated cash flow statements for the three month periods then ended have been prepared by Orange and Rockland Utilities, Inc. (the "Company") without an audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position and results of operations at March 31, 1994, and for all periods presented, have been made. The amounts in the consolidated balance sheet as of December 31, 1993 are

from audited financial statements.

2. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted. It is suggested that these unaudited consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's December 31, 1993 Annual Report to Shareholders. The results of operations for the period ended March 31, 1994 are not necessarily indicative of the results of operations for the full year.
3. The consolidated financial statements include the accounts of the Company, all subsidiaries and the Company's pro rata share of an unincorporated joint venture. All significant intercompany balances and transactions have been eliminated.
4. Contingencies at March 31, 1994 are substantially the same as the contingencies described in the "Notes to Consolidated Financial Statements" included in the Company's December 31, 1993 Annual Report to Shareholders, which material is incorporated by reference to the Company's December 31, 1993 Form 10-K Annual Report.
5. Certain amounts from prior years have been reclassified to conform with the current year presentation.
6. Effective January 1, 1994, the Company adopted the provisions of Statement of Financial Accounting Standards No. 112 "Employers' Accounting for Postretirement Benefits" which required the recording of a liability of approximately \$.8 million. The adoption of Statement No. 112 did not have a significant impact on the results of current operations because of the recording of offsetting regulatory assets.

Item 2. Management's Discussion and Analysis of Financial Condition
and Results of Operations

Financial Condition:

Financial Performance

The Company's consolidated earnings per average common share outstanding for the first quarter of 1994 were \$.98 as compared to \$1.05 for the first quarter of 1993. Fluctuations within the components of earnings are discussed in the "Results of Operations". The average number of common shares outstanding for both the first quarter of 1994 and 1993 were 13.5 million.

The current quarterly dividend rate of \$.63 is equivalent to an annual dividend rate of \$2.52 per share. Dividends declared during the twelve months ended March 31, 1994 amounted to \$2.51 with a dividend payout ratio of 84.0% as compared to \$2.45 a year ago with a payout ratio of 72.6%.

The return on average common equity for the twelve months ended March 31, 1994 was 10.85%, as compared to 12.58% for the twelve months ended March 31, 1993.

Allowance for Funds Used During Construction ("AFDC") amounted to less than 1% of earnings applicable to common stock for both the first quarter of 1994 and 1993.

Capital Resources and Liquidity

At March 31, 1994, the Company and its utility subsidiaries had unsecured bank lines of credit totaling \$59 million. The Company may borrow under the lines of credit through the issuance of promissory notes to the banks. The Company,

however, utilizes such lines of credit to fully support commercial paper borrowings. The aggregate amount of borrowings through the issuance of promissory notes and commercial paper cannot exceed the aggregate lines of credit. In addition, non-utility lines of credit amounted to \$15.0 million at March 31, 1994, and the non-utility subsidiaries may undertake short-term borrowings or make short-term investments. The average daily balance of short-term borrowings for the three months ended March 31, 1994 amounted to \$44.3 million at an effective interest rate of 3.5% as compared to \$34.3 million at 3.2% for the same period of 1993. The level of temporary cash investments for the three months ended March 31, 1994 increased to an average daily balance of \$14.6 million from \$9.1 million for the same period of 1993.

Effective May 1, 1994, all shares of common stock purchased under the Company's Dividend Reinvestment and Stock Purchase Plan (DRP) and the Employee Stock Purchase and Dividend Reinvestment Plan (ESPP) with reinvested dividends and optional cash payments, will be original issue shares purchased from the Company. At the option of the Company, however, common stock purchased under the DRP and ESPP may again or periodically be purchased on the open market. The New York Public Service Commission has authorized the Company to issue up to 750,000 shares under the DRP and ESPP. Under the original issue option, the Company expects to raise \$38 million of equity capital over the next five years.

Rate Activities

New York

On February 4, 1993 (revised April 8, 1993), the Company filed with the New York State Public Service Commission ("NYPSC") the second adjustment to electric rates pursuant to the Revenue Decoupling Mechanism ("RDM") which amounted to an increase in annual revenues of \$11.3 million, or 3.5%, including the maximum allowable incentive award of 1.06% on common equity. This second adjustment was approved by the NYPSC on April 21, 1993, with new rates effective May 1, 1993.

The RDM procedures were approved by the NYPSC on August 29, 1990, in a rate agreement which provided, among other things, for annual rate adjustments during the three years covered by the agreement (1991-1993). These procedures provide for the reconciliation of revenue deviations between forecasted sales and actual sales. In addition, the RDM provides for the opportunity to recover changes in the cost of providing service such as wages, property taxes, inflation, capacity purchases, major maintenance costs, rate base additions and the cost of capital.

On September 1, 1993, the Company filed with the NYPSC the first adjustment to gas rates pursuant to a settlement agreement that the Company and the NYPSC Staff entered into regarding an application the Company filed with the NYPSC on January 16, 1992. The agreement, approved by the NYPSC on September 30, 1992, contains a weather adjustment clause which automatically adjusts rates to offset the effects of variations in weather from that assumed for setting rates. The four-year agreement provides for an overall rate of return of 10.26%, with a return on common equity of 12.15% including incentives of 50 basis points. The total increase in annual gas revenues is \$2.7 million or 1.8%. Although the settlement provides for an effective date for this adjustment of January 1, 1994, the Company has agreed to extend the effective date until June 30, 1994, in connection with the Order described below, which was issued in the Company's electric rate case on October 4, 1993. The Company has requested an additional extension until December 31, 1994.

On January 29, 1993, the Company filed with the NYPSC for an increase in electric rates of \$17.1 million to be effective January 1, 1994. The rate application seeks a three-year (1994-1996) extension of the RDM revenue

reconciliation and operating cost adjustment procedures currently in place. Continuation of the modified energy efficiency and customer service incentive programs is also requested. In addition, the Company is requesting implementation of a new power plant efficiency incentive. The rate increase request includes a 12.25% return on equity. On October 4, 1993, the NYPSC, as a result of the investigation into alleged financial improprieties, issued an Order in this case (the "Order") which provided that, subject to certain conditions, the Company could agree to a six-month extension of the NYPSC's statutory suspension period to June 30, 1994. Reference is made to Item 1, "Legal Proceedings", for a discussion of ongoing investigations of the Company in connection with the arrest in August, 1993 of then Vice President Linda Winikow and her subsequent guilty plea to a felony and two misdemeanor charges. The Company has agreed to the extension of the suspension period and the associated conditions. A condition of the Order is that the Company continue existing rate-making mechanisms, prescribed under the RDM procedure, for the duration of the suspension period. In addition, the Order specified that up to \$3.0 million of revenue be made subject to refund pending final resolution of the ongoing investigation. A request for further extension through December 31, 1994, under the same conditions, was made by the Company

on December 17, 1993. The NYPSC staff has submitted comments opposing some of the terms of the Company's extension. On May 11, 1994, the NYPSC terminated the Company's rate increase application. The NYPSC determined that current rates offer the Company a reasonable opportunity to earn a fair return as required by law. In addition, the NYPSC ordered a reduction in the RDM surcharge mechanism of approximately \$3.9 million effective July 1, 1994. The reduction reflects the lower results of the RDM reconciliation provisions for 1993 as compared to 1992. Further details of the NYPSC's action will not be available until an order is issued.

As part of the Order, the NYPSC accepted the Company's proposal for a two-month temporary rate reduction of \$115,000 per month related to the misappropriation of funds. The Company voluntarily extended the temporary rate reduction for a third month, through January 1994, bringing the total amount refunded to New York ratepayers to \$345,000. It is not possible to predict at this time the extent of additional refunds that may be required by the NYPSC, if any.

New Jersey

In January 1992, an increase in electric rates of \$5.1 million was granted by the New Jersey Board of Regulatory Commissioners ("NJBR") in response to Rockland Electric Company's ("RECO's") March 18, 1991 petition requesting a \$12.9 million increase in base rates. This increase includes a 12% rate of return on common equity. In addition, the NJBR initiated a Phase II proceeding in this case to address the effect of the State of New Jersey's June 1, 1991 tax legislation. That legislation changed the procedure under which certain taxes are collected from the State's utilities. Previously, utilities had been subject to a 12.5% gross receipts and franchise tax, which the utilities paid in lieu of property taxes; however, the new tax is based upon the number of units of energy (kwh or therms) delivered by a utility rather than revenues. The legislation also requires that utilities accelerate payment to the State of the taxes collected. As a result, RECO is required to make additional tax payments of approximately \$16 million during the period 1993-1994. On November 12, 1992, the NJBR issued a Decision and Order approving the recovery of the additional tax over a ten-year period. A carrying charge of 7.5% on the unamortized balance was also approved. The amount of unrecovered accelerated payments is included in Deferred Revenue Taxes.

On February 26, 1993 the New Jersey Department of Public Advocate, Division of Rate Counsel ("Rate Counsel") filed a Notice of Appeal from the NJBR Decision

and Order with the Superior Court of New Jersey, Appellate Division, stating as grounds for the appeal that the Decision is arbitrary and capricious and would result in unjust and unreasonable rates. Rate Counsel's brief and RECO's brief in response were filed in October 1993. On March 21, 1994, the Superior Court of New Jersey, Appellate Division, upheld the NJBRC Decision, stating the NJBRC used proper rate-making principles and utilized its expertise.

Under an agreement with the NJBRC to return to customers funds misappropriated by certain former employees (Reference is made to Item 1, "Legal Proceedings" for a discussion of ongoing investigations of the Company in connection with the arrest in August, 1993 of then Vice President Linda Winikow and her subsequent guilty plea to a felony and two misdemeanor charges), RECO has refunded to New Jersey ratepayers \$94,100 through reductions in the applicable fuel adjustment charges in February and March 1994. The Company has also pledged to return any other funds that are discovered to have been misappropriated.

Pennsylvania

On November 19, 1992, Pike County Light & Power Company ("Pike") filed with the Pennsylvania Public Utility Commission ("PPUC") for a \$497,000 increase in electric rates and a \$36,300 increase in gas rates. The proposed rates apply to all residential, commercial, industrial and municipal customers. During April 1993, the Company and the other parties involved in this proceeding signed a stipulated agreement providing for an increase of \$270,000, or 6.6% for electric rates and \$12,000, or 1.5% for gas rates. On June 10, 1993, the PPUC approved the electric rate settlement with rates effective June 11, 1993. On June 24, 1993, the PPUC approved the gas rate settlement with rates effective June 25, 1993. With regard to the ongoing investigation into the alleged financial improprieties, Pike has pledged to return to ratepayers any funds discovered to have been misappropriated.

Results of Operations:

QUARTERLY COMPARISON

The earnings per share for the first quarter of 1994 were \$.98 as compared to \$1.05 for the first quarter of 1993. The decrease reflects the expenses associated with the continuing investigation and litigation involving the Company's former chairman and chief executive officer as well as other former employees. The costs were offset in part by the improved operating results of the Company's gas marketing subsidiary and higher utility gas sales as compared with the same period a year ago.

Electric and Gas Revenues

Electric and gas operating revenues, including fuel cost and purchased gas cost recoveries, increased by \$14.0 million in the first quarter of 1994 as compared to the same quarter of 1993.

Electric operating revenues during the current quarter were \$114.3 million as compared to \$110.9 million for the first quarter of 1993, an increase of \$3.4 million. The components of the changes in electric operating revenues for the quarter ended March 31, 1994 as compared to the same quarter of 1993 are as follows:

(Millions of Dollars)

Retail sales:

Base Revenues*

\$ 1.9

| | |
|----------------------------|--------|
| Fuel cost recoveries | - |
| Sales volume changes | 2.6 |
| Subtotal | 4.5 |
| Sales for resale | 1.4 |
| Other operating revenue: | |
| RDM revenue reconciliation | |
| and DSM incentives | (1.9) |
| Other | (.6) |
| Total | \$ 3.4 |

*Includes miscellaneous surcharges and revenue tax recoveries.

Actual total sales of electric energy to retail customers during the first quarter of 1994 were 1,086,738 megawatt hours ("Mwh"), compared with 1,051,758 Mwh during the comparable period a year ago. This increase is the result of increases in usage and the average number of customers when compared to the same period a year ago. Before reflecting the effect of the RDM and the Demand-Side Management ("DSM") incentives in the Company's New York jurisdiction, electric revenue associated with these sales was \$112.7 million during the current quarter compared to \$108.2 million during the first quarter of 1993, an increase of \$4.5 million.

New York electric revenue targets under the Company's RDM, as established in a base rate case, net of fuel and taxes, amounted to \$50.4 million for the first quarter of 1994. Per RDM procedures, deviations between revenue targets and actual sales revenue are deferred and either recovered from or returned to customers. The variation between the target revenue and the Company's actual sales revenue of \$52.3 million for the first quarter of 1994 was \$1.9 million, which is recorded as a reduction to revenue. In the first quarter of 1993, the Company recorded .6 million as a reduction to revenue.

With regard to the DSM goal achievement incentives, the Company's performance during the first quarter of 1994 did not allow it to record any incentive related revenue. The incentive revenue recorded in 1993 was \$.8 million.

The Company's performance during the remainder of 1994 will determine what, if any, incentive revenue or RDM revenue adjustments may be earned.

Revenues from sales to other utilities in the first quarter of 1994 amounted to \$3.1 million, an increase of \$1.4 million from a year ago. Sales to such utilities totaled 104,512 Mwh, compared with 59,856 Mwh in the first quarter a year ago. Because revenues from these sales are primarily a recovery of costs in accordance with applicable tariff regulations, they have little impact on the Company's annual earnings.

Gas operating revenues during the quarter were \$81.4 million compared to \$70.8 million for the first quarter of 1993, an increase of \$10.6 million. The components of the changes in gas operating revenues for the quarter ended March 31, 1994 as compared to the same quarter of 1993 are as follows:

(Millions of Dollars)

| | |
|--------------------------|----------|
| Sales to firm customers: | |
| Base revenues | \$ (1.6) |
| Gas cost recoveries | 8.7 |
| Sales volume changes | 2.5 |
| Subtotal | 9.6 |
| Sales to interruptible | 1.3 |
| Other operating revenues | (.3) |
| Total | \$ 10.6 |

Gas sales to firm customers during the first quarter of 1994 totaled 10,528 million cubic feet ("Mmcf"), compared with 9,674 Mmcf during the same period a year ago. Gas revenues from firm customers were \$77.5 million, compared with \$67.9 million in the first quarter of 1993.

Fuel, Purchased Electricity and Purchased Gas Costs, Excluding Gas Marketing

The cost of fuel used in the production of electricity and purchased electricity costs increased by \$2.5 million during the first quarter of 1994 when compared to the same quarter of 1993. The components of the change are as follows:

(Millions of Dollars)

| | |
|---|--------|
| Prices paid for fuel and purchased power | \$.1 |
| Changes in kilowatt-hours generated or purchased | 2.8 |
| Deferred fuel charge | (.4) |
| Total | \$ 2.5 |

The average cost per kilowatt-hour generated and purchased was 2.77 cents for the quarters ended March 31, 1994 and 1993.

Purchased gas costs for utility operations were \$50.2 million in the first quarter of 1994 compared to \$42.0 million in 1993, an increase of \$8.2 million. The components of the changes in purchased gas costs are as follows:

(Millions of Dollars)

| | |
|-------------------------------|--------|
| Prices paid for gas supplies* | \$ 5.8 |
| Gas sendout volume | 3.6 |
| Deferred fuel charges | (1.2) |
| Total | \$ 8.2 |

*Net of refunds received from gas suppliers.

The average cost per thousand cubic feet ("Mcf") purchased for the first quarter of 1994 including transportation and storage costs, was \$3.04 compared to \$2.56 in the first quarter of 1993.

Other Operating and Maintenance Expenses

The Company's total operating and maintenance expenses excluding fuel, purchased power and gas purchased for resale for the first quarter, increased by \$4.9 million compared with a year ago. The increase in expenses associated with utility operations was \$3.7 million.

This increase is primarily due to an increase of \$2.6 million in revenue taxes associated with sales and Federal income taxes, while maintenance costs increased \$1.0 million due to the timing of maintenance requirements. Expenses from diversified activities, excluding gas purchases, amounted to an increase of \$1.2 million, as discussed below.

Diversified Activities

The Company's diversified activities consist of gas marketing, gas production, land development and communications businesses conducted by its wholly owned non-utility subsidiaries.

Revenues from diversified activities increased by \$14.6 million for the first quarter of 1994 as compared to the same quarter of 1993, as a result of the gas marketing subsidiary's success in adding customers while increasing its sales volume. These revenues were offset by increases in operating expenses for all diversified activities of \$13.9 million, which is the result of increased gas purchases of \$12.7 and increases in maintenance, depreciation, taxes, and other operating expenses of \$1.2 million.

Other Income, Deductions and Interest Charges - Net

Other income, net of interest charges and other deductions, decreased by \$1.5 million during the first quarter of 1994 when compared to the first quarter of 1993. This decrease is primarily the result of an increase in outside professional and consultative services related to the previously referenced ongoing investigation, partially offset by a decrease in interest expense on long term debt resulting from lower interest rates on debt refinancings.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Investigation Related Litigation:

Reference is made to Item 3, Legal Proceedings, in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1993 for a description of an action entitled Orange and Rockland Utilities, Inc. v. Smith ("Smith"), which was filed by the Company in New York State Supreme Court. As stated therein, the complaint alleges, among other things, that James F. Smith, currently a Director of the Company and formerly Chief Executive Officer of the Company and Chairman of the Board (1) intentionally misappropriated and converted Company funds, assets and services to his own use by causing the Company to pay, through the submission of false and inaccurate expense reports, for personal expenses associated with his travel, entertainment, purchases of merchandise, use of Company vendors and use of the Company's conference center facilities; (ii) engaged in a pattern of excessive and extravagant expenditures of Company funds in connection with purported business travel, entertainment and Company-sponsored events that had no legitimate business purpose or conferred little or no benefit to the Company's business, and constituted waste of corporate assets; and (iii) failed to institute and maintain adequate internal controls, failed to supervise subordinate employees including former Company Vice President Linda Winikow, and knowingly permitted, induced and authorized the personal use of Company funds, assets and services by other Company officers. Mr. Smith has received an extension to May 12, 1994 to file a motion or answer in this action.

Reference is made to Item 3, Legal Proceedings, in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1993 for a description of the termination for cause of the employment of James F. Smith as Chief Executive Officer of the Company and his removal as Chairman of the Board of Directors. As stated therein, Mr. Smith has the right under his employment agreement with the Company to contest his termination for cause in an arbitration proceeding. By letter to the Company dated May 5, 1994, Mr. Smith, through his attorney, has indicated his intention to seek arbitration of his termination for cause and the Company's claims asserted against him in the Smith litigation. The Company does not believe that the claims asserted in its lawsuit should be subject to arbitration.

Reference is made to Item 3, Legal Proceedings, in the Company's Annual

Report on Form 10-K for the fiscal year ended December 31, 1993 for a description of an action entitled Orange and Rockland Utilities, Inc. v. Winikow et al., which was filed under the Federal Racketeer Influenced and Corrupt Organizations Act ("RICO") by the Company in the United States District Court, Southern District of New York. As reported there, the Company alleges that the defendants - a former Company Vice President, three other former Company employees and two vendors - engaged in a conspiracy to divert monies from the Company through the submission of false and fraudulent invoices totaling approximately \$155,000 in order to pay personal expenses of and/or to provide personal services to the defendants. In addition, the Company alleges that the defendants made various contributions to political candidates consisting of money and services diverted from the Company. Accordingly, the Company seeks treble damages as called for by the RICO statute, punitive damages, attorney's fees, interest and court costs. At a status conference held on April 22, 1994, Judge Brieant scheduled a further conference with regard to this action on July 22, 1994.

Reference is made to Item 3, Legal Proceedings, in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1993 for a description of a criminal action brought against Linda Winikow, a former Vice President of the Company, by the Rockland County (New York) District Attorney and her subsequent guilty pleas to charges of grand larceny (a class D felony), commercial bribery (a class A misdemeanor), and making a campaign contribution under a false name (an unclassified misdemeanor), which pleas were entered in the Supreme Court of the State of New York. Ms. Winikow's sentencing on these pleas, originally scheduled for April 7, 1994, has been rescheduled to the Fall of 1994.

Reference is made to Item 3, Legal Proceedings, in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1993 for a description of an action entitled Feiner v. Orange and Rockland Utilities, Inc., et al., a purported ratepayer class action complaint against the Company which was filed in the United States District Court, Southern District of New York. As stated therein, the complaint alleges that the defendants violated RICO and New York common law by using false and misleading testimony to obtain rate increases from the NYPSC and used funds obtained from ratepayers in furtherance of an alleged scheme to make illegal campaign contributions and other illegal payments. Plaintiffs seek damages in the amount of \$900 million (which they seek to treble pursuant to the RICO statute). On February 18, 1994, the Company filed a motion to dismiss this action. On April 11, 1994, plaintiff filed its opposition to this motion and on April 21, 1994, the Company filed its reply. A hearing on the motion to dismiss was held before Judge Brieant on April 22, 1994.

Reference is made to Item 3, Legal Proceedings, in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1993 for a description of an action entitled Patents Management Corporation v. Orange and Rockland Utilities, Inc., et al. ("Patents Management"), a purported shareholder derivative complaint filed in the Supreme Court of the State of New York, County of New York, and Gross v. Orange and Rockland Utilities, Inc. ("Gross"), a purported shareholder class action complaint, filed in the United States District Court, Southern District of New York. At a status conference held on April 22, 1994, Judge Brieant scheduled a further conference with regard to the Gross litigation on July 22, 1994. Plaintiff's attorney in Patents Management has agreed to proceed in this litigation according to the schedule set by Judge Brieant with regard to the Gross suit.

On March 31, 1994, Bernstein v. Orange and Rockland Utilities, Inc. and James F. Smith, a purported shareholder class action complaint, was filed in the United States District Court, Southern District of New York. Plaintiff alleges that various Securities and Exchange Commission ("SEC") filings of the Company during the period between March 2 and August 18, 1993 contained false

and misleading information or omitted to state material facts necessary to make the statements therein not misleading, and thereby violated Section 10 of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule 10b-5 promulgated thereunder, by failing to disclose what the plaintiff alleges was a "scheme" by the Company to make illegal political payments and campaign contributions to various public officials and politicians. As a result, plaintiff claims, during such period persons who purchased the Company's stock did so at artificially inflated prices. The Bernstein complaint seeks

unspecified money damages. The Company intends to vigorously contest the claims brought against it in this complaint. At a status conference held on April 22, 1994, Judge Brieant scheduled a further conference with regard to this action on July 22, 1994.

The Bernstein complaint also asserts a claim against Mr. Smith under Section 20 of the Exchange Act. Plaintiff alleges that during the time period in question, Mr. Smith, then the Chief Executive Officer of the Company and Chairman of the Company's Board of Directors, was a controlling person of the Company and thus should be held liable under Section 20 for causing, or preventing the Company from engaging in, the wrongful acts alleged in the complaint.

Other Litigation:

On March 29, 1994, the Company received a third party summons and complaint naming it as one of 22 third party defendants in Carpenters Local No. 964 Pension Fund v. DiGiacinto et al., filed in the Supreme Court of the State of New York, County of New York. This complaint stems from an underlying action, Guarino et al. v. Carpenters Local No. 964 Pension Fund ("Guarino"), brought by residents of a subdivision who allege that homes developed and sold by the Carpenters Local No. 964 Pension Fund (the "Pension Fund") were constructed on the site of a former landfill. Plaintiffs claim that the deterioration of wallboard materials buried at the site has resulted in a continuous release of hydrogen sulfide gas which has rendered the houses unfit for dwelling. Plaintiffs seek damages in excess of \$25,000,000.

The third party complaint, as it relates to the Company, alleges that (1) the Company owned land that ultimately became part of the subdivision; (2) the Company permitted the dumping of wallboard materials on its former property; and (3) certain improvements constructed by the Company on property adjacent to the subdivision altered the flow of ground and surface water, contributing to the production of hydrogen sulfide gas. The third party complaint seeks to hold the Company responsible for any liability incurred by the Pension Fund as a result of the Guarino action. On April 26, 1994, a status and scheduling conference was held before Judge Howard Miller pursuant to which an order was issued establishing the procedural schedule for the case. The discovery phase of the case is currently scheduled to be completed by August 15, 1995. On April 27, 1994, the Company filed its answer denying the claims asserted against it in this matter.

By letter dated April 11, 1994, the State of New York, Department of Law has indicated that the Attorney General is contemplating the filing of a public nuisance action against the defendant and all third party defendants with regard to this matter.

Regulatory Matters:

Reference is made to Item 3, Legal Proceedings, in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1993 for a description of an electric rate case filed by the Company with the NYPSC on January 29, 1993, (Case 93-E-0082) requesting a \$17.1 million (4.8%) annual increase in electric revenues. At its open session on May 11, 1994 the NYPSC

announced its decision to terminate the Company's electric rate case. Further information regarding Case 93-E-0082 is contained under the caption "Rate Activities" in Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Item 6. Exhibits and Reports on Form 8-K

(b) Reports on Form 8-K

Reference is made to Item 14(b), Reports on Form 8-K, in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1993, for a description of (a) a Current Report on Form 8-K dated February 10, 1994, filed by the Company with the SEC on February 17, 1994; (b) a Form 8-K/A dated February 10, 1994, filed by the Company with the SEC on February 22, 1994; and (c) a Current Report on Form 8-K dated March 14, 1994, filed by the Company with the SEC on March 15, 1994.

On April 13, 1994, the Company filed with the SEC a Current Report on Form 8-K dated March 31, 1994, disclosing the filing of the Bernstein suit. Reference is made to Item 1, Part II, "Legal Proceedings", of this Form 10-Q Quarterly Report for further description of this suit.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ORANGE AND ROCKLAND UTILITIES, INC.
(Registrant)

Date: May 12, 1994

By TERRY L. DITTRICH
Terry L. Dittrich
Acting Controller

Date: May 12, 1994

By ROBERT J. MCBENNETT
Robert J. McBennett
Treasurer