CH ENERGY GROUP, INC.
&
CENTRAL HUDSON GAS & ELECTRIC CORP.

ANNUAL FINANCIAL REPORT

for the period ended

DECEMBER 31, 2020

YEAR ENDED DECEMBER 31, 2020

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FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR’S REPORT

To the Shareholder and Board of Directors of CH Energy Group, Inc.

We have audited the accompanying consolidated financial statements of CH Energy Group Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2020, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CH Energy Group, Inc. and its subsidiaries as of December 31, 2020 and 2019, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2020 in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Hartford, Connecticut
February 11, 2021

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholder and Board of Directors of Central Hudson Gas & Electric Corporation

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Central Hudson Gas & Electric Corporation (the "Company") as of December 31, 2020 and 2019, the related statements of income, comprehensive income, equity, and cash flows, for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 11, 2021 expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the auditing standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Impact of Rate-Regulation on Various Account Balances and Disclosures —Refer to Notes 1 and 4 to the financial statements

Critical Audit Matter Description

The Company is a regulated electric and natural gas transmission and distribution utility in the state of New York and is subject to regulation by the New York Public Service Commission ("Commission"). The Company defers costs and revenues on the balance sheet as regulatory assets and liabilities when it is probable that those costs and revenues will be recoverable/refundable through the rate-making process in a period different from when they otherwise would have been reflected in income. For the Company, these deferred regulatory assets and liabilities, and the related deferred taxes, are recovered from or reimbursed to customers either by offset as directed by the Commission, through an approved surcharge mechanism or through incorporation in the determination of the revenue requirement used to set new rates. Management has determined it meets the requirements under accounting principles generally accepted in the United States of America to prepare its financial statements applying the specialized rules to account for the effects of cost-based rate regulation.

Rates are generally designed for but do not guarantee the recovery of the Company's cost of service, including a return on equity. Regulatory decisions can have an impact on the recovery of costs, refunds to customers, the rate of return earned on investment, and the timing and amount of assets to be recovered or liabilities to be refunded through rates. Future recovery of costs and refunds that may be required are dependent upon factors, such as (1) changes in the regulatory environment, (2) the ability to recover costs through regulated rates, (3) recent rate orders to the Company and other regulated entities, and (4) the status of any pending or potential deregulation legislation. While the Company has indicated it expects to recover costs from customers through regulated rates, there is a risk that the Commission will not approve full recovery of such costs or approve recovery on a timely basis in future regulatory decisions. The Commission can reach different conclusions about the recovery of costs, which can have a material impact on the Company's financial statements.

We identified the impact of rate-regulation as a critical audit matter due to the significant judgments made by management to support its assertions about the impact of regulatory orders on various account balances and disclosures. Management judgments include assessing the likelihood of (1) recovery of regulatory assets through future rates, and (2) whether a regulatory liability is due to customers. Given that management's accounting judgments are based on assumptions about the outcome of future decisions by the Commission, auditing these judgments requires specialized knowledge of accounting for rate regulation and the rate setting process due to its inherent complexities.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the impact of regulatory orders on various account balances and disclosures included the following, among others:

- We tested the effectiveness of internal controls over the initial recognition of amounts as regulated utility plant and as regulatory assets and liabilities, the monitoring and evaluation of regulatory developments that may affect the likelihood of recovering costs in future rates or of a future reduction in rates, and the related disclosures in the notes to the financial statements.

- We evaluated the Company’s disclosures related to the impacts of rate regulation, including regulatory developments.

- We read and evaluated relevant regulatory orders issued by the Commission for the Company, regulatory statutes, interpretations, procedural memorandums, filings made by interveners, and other publicly available information to assess whether this information was properly considered by management in concluding upon the financial statement impacts of rate regulation.

- We obtained and evaluated an analysis from management describing the orders and filings that support management’s assertions regarding the probability of recovery for regulatory assets or refund or future reduction in rates for regulatory liabilities to assess management’s assertion that amounts are probable of recovery or a future reduction in rates.

- For regulatory matters in process, we inspected associated documents and testimony filed with the Commission for any evidence that might contradict management’s assertions.

- We read and evaluated the minutes of the Board of Directors of the Company for discussions of changes in legal, regulatory, or business factors which could impact management’s conclusions with respect to the impact of rate regulation on various account balances and disclosures.

Deloitte & Touche LLP

Hartford, Connecticut
February 11, 2021

We have served as the Company’s auditor since 2017.

Deloitte.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholder and Board of Directors of Central Hudson Gas & Electric Corporation

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Central Hudson Gas & Electric Corporation (the "Company") as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) (PCAOB) and in accordance with auditing standards generally accepted in the United States of America, the financial statements as of and for the year ended December 31, 2020, of the Company and our report dated February 11, 2021, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control over Financial Reporting – Central Hudson. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the auditing standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Deloitte & Touche LLP

Hartford, Connecticut
February 11, 2021

REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING – CENTRAL HUDSON

The management of Central Hudson Gas & Electric Corporation ("management") is responsible for establishing and maintaining adequate internal control over financial reporting for Central Hudson Gas & Electric Corporation (the "Corporation") as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Corporation;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and that receipts and expenditures of the Corporation are being made only in accordance with authorization of management and directors of the Corporation; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the consolidated financial statements.

Internal control over financial reporting includes the controls themselves, monitoring (including internal auditing practices) and actions taken to correct deficiencies as identified.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2020. Management based this assessment on criteria for effective internal control over financial reporting described in "*Internal Control - Integrated Framework*" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management determined that, as of December 31, 2020, the Corporation maintained effective internal control over financial reporting.

The effectiveness of the Corporation's internal control over financial reporting as of December 31, 2020, has been audited by Deloitte and Touche LLP, an independent registered public accounting firm, as stated in their report which appears herein.

/s/	/s/
Charles A. Freni, Jr. President and Chief Executive Officer	Christopher M. Capone Executive Vice President and Chief Financial Officer

February 11, 2021

CH ENERGY GROUP
CONSOLIDATED STATEMENT OF INCOME
(In Thousands)

	Year Ended December 31, 2020	2019	2018
Operating Revenues			
Electric	$ 552,002	$ 529,460	$ 558,533
Natural gas	159,893	162,203	166,098
Total Operating Revenues	711,895	691,663	724,631
Operating Expenses			
Operation:			
Purchased electricity	136,130	142,085	191,462
Purchased natural gas	37,221	49,430	63,639
Other expenses of operation - regulated activities	306,845	275,898	254,447
Other expenses of operation - non-regulated	208	165	879
Depreciation and amortization	66,863	59,365	54,494
Taxes, other than income tax	67,854	63,623	60,618
Total Operating Expenses	615,121	590,566	625,539
Operating Income	96,774	101,097	99,092
Other Income and Deductions			
Income from unconsolidated affiliates	1,151	1,335	1,044
Interest on regulatory assets and other interest income	2,421	2,604	3,496
Regulatory adjustments for interest costs	(211)	916	1,019
Non-service cost components of pension and other post-employment benefits ("OPEB")	17,744	6,699	1,423
Other - net	2,033	1,101	(1,265)
Total Other Income	23,138	12,655	5,717
Interest Charges			
Interest on long-term debt	32,778	30,861	27,650
Interest on regulatory liabilities and other interest	2,769	3,591	4,532
Total Interest Charges	35,547	34,452	32,182
Income Before Income Taxes	84,365	79,300	72,627
Income Tax Expense	15,262	14,734	15,084
Net Income	$ 69,103	$ 64,566	$ 57,543

CH ENERGY GROUP
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(In Thousands)

	Year Ended December 31, 2020	2019	2018
Net Income	$ 69,103	$ 64,566	$ 57,543
Other Comprehensive Income:			
Employee future benefits - net of tax expense	238	(399)	(430)
Comprehensive Income	$ 69,341	$ 64,167	$ 57,113

The Notes to Financial Statements are an integral part hereof.

CH ENERGY GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS
(In Thousands)

	Year Ended December 31, 2020	2019	2018
Operating Activities:			
Net income	$ 69,103	$ 64,566	$ 57,543
Adjustments to reconcile net income to net cash provided from operating activities:			
Depreciation	54,558	51,009	47,398
Amortization	12,305	8,356	7,096
Deferred income taxes - net	15,182	15,710	8,020
Uncollectible expense	10,010	7,159	4,799
(Undistributed) distributed equity in earnings of unconsolidated affiliates	(340)	(620)	517
Pension expense	2,340	6,993	13,399
OPEB credit	(6,355)	(7,417)	(5,026)
Regulatory liability - rate moderation	(13,748)	(11,583)	(5,146)
Regulatory asset - revenue decoupling mechanism ("RDM") recorded	22,617	13,064	15,058
Changes in operating assets and liabilities - net:			
Accounts receivable, unbilled revenues and other receivables	(14,603)	1,685	(25,788)
Fuel, materials and supplies	2,534	(231)	(2,238)
Special deposits and prepayments	(5,401)	(2,861)	(481)
Income and other taxes	311	(6,355)	7,613
Accounts payable	9,554	(498)	(273)
Accrued interest	581	202	377
Customer advances	389	4,761	(3,779)
Other advances	235	(2,911)	8,777
CARES Act - deferred payroll tax payments	5,206	-	-
Pension plan contribution	(1,130)	(1,050)	(12,194)
OPEB contribution	(1,081)	(1,001)	(1,302)
Regulatory asset - RDM refunded	(12,450)	(16,259)	(3,115)
Regulatory asset - RY 3 - delayed electric and natural gas delivery rate increase	(4,597)	-	-
Regulatory asset - major storm	(19,640)	(3,296)	(28,698)
Regulatory asset - site investigation and remediation ("SIR")	(2,514)	(366)	(1,458)
Regulatory liability - energy efficiency programs including clean energy fund	(17,776)	(3,007)	8,182
Regulatory asset - rate adjustment mechanisms ("RAM")	9,452	4,625	-
Regulatory asset - deferred natural gas and electric costs	4,172	(7,401)	13,643
Other - net	12,115	18,079	25,118
Net cash provided from operating activities	131,029	131,353	128,042
Investing Activities:			
Additions to utility plant	(252,857)	(238,717)	(188,973)
Other - net	(3,975)	934	(217)
Net cash used in investing activities	(256,832)	(237,783)	(189,190)
Financing Activities:			
Repayment of long-term debt	(41,718)	(28,607)	(31,503)
Proceeds from issuance of long-term debt	130,000	100,000	105,000
Net change in short-term borrowings	15,000	-	-
Capital contribution	15,000	29,370	37,000
Dividends paid on Common Stock	-	(16,500)	(22,000)
Other - net	(747)	(559)	(688)
Net cash provided from financing activities	117,535	83,704	87,809
Net Change in Cash, Cash Equivalents and Restricted Cash	(8,268)	(22,726)	26,661
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	21,075	43,801	17,140
Cash, Cash Equivalents and Restricted Cash at End of Period	$ 12,807	$ 21,075	$ 43,801
Supplemental Disclosure of Cash Flow Information:			
Interest paid, net of amounts capitalized	$ 30,967	$ 29,675	$ 26,385
Federal and state income taxes paid, net	$ 52	$ 5,725	$ -
Cash Paid for Amounts Included in the Measurement of Lease Liabilities:			
Operating Cash Flows used in Operating Leases	$ (668)	$ (505)	$ -
Non-Cash Operating Activities:			
Right-of-Use Assets Obtained in Exchange for New Operating Lease Liabilities	$ -	$ 4,599	$ -
Non-Cash Investing Activities:			
Accrued capital expenditures	$ 21,241	$ 23,203	$ 19,342

The Notes to Financial Statements are an integral part hereof.

CH ENERGY GROUP

CONSOLIDATED BALANCE SHEET

(In Thousands)

	December 31, 2020	December 31, 2019
ASSETS		
Utility Plant (Note 3)		
Electric	$ 1,625,696	$ 1,533,547
Natural gas	677,646	615,857
Common	339,329	305,073
Gross Utility Plant	2,642,671	2,454,477
Less: Accumulated depreciation	611,471	580,633
Net	2,031,200	1,873,844
Construction work in progress	126,012	105,057
Net Utility Plant	2,157,212	1,978,901
Non-utility property & plant	524	524
Net Non-Utility Property & Plant	524	524
Current Assets		
Cash and cash equivalents	11,480	19,999
Accounts receivable from customers - net of allowance for uncollectible accounts of $9.4 million and $4.5 million, respectively	77,194	69,171
Accounts receivable - affiliates (Note 18)	1,350	982
Accrued unbilled utility revenues - net of allowance for uncollectible accounts of $1.0 million in 2020 (Note 2)	26,836	24,202
Other receivables	11,527	19,159
Fuel, materials and supplies (Note 1)	23,677	26,211
Regulatory assets (Note 4)	57,079	55,535
Income tax receivable	486	787
Fair value of derivative instruments (Note 16)	18	-
Special deposits and prepayments	32,211	26,810
Total Current Assets	241,858	242,856
Deferred Charges and Other Assets		
Regulatory assets - deferred pension costs (Note 4)	7,551	-
Regulatory assets - other (Note 4)	162,772	123,385
Prefunded OPEB costs (Note 12)	6,497	12,514
Investments in unconsolidated affiliates (Note 6)	9,434	9,169
Other investments (Note 17)	47,912	40,127
Other	10,364	10,363
Total Deferred Charges and Other Assets	244,530	195,558
Total Assets	$ 2,644,124	$ 2,417,839

The Notes to Financial Statements are an integral part hereof.

CH ENERGY GROUP
CONSOLIDATED BALANCE SHEET (CONT'D)
(In Thousands, except share amounts)

	December 31, 2020	December 31, 2019
CAPITALIZATION AND LIABILITIES		
Capitalization (Note 10)		
CH Energy Group Common Shareholders' Equity		
Common Stock (30,000,000 shares authorized: $0.01 par value; 15,961,400 shares issued and outstanding)	$ 160	$ 160
Paid-in capital	424,406	409,406
Retained earnings	431,348	363,445
Accumulated other comprehensive loss	(161)	(399)
Total Equity	855,753	772,612
Long-term debt (Note 11)		
Principal amount	801,510	717,497
Unamortized debt issuance costs	(4,795)	(4,446)
Net long-term debt	796,715	713,051
Total Capitalization	1,652,468	1,485,663
Current Liabilities		
Current maturities of long-term debt (Note 11)	45,987	41,718
Short-term borrowings (Note 9)	15,000	-
Accounts payable	59,081	50,063
Accrued interest	7,614	7,033
Accrued vacation and payroll	11,681	10,754
Customer advances	15,293	14,904
Customer deposits	7,564	7,655
Regulatory liabilities (Note 4)	89,006	94,730
Fair value of derivative instruments (Note 16)	2,153	6,262
Accrued environmental remediation costs (Note 14)	21,020	20,396
Other current liabilities	43,433	40,572
Total Current Liabilities	317,832	294,087
Deferred Credits and Other Liabilities		
Regulatory liabilities - deferred pension costs (Note 4)	-	1,780
Regulatory liabilities - deferred OPEB costs (Note 4)	13,540	26,643
Regulatory liabilities - other (Note 4)	276,600	288,508
Operating reserves	4,970	4,544
Accrued environmental remediation costs (Note 14)	53,883	36,585
Accrued pension costs (Note 12)	25,340	11,228
Tax reserve (Note 5)	-	3,126
Other liabilities	40,566	34,592
Total Deferred Credits and Other Liabilities	414,899	407,006
Accumulated Deferred Income Tax (Note 5)	258,925	231,083
Commitments and Contingencies		
Total Capitalization and Liabilities	$ 2,644,124	$ 2,417,839

The Notes to Financial Statements are an integral part hereof.

CH ENERGY GROUP

CONSOLIDATED STATEMENT OF EQUITY

(In Thousands, except share amounts)

	CH Energy Group Common Shareholders					
	Common Stock Shares Issued	Common Stock Amount	Paid-In Capital	Retained Earnings	AOCI*	Total Equity
Balance at December 31, 2017	15,961,400	$ 160	$ 343,036	$ 279,836	$ -	$ 623,032
Net income				57,543		57,543
Capital contributions			37,000			37,000
Dividends declared on common stock				(22,000)		(22,000)
Employee future benefits, net of tax					(430)	(430)
Balance at December 31, 2018	15,961,400	$ 160	$ 380,036	$ 315,379	$ (430)	$ 695,145
Net income				64,566		64,566
Capital contributions			29,370			29,370
Dividends declared on common stock				(16,500)		(16,500)
Employee future benefits, net of tax					31	31
Balance at December 31, 2019	15,961,400	$ 160	$ 409,406	$ 363,445	$ (399)	$ 772,612
Accounting Standard Adoption – cumulative effect adjustment (Note 1)				(1,200)		(1,200)
Net income				69,103		69,103
Capital contributions			15,000			15,000
Employee future benefits, net of tax					238	238
Balance at December 31, 2020	15,961,400	$ 160	$ 424,406	$ 431,348	$ (161)	$ 855,753

*Accumulated other comprehensive income (loss)

The Notes to Financial Statements are an integral part hereof.

CENTRAL HUDSON
STATEMENT OF INCOME
(In Thousands)

	Year Ended December 31,		
	2020	2019	2018
Operating Revenues			
Electric	$ 552,002	$ 529,460	$ 558,533
Natural gas	159,893	162,203	166,098
Total Operating Revenues	711,895	691,663	724,631
Operating Expenses			
Operation:			
Purchased electricity	136,130	142,085	191,462
Purchased natural gas	37,221	49,430	63,639
Other expenses of operation	306,845	275,898	254,447
Depreciation and amortization	66,863	59,365	54,494
Taxes, other than income tax	67,821	63,580	60,586
Total Operating Expenses	614,880	590,358	624,628
Operating Income	97,015	101,305	100,003
Other Income and Deductions			
Interest on regulatory assets and other interest income	2,415	2,572	3,477
Regulatory adjustments for interest costs	(211)	916	1,019
Non-service cost components of pension and OPEB	17,768	6,699	1,304
Other - net	2,046	1,169	(1,239)
Total Other Income	22,018	11,356	4,561
Interest Charges			
Interest on long-term debt	31,978	29,948	26,634
Interest on regulatory liabilities and other interest	2,769	3,583	4,532
Total Interest Charges	34,747	33,531	31,166
Income Before Income Taxes	84,286	79,130	73,398
Income Tax Expense	15,145	14,268	15,217
Net Income	$ 69,141	$ 64,862	$ 58,181

CENTRAL HUDSON
STATEMENT OF COMPREHENSIVE INCOME
(In Thousands)

	Year Ended December 31,		
	2020	2019	2018
Net Income	$ 69,141	$ 64,862	$ 58,181
Other Comprehensive Income:			
Employee future benefits - net of tax expense	238	(399)	(430)
Comprehensive Income	$ 69,379	$ 64,463	$ 57,751

The Notes to Financial Statements are an integral part hereof.

CENTRAL HUDSON
STATEMENT OF CASH FLOWS
(In Thousands)

	Year Ended December 31, 2020	2019	2018
Operating Activities:			
Net income	$ 69,141	$ 64,862	$ 58,181
Adjustments to reconcile net income to net cash provided from operating activities:			
Depreciation	54,558	51,009	47,398
Amortization	12,305	8,356	7,096
Deferred income taxes - net	15,163	15,346	5,618
Uncollectible expense	10,010	7,159	4,799
Pension expense	2,340	6,993	13,399
OPEB credit	(6,355)	(7,417)	(5,026)
Regulatory liability - rate moderation	(13,748)	(11,583)	(5,146)
Regulatory asset - RDM recorded	22,617	13,064	15,058
Changes in operating assets and liabilities - net:			
Accounts receivable, unbilled revenues and other receivables	(14,288)	1,774	(25,788)
Fuel, materials and supplies	2,534	(231)	(2,238)
Special deposits and prepayments	(5,424)	(2,876)	(481)
Income and other taxes	(273)	(8,574)	11,015
Accounts payable	9,019	(599)	(310)
Accrued interest	587	207	380
Customer advances	389	4,761	(3,779)
Other advances	235	(2,911)	8,777
CARES Act - deferred payroll tax payments	5,206	-	-
Pension plan contribution	(1,130)	(1,050)	(12,194)
OPEB contribution	(1,081)	(1,001)	(1,302)
Regulatory asset - RDM refunded	(12,450)	(16,259)	(3,115)
Regulatory asset - RY 3 - delayed electric and natural gas delivery rate increase	(4,597)	-	-
Regulatory asset - major storm	(19,640)	(3,296)	(28,698)
Regulatory asset - SIR	(2,514)	(366)	(1,458)
Regulatory liability - energy efficiency programs including clean energy fund	(17,776)	(3,007)	8,182
Regulatory asset - RAM	9,452	4,625	-
Regulatory asset - deferred natural gas and electric costs	4,172	(7,401)	13,643
Other - net	12,243	16,611	25,034
Net cash provided from operating activities	130,695	128,196	129,045
Investing Activities:			
Additions to utility plant	(252,857)	(238,717)	(188,973)
Other - net	(3,983)	1,820	(145)
Net cash used in investing activities	(256,840)	(236,897)	(189,118)
Financing Activities:			
Repayment of long-term debt	(40,000)	(27,000)	(30,000)
Proceeds from issuance of long-term debt	130,000	100,000	105,000
Net change in short-term borrowings	15,000	-	-
Capital contribution	12,000	11,000	11,500
Other - net	(747)	(559)	(688)
Net cash provided from financing activities	116,253	83,441	85,812
Net Change in Cash, Cash Equivalents and Restricted Cash	(9,892)	(25,260)	25,739
Cash, Cash Equivalents and Restricted Cash - Beginning of Period	15,086	40,346	14,607
Cash, Cash Equivalents and Restricted Cash - End of Period	$ 5,194	$ 15,086	$ 40,346
Supplemental Disclosure of Cash Flow Information:			
Interest paid, net of amounts capitalized	$ 30,162	$ 28,759	$ 25,365
Federal and state income taxes paid, net	$ 501	$ 7,670	$ -
Cash Paid for Amounts Included in the Measurement of Lease Liabilities:			
Operating Cash Flows used in Operating Leases	$ (668)	$ (505)	$ -
Non-Cash Operating Activities:			
Right-of-Use Assets Obtained in Exchange for New Operating Lease Liabilities	$ -	$ 4,599	$ -
Non-Cash Investing Activities:			
Accrued capital expenditures	$ 21,241	$ 23,203	$ 19,342

The Notes to Financial Statements are an integral part hereof.

CENTRAL HUDSON
BALANCE SHEET
(In Thousands)

	December 31, 2020	December 31, 2019
ASSETS		
Utility Plant (Note 3)		
Electric	$ 1,625,696	$ 1,533,547
Natural gas	677,646	615,857
Common	339,329	305,073
Gross Utility Plant	2,642,671	2,454,477
Less: Accumulated depreciation	611,471	580,633
Net	2,031,200	1,873,844
Construction work in progress	126,012	105,057
Net Utility Plant	2,157,212	1,978,901
Non-Utility Property and Plant	524	524
Net Non-Utility Property and Plant	524	524
Current Assets		
Cash and cash equivalents	3,867	14,010
Accounts receivable from customers - net of allowance for uncollectible accounts of $9.4 million and $4.5 million, respectively	77,194	69,171
Accrued unbilled utility revenues - net of allowance for uncollectible accounts of $1.0 million in 2020 (Note 2)	26,836	24,202
Other receivables	11,715	19,295
Fuel, materials and supplies (Note 1)	23,677	26,211
Regulatory assets (Note 4)	57,079	55,535
Fair value of derivative instruments (Note 16)	18	-
Special deposits and prepayments	32,211	26,787
Total Current Assets	232,597	235,211
Deferred Charges and Other Assets		
Regulatory assets - deferred pension costs (Note 4)	7,551	-
Regulatory assets - other (Note 4)	162,772	123,385
Prefunded OPEB costs (Note 12)	6,497	12,514
Other investments (Note 17)	47,020	39,301
Other	10,364	10,363
Total Deferred Charges and Other Assets	234,204	185,563
Total Assets	$ 2,624,537	$ 2,400,199

The Notes to Financial Statements are an integral part hereof.

CENTRAL HUDSON

BALANCE SHEET (CONT'D)

(In Thousands, except share amounts)

	December 31, 2020	December 31, 2019
CAPITALIZATION AND LIABILITIES		
Capitalization (Note 10)		
Common Stock (30,000,000 shares authorized: $5 par value; 16,862,087 shares issued and outstanding)	$ 84,311	$ 84,311
Paid-in capital	274,452	262,452
Accumulated other comprehensive loss	(161)	(399)
Retained earnings	498,398	430,457
Capital stock expense	(4,633)	(4,633)
Total Equity	852,367	772,188
Long-term debt (Note 11)		
Principal amount	792,800	706,950
Unamortized debt issuance costs	(4,748)	(4,390)
Net long-term debt	788,052	702,560
Total Capitalization	1,640,419	1,474,748
Current Liabilities		
Current maturities of long-term debt (Note 11)	44,150	40,000
Short-term borrowings (Note 9)	15,000	-
Accounts payable	58,906	50,423
Accrued interest	7,585	6,998
Accrued vacation and payroll	11,681	10,754
Customer advances	15,293	14,904
Customer deposits	7,564	7,655
Regulatory liabilities (Note 4)	89,006	94,730
Fair value of derivative instruments (Note 16)	2,153	6,262
Accrued environmental remediation costs (Note 14)	21,020	20,396
Accrued income and other taxes	-	273
Other current liabilities	41,384	38,006
Total Current Liabilities	313,742	290,401
Deferred Credits and Other Liabilities		
Regulatory liabilities - deferred pension costs (Note 4)	-	1,780
Regulatory liabilities - deferred OPEB costs (Note 4)	13,540	26,643
Regulatory liabilities - other (Note 4)	276,600	288,508
Operating reserves	4,970	4,544
Accrued environmental remediation costs (Note 14)	53,883	36,585
Accrued pension costs (Note 12)	25,107	10,996
Tax reserve (Note 5)	-	2,910
Other liabilities	37,946	32,347
Total Deferred Credits and Other Liabilities	412,046	404,313
Accumulated Deferred Income Tax (Note 5)	258,330	230,737
Commitments and Contingencies		
Total Capitalization and Liabilities	$ 2,624,537	$ 2,400,199

The Notes to Financial Statements are an integral part hereof.

CENTRAL HUDSON

STATEMENT OF EQUITY

(In Thousands, except share amounts)

	Central Hudson Common Shareholders						
	Common Stock Shares Issued	Common Stock Amount	Paid-In Capital	Capital Stock Expense	Retained Earnings	AOCI*	Total Equity
Balance at December 31, 2017	16,862,087	$ 84,311	$ 239,952	$ (4,633)	$ 307,414	$ -	$ 627,044
Net income					58,181		58,181
Capital contributions			11,500				11,500
Employee future benefits, net of tax						(430)	(430)
Balance at December 31, 2018	16,862,087	$ 84,311	$ 251,452	$ (4,633)	$ 365,595	$ (430)	$ 696,295
Net income					64,862		64,862
Capital contributions			11,000				11,000
Employee future benefits, net of tax						31	31
Balance at December 31, 2019	16,862,087	$ 84,311	$ 262,452	$ (4,633)	$ 430,457	$ (399)	$ 772,188
Accounting Standard Adoption – cumulative effect adjustment (Note 1)					(1,200)		(1,200)
Net income					69,141		69,141
Capital contribution			12,000				12,000
Employee future benefits, net of tax						238	238
Balance at December 31, 2020	16,862,087	$ 84,311	$ 274,452	$ (4,633)	$ 498,398	$ (161)	$ 852,367

*Accumulated other comprehensive income (loss)

The Notes to Financial Statements are an integral part hereof.

NOTE 1 – Summary of Significant Accounting Policies

Corporate Structure

CH Energy Group is the holding company parent corporation of four principal, wholly owned subsidiaries, Central Hudson Gas & Electric Corporation ("Central Hudson" or the "Company"), Central Hudson Electric Transmission LLC ("CHET"), Central Hudson Enterprises Corporation ("CHEC") and Central Hudson Gas Transmission LLC ("CHGT"). CH Energy Group's common stock is indirectly owned by Fortis Inc. ("Fortis"), which is a leader in the North American regulated electric and gas utility industry. Central Hudson is a regulated electric and natural gas transmission and distribution utility. CH Energy Group formed CHET to hold its 6.1% ownership interest in New York Transco LLC ("Transco"). CHGT was formed to hold CH Energy Group's ownership stake in possible gas transmission pipeline opportunities in New York State. As of December 31, 2020 there has been no activity in CHGT. CHEC has ownership interests in certain non-regulated subsidiaries that are less than 100% owned.

Basis of Presentation

This Annual Financial Report is a combined report of CH Energy Group and Central Hudson. The Notes to the Consolidated Financial Statements apply to both CH Energy Group and Central Hudson. CH Energy Group's Consolidated Financial Statements include the accounts of CH Energy Group and its wholly owned subsidiaries, which include Central Hudson, CHET, CHGT and CHEC. All intercompany balances and transactions have been eliminated in consolidation. CHEC's investments in limited partnerships and limited liability companies and CHET's investment in Transco are accounted for under the equity method.

The Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), which for regulated utilities, includes specific accounting guidance for regulated operations.

Preparation of the financial statements in accordance with GAAP includes the use of estimates and assumptions by management that affect the reported amounts of assets, liabilities and the disclosures of the contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Current estimates as of and for the year ended December 31, 2020 reflect management's best assumptions at this time. As with all estimates, actual results may differ from those estimated. Estimates may be subject to future uncertainties, including the continued evolution of the novel Coronavirus pandemic ("COVID-19"), which could affect the allowance for credit losses, as well as the total impact and potential recovery of incremental costs associated with COVID-19.

Estimates are also reflected for certain commitments and contingencies where there is sufficient basis to project a future obligation. Disclosures related to these certain commitments and contingencies are included in Note 14 - "Commitments and Contingencies".

Regulatory Accounting Policies

Central Hudson is subject to cost-based rate regulation. As a result, the effects of regulatory actions are required to be reflected in the financial statements. Regulatory accounting guidance results in differences in the application of GAAP between regulated and non-regulated businesses and requires the recording of regulatory assets and liabilities for certain transactions that would have been treated as expense or revenue in non-regulated businesses. Regulated companies, such as Central Hudson, defer costs and revenues on the balance sheet as regulatory assets and liabilities when it is probable that those costs and revenues will be recoverable/refundable through the rate-making process in a period different from when they otherwise would have been reflected in income. For Central Hudson, these deferred regulatory assets and liabilities, and the related deferred taxes, are recovered from or reimbursed to customers either by offset as directed by the New York State Public Service Commission ("PSC" or "Commission"), through an approved surcharge mechanism or through incorporation in the determination of revenue requirement used to set new rates. Changes in regulatory assets and liabilities are reflected in the Consolidated Statement of Income either in the period in which the amounts are recovered through a surcharge, are reflected in rates or when the criteria for recording the revenues is met. Current accounting practices reflect the regulatory accounting authorized in Central Hudson's most recent Rate Order. See Note 4 – "Regulatory Matters" for additional information regarding regulatory accounting.

Management periodically assesses whether the regulatory assets are probable of future recovery by considering factors such as changes in the applicable regulatory and political environments, the ability to recover costs through regulated rates, recent rate orders to Central Hudson and other regulated entities, and the status of any pending or potential deregulation legislation. Based on this assessment, management believes the existing regulatory assets are probable of recovery. This assessment reflects the current political and regulatory climate at the state and federal levels and is subject to change in the future. If future recovery of costs ceases to be probable, the regulatory asset would be written-off, which would materially impact earnings. Additionally, the regulatory agencies can provide flexibility in the manner and timing of recovery of regulatory assets.

Rates, Revenues, and Adjustment Mechanisms

Central Hudson's electric and natural gas retail rates are regulated by the PSC. Wholesale transmission rates, facilities charges, and rates for electricity sold for resale in interstate commerce are regulated by the Federal Energy Regulatory Commission ("FERC") and are collected via the Open Access Transmission Tariff ("OATT") administered by the New York Independent System Operator ("NYISO") or directly by the Company.

Central Hudson's tariffs for retail electric and natural gas service include purchased electricity and purchased natural gas cost adjustment mechanisms by which electric and natural gas rates are set to recover the actual purchased electricity and purchased natural gas costs including hedging costs incurred in providing these services. In addition, the tariffs include adjustment mechanisms to recover from or refund to customers certain revenues and costs that have been deferred such as RDMs, Rate Moderators, incentives earned or other Earnings Adjustment Mechanisms ("EAMs"), and other specified accumulated deferred balances recovered via the RAM as defined in the 2018 Rate Order. RDMs generally provide the ability to record revenue equal to revenue targets authorized by the PSC and used for the development of rates for most of Central Hudson's customers.

Revenue Recognition

Revenue from Contracts with Customers

Central Hudson records revenue as electric and natural gas is delivered based on either the customers' meter read or estimated usage for the month. For full service customers, this includes delivery and supply of electricity and natural gas. For retail choice customers, this includes delivery only as these customers purchase supply from a retail marketer. Customers simultaneously receive and consume the benefits provided by Central Hudson. Revenue consists of a fixed customer charge and a charge per kWh or Ccf, that is fixed at the time of delivery. Additionally, certain non-residential electric service customers pay a per KW demand charge which is also fixed at the time of delivery. All performance obligations are satisfied for tariff sales at the time of delivery. Amounts billed to customers are due within 20 days from the date the bill was rendered, and any payment not received by the due date is considered delinquent and incurs a late payment fee. Effective April 1, 2020, Central Hudson temporarily suspended finance charges on past due balances to help mitigate the impacts of the COVID-19 pandemic on our customers.

Central Hudson records an estimate of unbilled revenue for service rendered to customers subsequent to their billing date and through the end of the month. Unbilled revenues are dependent upon a number of factors that require management's judgment including estimates of retail sales and customer usage patterns.

Central Hudson receives payments from certain customers based on a predetermined budget billing schedule. Budget billing does not represent a contract asset or liability but rather just a receivable/liability because there are no further performance obligations required to be satisfied before the Company has the right to collect/refund the customer's consideration. Consideration is due when control of the energy is transferred to the customer and is satisfied with the passage of time. Budget billing liability balances are recorded within the customer advances line item in the balance sheet.

Central Hudson provides discounts through certain customer assistance programs intended to help low to moderate income families manage their energy burden as prescribed in the 2018 Rate Order with a full deferral mechanism. Discounts available under these programs are determined at the time the performance obligation is satisfied and are recorded as an expense to match revenue collected in rates for the benefit of eligible customers.

Alternative Revenues

In accordance with Accounting Standard Codification ("ASC") 980, and as authorized by the PSC, Central Hudson records alternative revenues in response to past activities or completed events, if certain criteria are met. Central Hudson has identified alternative revenue programs in both its electric and natural gas revenues. Alternative revenues are generally intended to compensate a regulated utility for fluctuations in revenue due to weather abnormalities, external factors and demand side initiatives promoted by the regulator, as well as incentive awards if the utility achieves certain objectives, such as reducing costs, reaching specified milestones, or improving customer service. Central Hudson recognizes alternative revenues when the criteria defined in ASC 980 have been met and not when billed to customers.

Other Revenues

Other revenues, which are not contract revenues, consist of pole attachment rents, finance charges, miscellaneous fees and other revenue adjustments. Included in other revenue adjustments is the reversal of previously recognized deferrals as they are billed (collected/refunded to customers) pursuant to PSC Orders.

Cash and Cash Equivalents

CH Energy Group and Central Hudson consider temporary cash investments with a maturity (when purchased) of three months or less to be cash equivalents.

Restricted Cash

Restricted cash primarily consists of cash collected from developers and held in escrow related to a System Deliverability Upgrade project pursuant to terms and conditions of the NYISO OATT.

The following tables provide a reconciliation of cash, cash equivalents and restricted cash reported on the Balance Sheets for CH Energy Group and Central Hudson that sum to the total of the same such amounts shown in the corresponding Statements of Cash Flows.

CH Energy Group

(In Thousands)

	December 31, 2020	December 31, 2019
Cash and cash equivalents	$ 11,480	$ 19,999
Restricted cash included in other long-term assets	1,327	1,076
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	$ 12,807	$ 21,075

Central Hudson

(In Thousands)

	December 31, 2020	December 31, 2019
Cash and cash equivalents	$ 3,867	$ 14,010
Restricted cash included in other long-term assets	1,327	1,076
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	$ 5,194	$ 15,086

Accounts Receivable and Allowance for Uncollectible Accounts

Beginning on January 1, 2020, receivables and unbilled utility revenues are carried at net realizable value based on the allowance for credit losses model. The accounts receivable balance also reflects Central Hudson's purchase of receivables from energy service companies to support the retail choice programs. The allowance for uncollectible accounts reflects management's best estimate of expected credit losses to reduce accounts receivable for amounts estimated to be uncollectible. Estimates for uncollectible accounts are based on accounts receivable aging data, as well as consideration of various quantitative and qualitative factors, including special collection issues and current and forecasted economic conditions. Interest can be charged on accounts receivable balances that have been outstanding for more than 20 days. See Note 2 – "Revenues and Receivables" for a discussion of the impact of COVID-19 on interest charges and other revenue.

As of December 31, 2019, receivables were carried at net realizable value based on the allowance for doubtful accounts model. Estimates for uncollectible accounts were based on customer accounts receivable aging data, as well as, consideration of various quantitative and qualitative factors, including special collection issues.

Financial Instruments

Effective January 1, 2020, CH Energy Group and Central Hudson adopted accounting guidance that requires the use of reasonable and supportable forecasts in the estimate of credit losses and the recognition of expected losses upon initial recognition of a financial instrument, in addition to using past events and current conditions. At December 31, 2020 there are no expected credit losses on financial instruments other than those on accounts receivable and unbilled utility revenues.

Fuel, Materials & Supplies

The following is a summary of CH Energy Group's and Central Hudson's inventory of Fuel, Materials & Supplies valued using the average cost method (In Thousands):

	December 31, 2020	December 31, 2019
Natural gas (1)	$ -	$ 4,823
Fuel used in electric generation	373	413
Materials and supplies	23,305	20,975
Total	$ 23,677	$ 26,211

(1) Effective August 1, 2020 Central Hudson has entered into an Asset Management Agreement with a third party related to its natural gas transport and storage capacity. Central Hudson continues to make purchases of natural gas in advance of the peak winter season to hedge against price volatility for its customers. However, based on the terms of the agreement, the third party will maintain control and title over the physical gas in storage until the end of the contract term. As such, these balances were transferred from natural gas within Fuel, materials and supplies to Special deposits and prepayments in CH Energy Group's and Central Hudson's Balance Sheets.

Utility Plant - Central Hudson

The regulated assets of Central Hudson include electric, natural gas and common assets, which are listed under the heading "Utility Plant" on CH Energy Group's Consolidated Balance Sheet and Central Hudson's Balance Sheet. The accumulated depreciation associated with these regulated assets is also reported on the Balance Sheets.

The cost of additions to utility plant and replacements of retired units of property are capitalized at original cost. Capitalized costs include labor, materials and supplies, indirect charges for items such as transportation, certain administrative costs, certain taxes, service cost components of pension and other employee benefits, and allowances for funds used during construction ("AFUDC"); less contributions in aid of construction.

AFUDC is defined as the net cost of borrowed funds used for construction purposes and a reasonable rate on other funds when so used. The concurrent credit for the amount so capitalized is reported in the Consolidated Statement of Income as follows: the portion applicable to borrowed funds is reported as a reduction of interest charges while the portion applicable to other funds (the equity component) is reported as other income. The AFUDC rate was 5.95% in 2020, 6.4% in 2019 and 6.0% in 2018.

The replacement of minor items of property is included in operating expenses.

The original cost of property, together with removal cost less salvage, is charged to accumulated depreciation at the time the property is retired and removed from service as required by the PSC.

For additional information see Note 3 – "Utility Plant – Central Hudson."

Depreciation and Amortization

Central Hudson's depreciation and amortization provisions are computed on the straight-line method using PSC approved rates. The anticipated costs of removing assets upon retirement are generally provided for over the life of those assets as a component of depreciation expense and, for regulatory reporting purposes, is reflected in accumulated depreciation until the costs are incurred, which is consistent with industry practice. Current accounting guidance related to asset retirement precludes the recognition of expected future retirement obligations as a component of depreciation expense or accumulated depreciation. Central Hudson, however, is required to use depreciation methods and rates approved by the PSC under regulatory accounting. Central Hudson reclassifies cost of removal recovered in excess of amounts incurred to date from accumulated depreciation to regulatory liabilities for presentation in its Balance Sheet in accordance with GAAP.

Central Hudson performs depreciation studies periodically and, upon approval by the PSC, adjusts the depreciation rates of its various classes of depreciable property. Central Hudson's composite rates for depreciation, inclusive of intangible amortization, was 2.90% in 2020, 2.77% in 2019 and in 2018 was 2.75% of the original average cost of depreciable property. The ratio of the amount of accumulated depreciation to the original cost of depreciable property at December 31, 2020, 2019, and 2018 was 23.3%, 23.9% and 24.5%, respectively.

Asset Retirement Obligations

Central Hudson records Asset Retirement Obligations ("AROs") for the incremental removal costs, resulting from legal and environmental obligations associated with the retirement of certain utility plant assets, as a liability at fair value with a corresponding increase to utility capital assets, in the period in which the costs are known and estimable. The fair value of AROs is based on an estimate of the present value of expected future cash outlays, discounted at a credit-adjusted risk-free interest rate. AROs are adjusted at the end of each reporting period to accrete the liability for the passage of time and record any changes in the estimated future cash flows of the incremental obligation. Accretion and depreciation expense associated with AROs are recorded as regulatory assets. Actual costs incurred reduce the liability. The regulatory assets for accretion and depreciation are recovered through the accumulated depreciation reserve upon retirement of the asset.

Impairment of Long-Lived Assets

Central Hudson reviews long-lived assets for impairment, at least annually. Asset-impairment testing at the regulated utilities is carried out at the enterprise level to determine if assets are impaired. The recovery of regulated assets' carrying value, including a fair rate of return, is provided through customer electricity and natural gas delivery rates approved by the PSC. The net cash flows for regulated entities are not asset-specific, but are pooled for the entire regulated utility.

Leases

Beginning on January 1, 2019, when a contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration, a right-of-use asset and lease liability are recognized. Central Hudson measures the right-of-use asset and lease liability at the present value of future lease payments excluding variable payments based on usage or performance. Central Hudson calculates the present value using a lease-specific secured borrowing rate based on the remaining lease term. Central Hudson has elected the practical expedient to combine lease components (e.g., rent, real estate taxes and insurance costs) and non-lease components (e.g., common area maintenance costs) and account for them as a single lease component. Central Hudson includes options to extend a lease in the lease term when it is reasonably certain that the option will be exercised. Leases with a term, including renewal options of twelve months or less are not recorded on the balance sheet.

Research and Development

Central Hudson is engaged in the conduct and support of research and development ("R&D") activities that are focused on the improvement of existing energy technologies and the development of new technologies for the delivery and customer use of energy. R&D expenditures are provided for in Central Hudson's rates charged to customers for electric and natural gas delivery service, with any differences between actual R&D expense and the rate allowances deferred for future recovery from or return to customers. See Note 7 – "Research and Development" for additional details.

Debt Issuance Costs

Expenses incurred in connection with CH Energy Group's or Central Hudson's debt issuance and any discount or premium on debt are deferred and amortized over the lives of the related issues. When long-term debt is reacquired or redeemed, regulatory accounting permits deferral of related unamortized debt expense and reacquisition costs to be amortized over the remaining original life of the debt retired. The amortization of debt costs for reacquired debt is incorporated in the revenue requirement for delivery rates as authorized by the PSC. See Note 11 – "Capitalization – Long-Term Debt" for additional details.

Income Tax

CH Energy Group and its subsidiaries file consolidated federal income tax returns with FortisUS Inc. ("FortisUS") and, depending on the state, either standalone or consolidated state income tax returns. Income taxes are deferred for all temporary differences between the financial statement and the tax basis of assets and liabilities, under the asset and liability method in accordance with current accounting guidance for income taxes. Certain deferred income taxes are recorded with offsetting regulatory assets or liabilities by Central Hudson to recognize that income taxes will be recovered or refunded through future rates. For federal and state income tax purposes, CH Energy Group and its subsidiaries use an accelerated method of depreciation and generally use the shortest life permitted for each class of assets. Central Hudson follows the normalization method of accounting, which spreads the tax benefits associated with utility assets over the same time period that the costs of those assets are recovered from customers. Normalization is required as a prerequisite for utilities claiming accelerated depreciation and certain tax credits. Deferred investment tax credits are amortized over the estimated life of the properties giving rise to the credits. For state income tax purposes, Central Hudson uses book depreciation for property placed in service in 1999 or earlier in accordance with transition property rules under Article 9-A of the New York State Tax Law. See Note 5 – "Income Tax" for additional information regarding income taxes and the Tax Cuts and Jobs Act.

Post-Employment and Other Benefits

Central Hudson sponsors a noncontributory Retirement Income Plan ("Retirement Plan") for all management, professional and supervisory employees hired before January 1, 2008 and for all Union employees hired before May 1, 2008. Benefits are based on years of service and compensation. Additionally, Central Hudson maintains a Supplemental Executive Retirement Plan ("SERP") for certain members of management. Central Hudson also provides OPEB plans, which include certain health care and life insurance benefits for retirees hired within the same time periods as stated above.

Central Hudson recognizes the funded status of the Retirement Plan and SERP (collectively "Pension") and OPEB defined benefit plans on its balance sheet. The funded status is measured as the difference between the fair value of qualified plans' assets and the projected benefit obligation ("PBO") for the plans. The Pension funded status includes the SERP PBO although it does not take into consideration the SERP trust assets. The SERP is a non-qualified plan under the Employee Retirement Income Security Act guidelines and therefore, although funded annually to achieve 110% of the plan's accumulated benefit obligation, the trust assets of this plan are not included in the calculation of the funded status for accounting purposes. Central Hudson recognizes a regulatory liability or asset for the portion of the over or underfunded amount that is probable of return to or recovery from customers in future rates. The amounts reported as a component of other comprehensive income, net of tax, relate to a former Central Hudson officer that transferred to an affiliate company but continues to accrue benefits in Central Hudson's Pension and OPEB. The related amounts will be charged to and reimbursed by the affiliate company in future periods.

Pension and OPEB benefit expenses are determined by actuarial valuations based on assumptions that Central Hudson evaluates annually. Central Hudson capitalizes a portion of the service cost component. The PSC has authorized deferral accounting treatment for any variations between actual Pension and OPEB expenses and the amount included in the current delivery rate structure.

Any unamortized balances related to net actuarial gains and losses, past service costs and transitional obligations, which are recoverable from Central Hudson customers and would otherwise be recognized in accumulated other comprehensive income, are subject to deferral accounting treatment.

Central Hudson also sponsors a contributory 401(k) retirement plan ("401(k) plan") for its employees. The 401(k) plan provides for employee tax-deferred salary deductions for participating employees as well as employer contributions.

For more information see Note 12 – "Post-Employment Benefits".

Additionally, Central Hudson sponsors a contributory Deferred Compensation Plan ("Deferred Compensation Plan") for certain members of management and members of the Central Hudson Board of Directors. Although the Deferred Compensation Plan is a non-qualified plan, Central Hudson has established a trust for funding the associated liability to participants. For more information, see Note 17 – "Other Fair Value Measurements".

Equity-Based Compensation

Officers of CH Energy Group and Central Hudson were granted Share Unit Plan shares ("SUPs") under various plans as part of the officers' long-term incentives. Compensation expense and the related liability associated with the SUPs is recorded based on the fair value at each reporting date until settlement, reflecting expected future payout and time elapsed within the terms of the award, typically at the end of the three year vesting period. The fair value of the SUPs' liability is based on Fortis' common share 5 day volume weighted average trading price at the end of each reporting period. CH Energy Group and Central Hudson have elected to recognize forfeitures when they occur due to the limited number of participants in the equity-based compensation plans. For more information, see Note 13 – "Equity-Based Compensation".

Common Stock Dividends

CH Energy Group's ability to pay dividends is affected by the ability of its subsidiaries to pay dividends. The Federal Power Act limits the payment of annual dividends by Central Hudson to its retained earnings. More restrictive is the PSC's limit on the dividends Central Hudson may pay to CH Energy Group. See Note 10 – "Capitalization-Common and Preferred Stock" for additional information. CH Energy Group's other subsidiaries do not have express restrictions on their ability to pay dividends.

Derivatives

From time to time, Central Hudson enters into derivative contracts in conjunction with the Company's enterprise risk management program to hedge certain risk exposures related to its business operations. Central Hudson uses derivative contracts to reduce the impact of volatility in the supply prices of natural gas and electricity and to hedge exposure to volatility in interest rates for its variable rate long-term debt. Central Hudson records all derivatives at fair value with certain exceptions including those derivatives that qualify for the normal purchase exception. The fair value of derivative instruments are estimates of the amounts that Central Hudson would receive or have to pay to terminate the outstanding contracts at the balance sheet dates. Unrealized gains and losses on Central Hudson's derivative contracts have no impact on earnings since the energy contracts are subject to regulatory deferral.

Realized gains and losses on Central Hudson's derivative instruments are returned to or recovered from customers through PSC-authorized deferral accounting mechanisms, with no material impact on cash flows, results of operations or liquidity. Realized gains and losses on Central Hudson's energy derivative instruments and all associated costs are reported as part of purchased natural gas and purchased electricity in CH Energy Group's and Central Hudson's Statements of Income as the corresponding amounts are either recovered from or returned to customers through fuel cost adjustment mechanisms in revenues. See Note 16 – "Accounting for Derivative Instruments and Hedging Activities" for further details.

Normal Purchases and Normal Sales

Central Hudson enters into forward energy purchase contracts, including options, with counterparties that have generating capacity to support current load forecasts or counterparties that can meet Central Hudson's load serving obligations. Central Hudson has elected the normal purchase exception for these contracts, which are not required to be measured at fair value and are accounted for on an accrual basis. See Note 14 – "Commitments and Contingencies" for further details.

Reclassification

Certain amounts in Other Net in the December 31, 2019 and 2018 CH Energy Group and Central Hudson Statements of Income have been reclassified to disclose the Non-service cost components of pension and OPEB and conform to the 2020 presentation. These reclassifications had no effect on the reported results of operations.

Certain amounts shown in Note 4 – "Regulatory Matters" and Note 5 – "Income Taxes" related to prior year, have been reclassified to conform to the 2020 presentation. These reclassifications had no effect on the reported results of operations.

Recently Adopted Accounting Pronouncements

Financial Instruments

Effective January 1, 2020, CH Energy Group and Central Hudson adopted Accounting Standards Update ("ASU") No. 2016-13 *Measurement of Credit Losses on Financial Instruments* which requires entities to use a current expected credit loss ("CECL") model that is based on expected losses rather than incurred losses. Under the CECL model, an entity recognizes as an allowance its estimate of expected credit losses, which the Financial Accounting Standards Board ("FASB") believes will result in more timely recognition of such losses. Adoption of this ASU requires quantitative and qualitative disclosures regarding the activity in the allowance for credit losses for financial assets within the scope of the guidance. The adoption of this ASU resulted in an increase to CH Energy Group and Central Hudson's allowance for credit losses of $1.2 million and was recorded as a cumulative adjustment to retained earnings effective January 1, 2020.

Future Accounting Pronouncements To Be Adopted

Soon to be adopted accounting guidance is summarized below, including explanations for any new guidance issued by FASB (except that which is not currently applicable) and the expected impact on CH Energy Group and its subsidiaries.

Income Taxes

ASU No. 2019-12, *Simplifying the Accounting for Income Taxes*, was issued in December 2019 to simplify the accounting for income taxes by eliminating certain exceptions to the guidance in ASC 740 related to the approach for intra-period tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The new guidance also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The amendment is effective for annual reporting periods beginning after December 15, 2020, and interim periods within those reporting periods. Early adoption of all changes is permitted in any interim or annual period, with any adjustments reflected as of the beginning of the fiscal year of adoption. Upon adoption, entities should disclose the nature and reason for the change in accounting principle, the transition methods, and a qualitative description of the financial statement line items affected by the change. CH Energy Group and its subsidiaries do not expect the adoption of this standard to have a material impact on their earnings, financial position, cash flows or financial disclosures.

Note 2 - Revenues and Receivables

Central Hudson disaggregates revenue by segment (electric and natural gas operations) and by revenue type (revenue from contract with customers, alternative revenue programs and other revenue).

Revenue from Contracts with Customers

Central Hudson records revenue as electricity and natural gas is delivered based on either the customers' meter read or estimated usage for the month. For full-service customers, this includes delivery and supply of electricity and natural gas. For retail choice customers, this includes delivery only as these customers purchase supply from a retail marketer. Sales and usage-based taxes are excluded from revenues. Consideration received from customers on a billing schedule is not adjusted for the effect of a significant finance component because the period between a transfer of goods or services will be one year or less.

Alternative Revenues

Central Hudson's alternative revenue programs include: electric and natural gas RDMs, the 2020 three-month postponement of the electric and natural gas delivery rate increase, Gas Merchant Function Charge lost revenue, and revenue requirement effect for incremental Leak Prone Pipe ("LPP") miles replaced above the PSC targets. In addition, Central Hudson records alternative revenues related to positive revenue adjustments and EAMs related to New York State clean energy goals, when prescribed targets are met.

Other Revenues

Other revenues consist of pole attachment rents, finance charges, miscellaneous fees and other revenue adjustments. Included in other revenue adjustments are changes to regulatory deferral balances to reverse the impact of refunds (collections) of previously recognized deferrals and Negative Revenue Adjustments ("NRAs") pursuant to PSC Orders.

The following summary presents CH Energy Group's and Central Hudson's operating revenues disaggregated by segment and revenue source (In Thousands):

	Year Ended December 31,		
Electric	2020	2019	2018
Revenues from Contracts with Customers (ASC 606)	$ 547,586	$ 512,787	$ 574,908
Alternative Revenues (Non ASC 606)	(18,268)	(11,755)	(15,506)
Other Revenue Adjustments (Non ASC 606)	22,684	28,428	(869)
Total Operating Revenues Electric	$ 552,002	$ 529,460	$ 558,533
Natural Gas			
Revenues from Contracts with Customers (ASC 606)	$ 155,391	$ 161,385	$ 169,159
Alternative Revenues (Non ASC 606)	9,281	4,664	5,299
Other Revenue Adjustments (Non ASC 606)	(4,779)	(3,846)	(8,360)
Total Operating Revenues Natural Gas	$ 159,893	$ 162,203	$ 166,098

In 2020, the increase in electric revenues from contracts with customers is primarily driven by the increase in customer delivery rates and billed RAM and EAM surcharges. For natural gas, the decrease in 2020 revenue from contracts with customers is due to lower natural gas commodity cost driven by both, lower price and sales volume, partially offset by the increase in delivery rates and billed RAM and EAM surcharges. Revenue from contracts with customers for both electric and natural gas also include higher credits to customer bills for rate moderation in 2020 when compared to 2019, which does not impact total revenues. The offset of these credits is reflected in other revenue.

The decrease in electric alternative revenue programs for 2020 is due to an increase in the deferral of actual billed revenues in excess of the 2018 Rate Order prescribed targets, partially offset by the deferral of the delivery rate increase which was delayed from July 1, 2020 to October 1, 2020. The increase in natural gas alternative revenue programs for 2020 is primarily due to the deferral of actual revenues below the 2018 Rate Order prescribed targets.

For electric and gas, the decrease in other revenues for 2020 compared to 2019 were primarily driven by the discontinuation of finance charges on customers' past due balances to mitigate the impacts of the COVID-19 pandemic on customers.

Allowance for Uncollectible Accounts

Accounts receivable are recorded net of an allowance for uncollectible accounts based on the allowance for credit losses model. Upon adoption of the new accounting standard, the Company recorded the cumulative effect adjustment increasing its allowance for uncollectible accounts receivable by $0.7 million and established an allowance on accrued unbilled utility revenues of $0.5 million.

A summary of all changes in the allowance for uncollectible accounts receivable and accrued unbilled utility revenue balance is as follows:

	Year Ended	
	December 31, 2020	December 31, 2019[1]
Balance at Beginning of Period	$ (4,500)	$ (2,700)
Accounting Standard Adoption – cumulative effect adjustment	(1,200)	N/A
Uncollectible expense	(10,010)	(7,159)
Bad debt write-offs (recoveries) - net	5,310	5,359
Balance at End of Period	$ (10,400)	$ (4,500)

(1) December 31, 2019 reserve is based on the allowance for doubtful accounts model.

During the twelve months ended December 31, 2020, management recorded an additional increase to the allowance for uncollectible accounts of $4.9 million based on a quantitative and qualitative assessment of forecasted economic conditions related to COVID-19. This assessment included a historical analysis of the relationship of write-offs to accounts receivable balances in arrears and taking into consideration certain qualitative factors differentiating this current situation from other significant events in the historical period, including the nature and cause of this economic downturn, as well as legislative actions taken which provide relief and assistance to customers financially impacted by the COVID-19 pandemic.

NOTE 3 – Utility Plant - Central Hudson

The following summarizes the type and amount of assets included in the electric, natural gas, and common categories of Central Hudson's utility plant balances (In Thousands):

	Estimated Depreciable Life in Years	Utility Plant December 31, 2020	Utility Plant December 31, 2019
Electric:			
Production	25-85	$ 42,992	$ 42,961
Transmission	30-90	435,855	403,242
Distribution	7-80	1,139,941	1,080,869
Other	40	6,908	6,475
Total		$ 1,625,696	$ 1,533,547
Natural Gas:			
Transmission	19-85	$ 61,476	$ 59,608
Distribution	28-95	615,728	555,807
Other	N/A	442	442
Total		$ 677,646	$ 615,857
Common:			
Land and Structures	50	$ 88,310	$ 86,278
Office and Other Equipment, Radios and Tools	8-35	79,429	72,911
Transportation Equipment	10-12	77,668	73,017
Other	3-10	93,922	72,867
Total		$ 339,329	$ 305,073
Gross Utility Plant		$ 2,642,671	$ 2,454,477

For the years ended December 31, 2020, 2019 and 2018 the borrowed component of funds used during construction and recorded as a reduction of interest expense was $1.5 million, $1.2 million and $1.1 million, respectively, and the equity component reported as other income was $3.0 million for the year ended December 31, 2020, $2.3 million in 2019 and $2.1 million in 2018.

Included in the Net Utility Plant balance of $2.2 billion and $2.0 billion at December 31, 2020 and 2019 is $141.7 million and $115.0 million of intangible utility plant assets, comprised primarily of computer software costs, land, transmission, and water and other rights, and the related accumulated amortization of $64.7 million and $52.4 million, respectively. Amortization expense is estimated to average approximately $8.3 million annually for each of the next five years.

As of December 31, 2020 and 2019, Central Hudson has reclassified from accumulated depreciation $40.4 million and $43.0 million, respectively, of cost of removal recovered through the rate-making process in excess of amounts incurred to date as a regulatory liability.

As of December 31, 2020 and 2019, AROs for Central Hudson were approximately $1.9 million and $0.6 million, respectively. These amounts have been classified in the above chart under “Electric - Other” and “Common - Other” based on the nature of the ARO and are reflected as “Other - long-term liabilities” in the CH Energy Group and Central Hudson Balance Sheets.

NOTE 4 – Regulatory Matters

Summary of Regulatory Assets and Liabilities

Based on previous, existing or expected regulatory orders or decisions, the following table sets forth amounts that are expected to be recovered from, or refunded to customers in future periods (In Thousands):

	December 31, 2020	December 31, 2019
Regulatory Assets:		
Deferred purchased electric costs (Note 1)	$ 3,470	$ 8,013
Deferred purchased natural gas costs (Note 1)	4,453	4,082
Deferred unrealized losses on derivatives - electric and natural gas (Note 16)	2,153	6,262
RAM - electric	13,866	13,518
RAM - natural gas	3,418	3,201
EAMs - electric	3,410	2,118
SC 8 Street Lighting	1,678	913 (1)
Delayed electric and natural gas delivery rate increase	4,596	-
RDM and carrying charges - natural gas	3,778	2,518
Energy efficiency programs and carrying charges	1,260	-
Revenue requirement of LPP replacement	1,696	- (1)
Deferred pension costs (Note 12)	7,551	-
Demand management programs	11,032	10,747
Deferred and accrued costs - SIR (Note 14)	84,370	62,694
Deferred storm costs	19,902	11,420
Deferred vacation pay accrual	10,197	8,384
Income taxes recoverable through future rates	26,968	22,253
Tax reform - unprotected impacts (Note 5)	13,464	13,464
Other	10,140 (2)	9,333 (1)(2)
Total Regulatory Assets	$ 227,402	$ 178,920
Less: Current Portion of Regulatory Assets	$ 57,079	$ 55,535
Total Long-term Regulatory Assets	$ 170,323	$ 123,385
Regulatory Liabilities:		
Rate moderator - electric	$ 15,786	$ 26,583
Rate moderator - natural gas	6,247	7,959
RDM and carrying charges - electric	22,073	10,735
Clean Energy Fund and carrying charges	57,893	68,277
Tax reform - protected deferred tax liability (Note 5)	183,915	189,447
Deferred cost of removal (Note 3)	40,384	43,039
Deferred pension costs (Note 12)	-	1,780
Income taxes refundable through future rates	9,149	7,896
Deferred OPEB costs (Note 12)	13,540	26,643
Low income program	4,722	1,967 (1)
Net plant and depreciation targets	10,193	6,082
Fast charging infrastructure program and carrying charges	5,124	4,584
Energy efficiency programs and carrying charges	-	4,999
Deferred unbilled revenue	5,082	5,082
Other	5,038 (2)	6,588 (1)(2)
Total Regulatory Liabilities	$ 379,146	$ 411,661
Less: Current Portion of Regulatory Liabilities	$ 89,006	$ 94,730
Total Long-term Regulatory Liabilities	$ 290,140	$ 316,931
Net Regulatory Liabilities	$ (151,744)	$ (232,741)

(1) Balances reported in the Other regulatory assets and liabilities lines as of December 31, 2019 have been reclassified to conform to the December 31, 2020 presentation.

(2) Other includes estimated netting on the balance sheet of certain regulatory asset carrying charges to be offset against regulatory liabilities and collected through Rate Case offset.

The significant regulatory assets and liabilities include:

Rate Adjustment Mechanism: Mechanism prescribed in the 2018 Rate Order to recover from or refund to customers previously deferred balances related to major storms and environmental site investigation and remediation costs in excess of the three year cumulative rate allowance, incentives earned, unencumbered NRAs, deferred property taxes and accrued carrying charges.

Earnings Adjustment Mechanism: Mechanism prescribed in the 2018 Rate Order to recover from customers incentives earned related to energy efficiency targets met.

SC8 Street Lighting: This regulatory asset represents the deferral to reassign the collection of revenues amongst certain service classes as prescribed in the July 22, 2019 Order and discussed further below.

Delayed electric and natural gas delivery rate increase: This regulatory asset represents the deferral of the electric and natural gas delivery rate increases as prescribed in the June 11, 2020 Order as further discussed below.

Revenue Decoupling Mechanism and carrying charges: Mechanism prescribed in the 2018 Rate Order to recover from or refund to customers difference between actual revenues and forecasted revenues.

Energy Efficiency Programs: This regulatory asset/liability represents amounts spent on Central Hudson's internally administered programs either below or in excess of amounts collected in rates.

Revenue requirement of LPP replacement: This regulatory asset represents the deferral of the revenue requirement impact related to the replacement of LPP as prescribed in the 2018 Rate Order.

Demand Management Programs: This regulatory asset represents deferred balances for costs incurred and incentives earned in excess of amounts collected related to Central Hudson's Non-Wires Alternative and Dynamic Load Management initiatives.

Deferred Storm Costs: Central Hudson's rates include a collection of funds for a major storm reserve, which are deferred as an offset against incremental costs incurred for major storm restoration. Incremental costs incurred in excess of the reserve funds to be collected in the current rate term are authorized to be collected via its RAM, to the extent sufficient.

Deferred Vacation Pay Accrual: In accordance with Rate Order 84-2 a regulatory asset has been established to offset the accrued vacation liability since the accrued compensation is included in future allowable costs on an as paid basis and there is reasonable assurance of recovery.

Income Taxes Recoverable: This regulatory asset has been established to offset certain deferred tax liabilities because Central Hudson believes it is probable that they will be recoverable from customers.

Rate Moderator – Electric and Natural Gas: This regulatory liability balance represents the net balance after offset under the terms of the 2018 Rate Order, which will be used for future customer rate moderation, as well as deferred Danskammer Generating Station delivery revenues for future natural gas rate moderation.

Clean Energy Fund: This regulatory liability represents amounts collected from customers primarily under the Clean Energy Fund, the Renewable Portfolio Standards and System Benefit Charge (as prescribed in the Clean Energy Fund and 2018 Rate Orders), in excess of amounts remitted to the New York State Energy Research and Development Authority ("NYSERDA") to fund its energy efficiency programs.

Income Taxes Refundable: This regulatory liability was established to offset certain deferred tax assets because Central Hudson believes it is probable that the related balances will be refundable to customers.

Low Income Program: This regulatory liability represents deferred balances for amounts collected in excess of credits provided for low income programs.

Net Plant and Depreciation Targets: This regulatory liability represents a deferral of the revenue requirement effect of net plant in service and depreciation expense below the defined targets as prescribed in the 2018 Rate Order.

Fast Charging Station Infrastructure Program and carrying charges: This regulatory liability represents amounts provided by NYSERDA and collected from customers to fund the fast charging stations' annual incentive payments as prescribed in the related Order.

Deferred Unbilled Electric and Natural Gas Revenue: On July 20, 2016, the PSC issued the "Order Approving Accounting Change with Modification", allowing Central Hudson to realize unbilled revenue as revenue on the income statement but required that $5.1 million of unbilled revenues remain as a regulatory liability.

In terms of the expected timing for recovery, regulatory asset balances reflect the following amounts (In Thousands):

	December 31, 2020	December 31, 2019
Balances with offsetting accrued liability balances recoverable when future costs are actually incurred:		
Deferred pension related to underfunded status	$ 7,551	$ -
Income taxes recoverable through future rates	26,968	22,253
Deferred unrealized losses on derivatives - electric	2,122	5,542
Deferred unrealized losses on derivatives - natural gas	31	720
Accrued SIR costs	74,903	56,981
Deferred ARO	406	475
Deferred vacation pay accrual	10,197	8,384
	$ 122,178	$ 94,355
Balances earning a return via inclusion in rates and/or the application of carrying charges:		
Energy Efficiency Programs and carrying charges	$ 1,260	$ - (2)
OPEB reserve carrying charges	1,828	1,100 (2)
Deferred storm costs	19,902	11,420
Deferred SIR costs, net of recoveries	9,467	5,713
Deferred debt expense on re-acquired debt	1,860	2,377
Tax reform - unprotected deferred tax asset	13,464	13,464
Other	5,340	4,184 (2)
	$ 53,121	$ 38,258
Subject to current recovery:		
Deferred purchased electric costs	$ 3,470	$ 8,013
Deferred purchased natural gas costs	4,453	4,082
Delayed electric and natural gas delivery rate increase	4,596	-
RAM - electric and natural gas	17,285	16,719
EAMs - electric	3,410	2,118 (2)
RDM - electric and natural gas	3,778	2,518
Demand management programs(1)	11,032	10,747
Other	5,068	2,629 (2)
	$ 53,092	$ 46,826

Accumulated carrying charges:				
Carrying charges balancing	$	(1,010)	$	(519)
Other		21		-
	$	(989)	$	(519)
Total Regulatory Assets	$	227,402	$	178,920

(1) These amounts are subject to recovery over prescribed PSC timeframes unique to each program (most over 5 or 10 years). Balances subject to recovery over a period greater than 1 year are authorized to earn carrying charges at the pre-tax weighted average cost of capital.
(2) Certain amounts shown for the period ended December 31, 2019 have been reclassified to conform to the December 31, 2020 presentation.

PSC Proceedings

2018 Rate Order and Related Proceedings

On June 14, 2018, the PSC issued an Order Approving Rate Plan in Cases 17-E-0459 and 17-G-0460. The 2018 Rate Order adopted the terms set forth in the April 18, 2018 Joint Proposal with minor modifications. The 2018 Rate Order was effective July 1, 2018, with Rate Year ("RY")1, RY2 and RY3 defined as the twelve months ending June 30, 2019, June 30, 2020 and June 30, 2021, respectively.

A summary of the key terms of the 2018 Rate Order is as follows:

	2018 Rate Order (dollars in millions)		
Description	RY1	RY2	RY3
Electric delivery rate increases	$19.7	$18.6	$25.1
Natural gas delivery rate increases	$6.7	$6.7	$8.2
Return on Equity	8.80%	8.80%	8.80%
Earnings sharing	Yes(1)	Yes(1)	Yes(1)
Capital structure – common equity	48%	49%	50%
Bill Credits - Electric	$6.0	$9.0	$11.0
Bill Credits - Natural Gas	$3.5	$4.0	$4.0
RDMs – electric and natural gas	Yes	Yes	Yes

(1) Return on equity > 9.3% and up to 9.8%, is shared 50% to customers, > 9.8% and up to 10.3%, is shared 80% to customers, and > 10.3% is shared 90% to customers.

Key provisions of the 2018 Rate Order include:

Revenue increases net of bill credits result in average residential monthly bill impacts of 1.3%, 3.0% and 4.4% for electric customers and 2.1%, 4.4% and 5.5% for natural gas customers in RYs 1, 2, and 3, respectively, of the rate plan. The rates reflect a reduction to the customer charge for residential and electric small commercial classes. Electric RDM has been expanded to include additional service classes. During the three year term, approximately 97% of electric base delivery revenues and 92% of natural gas base delivery revenues are covered by RDMs. A RAM was approved to return or collect certain deferred balances and carrying charges on a more timely basis (subject to calendar year caps).

The revenue requirements reflect authorization for capital expenditures of more than $650 million over the term covered by the 2018 Rate Order, including a significant increase in information technology investments, funding to begin implementing a multi-year plan to construct a Training Center and Primary Control Center, continued investment for LPP Replacement, and funding for Distribution Automation and Network Strategy. The revenue requirement also reflects an increase in funding for Transmission and Distribution Right of Way Maintenance, increased low income discounts, funding to eliminate credit/debit card and walk-in center payment fees charged to customers and an increase in energy efficiency program funding which was moved into base delivery rates.

The 2018 Rate Order introduced five electric and one natural gas EAMs with targets set for minimum, midpoint and maximum performance. Potential maximum earnings adjustments total $2.2 million in 2018, $4.7 million in 2019, $5.1 million in 2020 and $5.4 million in 2021. As of December 31, 2020, 2019 and 2018, the Company has earned $2.6 million, $2.1 million and $0.6 million related to electric EAM targets, respectively.

The 2018 Rate Order changed various performance mechanisms for electric, natural gas and customer service. For electric reliability, the System Average Interruption Frequency Index target was raised to 1.38 for 2018 and lowered to 1.34 for 2019 and 1.30 for 2020, respectively. Gas safety metric targets were restated for calendar year 2018 and other changes were made including revised targets for all gas metrics, a reduction to potential NRAs and additional positive revenue adjustments for surpassing certain gas safety metrics. The 2018 Rate Order also includes more stringent Customer Satisfaction and PSC Complaint targets, and new Call Answer Rate and Residential Termination/Uncollectible metrics with the net result of a reduction in the total potential NRAs.

On July 22, 2019, the Commission issued an Order approving Central Hudson's petition to modify the revenue allocation provisions and certain RDM targets of Central Hudson's service class 8 (public street and highway lighting customers) as approved in the 2018 Rate Order and the authority to defer and recover revenues to address an overestimate of lighting fixtures forecasted in a street lighting category which resulted in a misallocation of the revenue requirement that should have been recovered from all other Central Hudson customer classes. The annual impact is a shift of approximately $0.5 million, $0.7 million and $0.9 million for RY1, RY2 and RY3, respectively, which is de minimis when allocated and collected from the non-lighting customer classes. The Order reassigned the collection of revenues amongst the service classes with no impact on Central Hudson's results of operations.

On June 11, 2020, the Commission issued Order Postponing Approved Electric and Gas Delivery Rate Increases, which approved Central Hudson's petition to ease the financial impact on customers during the critical months of the COVID-19 pandemic. The Order postponed for three months Central Hudson's approved RY3 electric and natural gas delivery rate increase scheduled to take effect on July 1 to October 1, 2020, with the forgone revenues recovered over the remaining nine months of the rate year ending June 30, 2021. The Order also states that no carrying charges will be applied to the delayed recovery of these revenues and that Central Hudson will adjust the RDM Targets to be consistent with the delayed electric and natural gas delivery rate increase implementation.

<u>August 2020 Rate Filing</u>

Central Hudson filed an electric and natural gas rate case (Cases 20-E-0428 and 20-G-0429) on August 27, 2020 with the PSC seeking electric and natural gas delivery revenue increases of $32.8 million and $14.4 million, respectively, to become effective July 1, 2021. The filing includes net regulatory liability balances proposed for rate moderation of $20 million for electric and $8 million for natural gas. The rate filing was made in order to align electric and natural gas delivery rates with the projected costs of providing service to our customers and reflects a return on equity of 9.1% and a 50.0% equity ratio to maintain financial integrity. Additionally, due to the severe economic impact of COVID-19 within its service territory, Central Hudson included specific actions within the filing to reduce the customer bill impact, which included delaying a meaningful portion of the capital plan ($48.5 million during the rate year ending June 30, 2022) and a COVID-19 Adjustment Customer Bill Moderation credit that reduces Central Hudson's revenue requirements by $1.8 million for electric and $0.5 million for natural gas.

The primary drivers for the increase in projected costs include: 1) capital investments to modernize Central Hudson's electric, gas infrastructure and information technology ("IT") systems resulting in increases in depreciation expense, return on rate base, and property taxes; 2) increasing expenses associated with vegetation management or trimming; 3) increasing employee levels and labor costs;

and 4) initiation of a new Heat Pump program. Modernization of electric transmission and distribution infrastructure addresses the underlying age and condition of the assets and the need to enable the Distributed System Platform in order to better monitor and control the distribution system while facilitating increasing levels of Distributed Energy Resources penetration. This is directly tied to the goals of Climate Leadership and Community Protection Act. Central Hudson's filing also proposes the continued replacement of gas LPP, replacing 15 miles per year resulting in an elimination of LPP from the Company's gas system in approximately eight years. Central Hudson also proposes to invest in IT systems to transform and modernize customer interactions, complete the replacement of its 40-year old Enterprise Resource Planning mainframe solution and sustain the security and maintenance of our IT systems. Central Hudson is also proposing additional funding to maintain a four-year cycle for distribution line clearance and a five-year cycle for its transmission right-of way trimming maintenance while implementing a targeted tree removal program aimed at reducing the impact of the increasing number of severe weather events brought about by climate change and the proliferation of invasive insect infestations and tree diseases. Central Hudson is also seeking recovery of costs associated with the New York State Clean Heat program, which seeks to replace high carbon intensive heating sources with heat pumps and related measures.

The filing also proposes to:

1) modify and expand the current EAMs that were approved in the 2018 Rate Order;
2) introduce new Positive Revenue Adjustments while eliminating or modifying the structure of certain NRAs;
3) expansion of Central Hudson's RDMs to include additional service classes;
4) institute new deferral mechanisms, including authority to defer incremental COVID-19 related costs and lost revenues; and
5) expand the eligibility criteria for the Low Income Bill Discount Program to include customers who receive other forms of public assistance.

COVID-19 Proceeding

On June 11, 2020, the Commission established a new proceeding under Case 20-M-0266 to identify and address the effects of the COVID-19 pandemic on utility service in New York State. The proceeding included, but is not limited to, impacts on rate-setting, rate design, utility financial strength, low income programs, collections and termination of service, ensuring the provision of safe and adequate service at just and reasonable rates in recognition of the ramifications from the COVID-19 pandemic and the extent to which the Commission's clean energy programs should be maintained or accelerated. Public comments on the collection and termination of service, commission principles in serving the public interest and rate and financial aspects, as provided in an Appendix to the Order, were filed by parties on July 13, 2020 and reply comments were filed August 28, 2020. As requested by Staff, utilities are providing on a monthly basis, financial information to enable an assessment of the COVID-19 impacts on utility earnings and cash flow. Central Hudson is providing monthly reports to Staff with regards to COVID-19 lost finance charge revenues and incremental costs, including the change in past due customer balances, the uncollectible reserve and cost reductions.

August 2020 Tropical Storm Isaias

On August 5, 2020, the New York State Governor instituted proceeding 20-01633 directing the Commission to initiate an investigation of certain New York State utilities' responses to Tropical Storm Isaias, which impacted Central Hudson's service territory on August 4. On August 19, 2020, the Office of Investigations and Enforcement of the DPS issued a Notice of Apparent Violations Related to Tropical Storm Isaias (the "Notice") to the Company. The Notice identified two potential violations based on the Staff's initial investigation into Central Hudson's storm response to Tropical Storm Isaias. On November 19, 2020, DPS Staff issued an interim Storm Report setting forth preliminary findings, including purported failures by the identified utilities to comply with their respective Commission approved Emergency Response Plans ("ERPs"). On the same day, the Commission issued an Order to Commence Proceeding and Show Cause ("Show Cause Order") that initiated proceedings against Central Hudson and the other utilities. The Show Cause Order identified 32 apparent violations by Central Hudson, which, if established, could result in up to $16 million of penalties. The Show Cause Order directed the utilities to respond to the allegations of noncompliance within 30 days and to show cause why civil penalties or appropriate injunctive relief should not be imposed to remedy such noncompliance. Central Hudson filed its response to the Show Cause Order on December 21, 2020. The Company performed a thorough investigation and, as indicated in its response, believes no penalty should be issued because the facts demonstrate that Central Hudson fully complied with its PSC approved ERP, which serves as the standard against which Central Hudson should be evaluated. As such, no accrual has been made related to this Proceeding and Show Cause Order or the Notice. Management cannot predict the outcome of this matter or the impact it may have on Central Hudson's earnings, financial position or cash flows.

Central Hudson Reverse Sales Tax Refund

On March 16, 2020, Central Hudson filed a petition for the disposition of a sales tax refund, pursuant to PSL Section 113(2) under Case 20-M-0134. The tax refund is the result of a reverse sales tax audit that Central Hudson initiated with the New York State Department of Taxation & Finance for the claim period of June 1, 2017 through December 31, 2018. The Commission solicited comments on the filing via notice published in the April 22, 2020 edition of the New York State Register. Central Hudson asked the Commission to take notice of a tax refund received from the New York State Department of Taxation and Finance, in the amount of approximately $3.4 million on October 16, 2019 and waive the rule requiring the Company to give the Commission notice of the refund within 60 days. Central Hudson proposed that the refund received be allocated (1) for the benefit of ratepayers; and (2) to reimburse the costs incurred by Central Hudson in securing the refund. The Company proposed to retain approximately $0.6 million, or 24% of the refund, net of costs to achieve. Most of the refund has been credited to plant as the majority of the refund related to sales taxes that were capitalized as part of plant costs. The petition requested the PSC approve Central Hudson retaining the portion of the net refund related to amounts that were previously recorded to sales tax expense. Staff's testimony in the August 2020 filing requested that this proceeding be incorporated into the August 2020 Rate Case filing rather than ruled upon separately. Although the outcome is unknown, any potential adjustments that may result from a PSC ruling differing from how the refund has been recorded to date, is not expected to be material to Central Hudson's financial statements.

Central Hudson 2018 Financing Order

On September 13, 2018, the Commission approved the Company's request under Section 69 of the Public Service Law to enter into multi-year committed credit agreements in an aggregate amount not to exceed $200 million and maturities not to exceed five years, to issue and sell long-term debt in an aggregate amount not to exceed $425 million through December 2021, and to enter into derivative instruments to hedge interest rate risk for its variable rate debt obligations.

FERC Proceeding

On December 31, 2019, Central Hudson submitted to FERC a new rate schedule pursuant to Rate Schedule 12 of the NYISO OATT to establish a Facilities Charge for System Deliverability Upgrades ("SDU") being installed on Central Hudson's transmission facilities, which are required to provide four Large Generating Facility Developers with Capacity Resource Interconnection Service. This charge provides Central Hudson with full recovery of all reasonably incurred costs related to the development, construction, operation and maintenance of the SDU and a reasonable return on its investment. Project costs to be recovered by Central Hudson and allocated to the Load Serving Entities ("LSEs") pursuant to Rate Schedule 12 of the NYISO OATT are expected to be approximately $2.6 million plus operation, maintenance and other applicable costs and will be updated annually.

NOTE 5 – Income Tax

Uncertain Tax Positions

In September of 2010, Central Hudson filed a request with the Internal Revenue Service ("IRS") to change its tax accounting method related to costs to repair and maintain utility assets. The change was effective for the tax year ended December 31, 2009. This change allows Central Hudson to take a current tax repair deduction for a significant amount of repair costs that were previously capitalized for tax purposes.

IRS guidance, with respect to repair deductions taken on Gas Transmission and Distribution repairs is still pending. Therefore, tax reserves related to the gas repair deduction continue to be shown as "Tax Reserve" under the Deferred Credits and Other Liabilities section of the CH Energy Group and Central Hudson Balance Sheets.

Changes in the tax reserve reflect the ongoing uncertainty related to gas transmission and distribution repair deductions taken in the current period. The following is a summary of activity related to the uncertain tax position (In Thousands):

	CH Energy Group Year Ended December 31,		Central Hudson Year Ended December 31,	
	2020	2019	2020	2019
Tax reserve balance at the beginning of the period	$ 3,126	$ 7,675	$ 2,910	$ 7,675
Change in natural gas transmission and distribution repair deduction	985	504	985	504
Change in tax benefit offset [1]	(4,111)	(5,053)	(3,895)	(5,269)
Tax reserve balance at the end of the period	$ -	$ 3,126	$ -	$ 2,910

(1) Amounts are classified as a deferred tax asset per ASU No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.*

Income Tax Examinations

Jurisdiction	Tax Years Open for Audit
Federal	2017 – 2019
New York State	2017 – 2019

Components of Tax Reform Regulatory Balances

As a result of the Tax Cuts and Jobs Act, the Company was required to revalue its deferred tax assets and liabilities at the federal corporate income tax rate of 21%. Central Hudson recorded a regulatory liability due to the revaluation of plant related deferred tax liabilities which are protected under tax normalization rules. The regulatory liability is adjusted monthly to reflect the amortization of the balance to the income statement under the normalization rules. The Company also recorded a regulatory asset due to the revaluation of non-plant related deferred taxes, which is not subject to the normalization rules. The balance will be addressed in the Company's 2020 Rate Filing.

The following is a summary of Central Hudson's activity in its regulatory liability balance related to the protected deferred tax liability (In Thousands):

	December 31, 2020	December 31, 2019
Protected Regulatory Liability at the beginning of the period	$ 189,447	$ 194,513
Amortization of Protected Tax Liability	(5,532)	(5,066)
Protected Regulatory Liability at the end of the period	$ 183,915	$ 189,447

The following is a summary of Central Hudson's activity in its regulatory asset balance related to the unprotected impacts (In Thousands):

	December 31, 2020	December 31, 2019
Unprotected Regulatory Asset at the beginning of the period	$ 13,464	$ 13,688
Change in Unprotected Tax Asset	-	(224)
Unprotected Regulatory Asset at the end of the period	$ 13,464	$ 13,464

Coronavirus Aid, Relief, and Economic Security ("CARES") Act

The CARES Act was signed into law on March 27, 2020. As permitted under the CARES Act, Central Hudson is currently deferring payment of the employer share of the Social Security tax on its payroll during 2020. The deferred payroll tax can be paid over the next two years—with half of the required amount paid by December 31, 2021 and the other half by December 31, 2022. No other provisions of the CARES Act currently apply to Central Hudson. There is no impact on earnings or on the effective tax rate resulting from the delayed payment of employer payroll tax under the CARES Act as the expense, liability and associated deferred taxes have been reflected in the current period. As of December 31, 2020, the liability for the deferred payment of the employer's portion of Social Security tax on payroll is $5.2 million, with $2.6 million reflected in Other liabilities current and $2.6 million in Other long-term liabilities in the CH Energy Group and Central Hudson Balance Sheets.

Reconciliation - CH Energy Group

The following is a reconciliation between the amount of federal income tax computed on income before taxes at the statutory rate and the amount reported in CH Energy Group's Consolidated Statement of Income (In Thousands):

	Year Ended December 31,		
	2020	2019	2018
Net income	$ 69,103	$ 64,566	$ 57,543
Current federal income tax (benefit)expense	(20)	(886)	6,123
Current state income tax (benefit)expense	100	(90)	1,007
Deferred federal income tax expense	9,930	10,957	4,560
Deferred state income tax expense	5,252	4,753	3,394
Income before income taxes	$ 84,365	$ 79,300	$ 72,627
Computed federal tax at 21%	$ 17,717	$ 16,653	$ 15,252
State income tax net of federal tax benefit	4,224	3,797	3,494
Amortization of protected deferred tax liability(1)	(4,339)	(3,983)	(3,716)
State income tax prior period adjustment	4	(113)	(17)
Depreciation flow-through	(706)	466	2,649
Cost of removal	(1,926)	(1,910)	(1,690)
Other	288	(176)	(888)
Total income tax expense	$ 15,262	$ 14,734	$ 15,084
Effective tax rate - federal	11.7%	12.7%	14.7%
Effective tax rate - state	6.4%	5.9%	6.1%
Effective tax rate - combined	18.1%	18.6%	20.8%

(1) Under normalization rules, plant-related deferred taxes reverse at the same rate as the original deferral.

For the year ended December 31, 2020, the combined effective tax rate for CH Energy Group is lower than the statutory rate due to tax normalization rules and the timing of flow through tax items related to capital expenditures.

For the year ended December 31, 2019, the lower combined effective tax rate was driven by the reduction in the federal income tax rate from 35% to 21%, in accordance with the Tax Cuts and Jobs Act, and the impact of tax normalization rules.

The following is a summary of the components of deferred taxes as reported in CH Energy Group's Consolidated Balance Sheets (In Thousands):

	December 31, 2020	December 31, 2019
Accumulated Deferred Income Tax Asset:		
Unbilled revenues	$ 1,615	$ 1,991
Plant-related	6,812	7,152
Tax reform - protected deferred tax liability	48,688	50,249
Pension Costs	1,135	362
Income taxes refundable through future rates	7,294	6,041
OPEB costs	1,067	3,108
NYS Net Operating Loss ("NOL") carryforwards	4,495	495
Clean Energy Fund	14,451	18,836
Rate moderator	5,758	9,028
Contributions in aid of construction	9,429	8,945
Directors and officers deferred compensation	13,766	12,557
RDM	4,781	2,147
Fast charging infrastructure	1,339	1,198
Deferred payroll taxes	1,361	-
Low income bill program	1,234	514
Other	4,459	3,026
Accumulated Deferred Income Tax Asset	$ 127,684	$ 125,649
Accumulated Deferred Income Tax Liability:		
Depreciation	$ 243,015	$ 226,657
Repair allowance	4,143	4,367
Change in tax accounting for repairs	92,420	85,523
Income taxes recoverable through future rates	13,540	12,949
Tax reform - unprotected deferred tax asset	3,519	3,519
Cost of removal	4,981	4,993
Deferred SIR costs	2,474	1,493
Demand management programs	2,884	2,809
Purchased electric costs	907	2,094
Delayed rate increase	1,201	-
Purchased natural gas costs	1,164	1,067
Storm costs	5,202	2,985
RAM	4,517	4,370
Other	6,642	3,906
Accumulated Deferred Income Tax Liability	$ 386,609	$ 356,732
Net Deferred Income Tax Liability	$ 258,925	$ 231,083

Reconciliation – Central Hudson

The following is a reconciliation between the amount of federal income tax computed on income before taxes at the statutory rate and the amount reported in Central Hudson's Statement of Income (In Thousands):

	Year Ended December 31, 2020	2019	2018
Net income	$ 69,141	$ 64,862	$ 58,181
Current federal income tax (benefit)expense	(18)	(889)	8,546
Current state income tax (benefit)expense	-	(189)	1,117
Deferred federal income tax expense	9,952	10,462	2,334
Deferred state income tax expense	5,211	4,884	3,220
Income before income taxes	$ 84,286	$ 79,130	$ 73,398
Computed federal tax at 21%	$ 17,700	$ 16,617	$ 15,413
State income tax net of federal tax benefit	4,117	3,898	3,414
Amortization of protected deferred tax liability[1]	(4,339)	(3,983)	(3,716)
State income tax prior period adjustment	-	(189)	12
Depreciation flow-through	(706)	466	2,649
Cost of removal	(1,926)	(1,910)	(1,690)
Other	299	(631)	(865)
Total income tax expense	$ 15,145	$ 14,268	$ 15,217
Effective tax rate - federal	11.8%	12.1%	14.8%
Effective tax rate - state	6.2%	5.9%	5.9%
Effective tax rate - combined	18.0%	18.0%	20.7%

[1] Under normalization rules, plant-related deferred taxes reverse at the same rate as the original deferral.

For the year ended December 31, 2020, the combined effective tax rate for Central Hudson is lower than the statutory rate due to tax normalization rules. For the year ended December 31, 2019, the lower combined effective tax rate was driven by the reduction in the federal income tax rate from 35% to 21%, and the impact of tax normalization rules.

The following is a summary of the components of deferred taxes as reported in Central Hudson's Balance Sheet (In Thousands):

	December 31, 2020	2019
Accumulated Deferred Income Tax Asset:		
Unbilled revenues	$ 1,615	$ 1,991
Plant-related	6,812	7,152
Tax reform - protected deferred tax liability	48,688	50,249
Pension costs	1,135	362
Income taxes refundable through future rates	7,294	6,041
OPEB costs	1,067	3,108
NYS NOL carryforwards	4,537	541
Clean Energy Fund	14,451	18,836
Rate moderator	5,758	9,028
Contributions in aid of construction	9,429	8,945
Directors and officers deferred compensation	12,866	11,605
RDM	4,781	2,147
Fast charging infrastructure	1,339	1,198
Deferred payroll taxes	1,361	-
Low income bill program	1,234	514
Other	4,390	2,878
Accumulated Deferred Income Tax Asset	$ 126,757	$ 124,595

Accumulated Deferred Income Tax Liability:				
Depreciation	$	242,572	$	226,082
Repair allowance		4,143		4,367
Change in tax accounting for repairs		92,420		85,523
Income taxes recoverable through future rates		13,540		12,949
Tax reform - unprotected deferred tax asset		3,519		3,519
Cost of removal		4,981		4,993
Deferred SIR costs		2,474		1,493
Demand management programs		2,884		2,809
Purchased electric costs		907		2,094
Delayed rate increase		1,201		-
Purchased natural gas costs		1,164		1,067
Storm costs		5,202		2,985
RAM		4,517		4,370
Other		5,563		3,081
Accumulated Deferred Income Tax Liability	$	385,087	$	355,332
Net Deferred Income Tax Liability	$	258,330	$	230,737

NOTE 6 – Investments in Unconsolidated Affiliates

In April 2019, National Grid and Transco were awarded the Segment B portion of one of its proposals related to the AC Transmission Order with NYISO for a transmission project that will improve the flow of power from upstate renewable resources to meet downstate demand and enhance the reliability and resilience of the grid. Transco will be authorized to earn a return on equity invested in the project (up to 53% of the project cost) of 9.65%, with up to an additional 1% available for incentives. The project has an estimated cost of $600 million plus interconnection costs, and CHET's equity funding requirement of this cost as a 6.1% owner of Transco is expected to be $19.4 million. As of December 31, 2020, CHET has made capital contributions of $1.4 million to Transco to fund a portion of the Segment B project costs. At December 31, 2020 and 2019, CHET's investment in Transco was approximately $9.2 million and $7.9 million, respectively.

In November 2018, the Transco limited liability company agreement was amended ("Transco Amendment") to allow Transco to pursue additional projects that might come out of future NYISO Public Policy Transmission Planning Processes ("PPTP Processes"). Under the Transco Amendment, CHET would have a 10% ownership stake in transmission solutions related to future projects that result from future PPTP Processes. CHET would also be allocated 10% of future development costs for any new transmission projects as part of future PPTP Processes.

During 2020, CHEC had equity investments in various limited partnerships, one of which held investments in energy sector start-up companies. This equity investment was terminated and liquidated at its approximate book value during 2020. The value of CHEC's equity investments at December 31, 2020 and 2019 was approximately $0.2 million and $1.3 million, respectively. The remaining investment at December 31, 2020 is not considered to be a part of the core business.

NOTE 7 – Research and Development

Central Hudson's R&D expenditures were $3.7 million in 2020, $3.5 million in 2019 and $3.3 million in 2018. These expenditures were for internal research programs and for contributions to research administered by NYSERDA, the Electric Power Research Institute and other industry organizations.

Note 8 – Leases

At December 31, 2020, CH Energy Group did not have any leases other than leases from Central Hudson. Central Hudson's leasing activities accounted for as operating leases include office facilities and equipment with remaining terms of approximately four to nine years and communication tower space with remaining terms of approximately two to 16 years including options to renew existing leases for an additional 10 to 15 years. Most leases include one or more options to renew, with renewal terms that may extend the lease term from 15 to 20 years. Certain lease agreements include periodic escalation clauses based on an index or fixed rate or require Central Hudson to pay real estate taxes, insurance, maintenance, or other operating expenses associated with the lease premises.

The following table details supplemental balance sheet information related to CH Energy Group and Central Hudson's operating leases (In Thousands):

Leases	Classification	December 31, 2020	December 31, 2019
Operating Lease Assets	Other Assets	$ 3,586	$ 4,161
Current Operating Lease Liabilities	Other Current Liabilities	$ 345	$ 542
Noncurrent Operating Lease Liabilities	Other Liabilities	3,281	3,626
Total Lease Liabilities		$ 3,626	$ 4,168

Operating and variable lease costs, as well as short-term lease cost for the years ended December 31, 2020 and 2019 were not material to CH Energy Group or Central Hudson's results of operations. Operating lease costs for the year ended December 31, 2018 were not material to CH Energy Group or Central Hudson's results of operations.

As of December 31, 2020, CH Energy Group and Central Hudson had the following minimum future maturities of operating lease liabilities (In Thousands):

Year Ending December 31,	Operating Leases
2021	$ 457
2022	460
2023	465
2024	423
2025	385
Thereafter	2,097
Total Lease Payments	4,287
Less: Imputed Interest	661
Present Value of Lease Liabilities	3,626
Less: Current Portion	345
Total Non-Current Lease Liabilities	$ 3,281

The following table includes supplemental information related to CH Energy Group and Central Hudson's operating leases:

	December 31, 2020	December 31, 2019
Weighted-Average Remaining Lease Term (years)	9.7	10.0
Weighted-Average Discount Rate	3.26%	3.27%

NOTE 9 – Short-Term Borrowing Arrangements

Committed Credit Facilities

On July 10, 2015, CH Energy Group entered into a Third Amended and Restated Credit Agreement with four commercial banks. The credit commitment of the banks under the agreement was $50 million with a maturity date of July 10, 2020. Due to low demand for cash and the ability to receive funding from either dividends or equity capital contributions, CH Energy Group did not replace this credit agreement upon its maturity.

On March 13, 2020, Central Hudson entered into a $200 million, five-year revolving credit agreement with five commercial banks to replace the agreement that was set to expire on October 15, 2020. Proceeds received from the new revolving credit agreement are to be used for working capital needs and for general corporate purposes. Letters of credit are available up to $15 million from three participating banks.

The Central Hudson credit agreement includes a covenant that the total funded debt to total capital shall not exceed 0.65 to 1.00. The credit agreement is also subject to certain restrictions and conditions, including there will be no event of default, and subject to certain exceptions, Central Hudson will not sell, lien, or otherwise encumber its assets and enter into certain transactions including those with affiliates. Central Hudson is also required to pay a commitment fee calculated at a rate based on the applicable Standard and Poor's or Moody's rating on the average daily unused portion of the credit facilities. At December 31, 2020, Central Hudson is in compliance with all financial debt covenants.

At December 31, 2020 and December 31, 2019 there were no amounts outstanding under the committed credit arrangements for CH Energy Group or Central Hudson.

Uncommitted Credit

At December 31, 2020, Central Hudson had uncommitted short-term credit arrangements with two commercial banks totaling $30 million. At December 31, 2019, Central Hudson had uncommitted short-term credit arrangements with three commercial banks totaling $40 million. Proceeds from these credit arrangements are used to diversify cash sources and provide competitive options to minimize Central Hudson's cost of short-term debt.

At December 31, 2020, CH Energy Group and Central Hudson had $15 million in borrowings outstanding under Central Hudson's uncommitted credit agreements with an effective weighted average interest rate of 0.9%. There were no outstanding borrowings for CH Energy Group or Central Hudson under the uncommitted credit agreements at December 31, 2019.

NOTE 10 – Capitalization – Common and Preferred Stock

Capital Contributions

During 2020, CH Energy Group received capital contributions of $15.0 million from its parent FortisUS, and Central Hudson received capital contributions of $12.0 million from its parent company CH Energy Group. Additionally during 2020, CHET received a $0.3 million capital contribution from its parent CH Energy Group.

During 2019, CH Energy Group received capital contributions of $29.5 million from FortisUS, and Central Hudson received capital contributions of $11.0 million from its parent CH Energy Group. Additionally during 2019, CHET received a $1.1 million capital contribution from its parent CH Energy Group.

During 2018, CH Energy Group received capital contributions of $37.0 million from FortisUS, and Central Hudson received capital contributions of $11.5 million from CH Energy Group. There were no capital contributions made to CHET during 2018.

These contributions were recorded as paid in capital, see CH Energy Group's and Central Hudson's Consolidated Statements of Equity.

Common Stock Dividends

CH Energy Group's ability to pay dividends is affected by the ability of its subsidiaries to pay dividends. The Federal Power Act limits the payment of annual dividends by Central Hudson to its retained earnings. More restrictive is the PSC's limit on the dividends Central Hudson may pay to CH Energy Group, which is 100% of the average annual income available for common stock, calculated on a two-year rolling average basis. Based on this calculation, Central Hudson was restricted to a maximum annual payment of $67.0 million and $61.5 million in dividends to CH Energy Group for the periods ended December 31, 2020 and 2019, respectively. Central Hudson's ability to pay dividends would be reduced to 75% of its average annual income in the event of a downgrade of its senior debt rating below "BBB+" by more than one rating agency, if the stated reason for the downgrade is related to any of CH Energy Group's or Central Hudson's affiliates. Further restrictions are imposed for rating downgrades below this level. In addition, Central Hudson would not be allowed to pay dividends if its average common equity ratio for the 13 months prior to a proposed dividend was more than 200 basis points below the ratio used in setting rates. CH Energy Group's other subsidiaries do not have express restrictions on their ability to pay dividends.

In 2020, CH Energy Group did not pay any dividends to FortisUS, the sole shareholder of CH Energy Group. In 2019 and 2018, the Board of Directors of CH Energy Group declared and paid dividends of $16.5 million and $22.0 million, respectively, to FortisUS.

Central Hudson did not pay any dividends to its parent CH Energy Group in 2020, 2019 and 2018.

CHET did not pay dividends to its parent CH Energy Group during 2020. CHET declared and paid dividends of $0.9 million and $2.2 million to its parent CH Energy Group during 2019 and 2018, respectively. CHEC did not pay any dividends to its parent CH Energy Group during 2020 and 2019. CHEC paid dividends to its parent CH Energy Group of $0.3 million during 2018.

Preferred Stock

Other than one share of Junior Preferred Stock, Central Hudson had no outstanding preferred stock as of December 31, 2020 and 2019.

NOTE 11 – Capitalization – Long-Term Debt

The majority of the long-term debt instruments are redeemable at the discretion of CH Energy Group and Central Hudson, at any time, at the greater of par or a specified price as defined in the respective long-term debt agreements, together with accrued and unpaid interest.

A summary of CH Energy Group's and Central Hudson's long-term debt is as follows (In Thousands):

Series	Maturity Date	December 31, 2020 Principal	December 31, 2020 Unamortized Debt Issuance Costs	December 31, 2019 Principal	December 31, 2019 Unamortized Debt Issuance Costs
Central Hudson:					
Promissory Notes:					
2006 Series E (5.76%)(4)	Nov. 17, 2031	$ 27,000	$ 188	$ 27,000	$ 206
1999 Series B(1),(2)	Jul. 01, 2034	33,700	233	33,700	251
2005 Series E (5.84%)(4)	Dec. 05, 2035	24,000	149	24,000	158
2007 Series F (5.804%)(5)	Mar. 23, 2037	33,000	225	33,000	239
2009 Series F (5.80%)(5)	Nov. 01, 2039	24,000	204	24,000	215
2010 Series A (4.30%)(6)	Sep. 21, 2020	-	-	16,000	7
2010 Series B (5.64%)(6)	Sep. 21, 2040	24,000	99	24,000	104
2010 Series G (4.15%)(6)	Apr. 01, 2021	44,150	11	44,150	57
2010 Series G (5.716%)(6)	Apr. 01, 2041	30,000	209	30,000	219
2011 Series G (3.378%)(6)	Apr. 01, 2022	23,400	37	23,400	66
2011 Series G (4.707%)(6)	Apr. 01, 2042	10,000	92	10,000	96
2012 Series G (4.776%)(6)	Apr. 01, 2042	48,000	450	48,000	471
2012 Series G (4.065%)(6)	Oct. 01, 2042	24,000	271	24,000	284
2013 Series D (4.09%)(7)	Dec. 2, 2028	16,700	83	16,700	93
2014 Series E (7),(10)	Mar. 26, 2024	30,000	66	30,000	87
2015 Series F (2.98%)(7)	Mar. 31, 2025	20,000	67	20,000	82
2016 Series G (2.16%)(8)	Sep. 21, 2020	-	-	24,000	30
2016 Series H (2.56%)(8)	Oct. 28, 2026	10,000	53	10,000	62
2016 Series I (3.63%)(8)	Oct. 28, 2046	20,000	122	20,000	126
2017 Series J (4.05%)(8)	Aug. 31, 2047	30,000	170	30,000	177
2017 Series K (4.20%)(8)	Aug. 31, 2057	30,000	176	30,000	181
2018 Series L (4.27%)(8)	Jun. 15, 2048	25,000	175	25,000	182
2018 Series M (3.99%)(8)	Oct. 28, 2026	40,000	180	40,000	212
2018 Series N (4.21%)(8)	Oct. 28, 2033	40,000	213	40,000	229
2019 Series O (3.89%)(9)	Oct. 28, 2049	50,000	269	50,000	278
2019 Series P (3.99%)(9)	Oct. 28, 2059	50,000	271	50,000	278
2020 Series Q (3.42%)(9)	May 14 2050	30,000	172	-	-
2020 Series R (3.62%)(9)	Jul. 14, 2060	30,000	174	-	-
2020 Series S (2.03%)(9)	Sep. 28, 2030	40,000	214	-	-
2020 Series T (2.03%)(9)	Nov. 17, 2030	30,000	175	-	-
Total Central Hudson		$ 836,950	$ 4,748	$ 746,950	$ 4,390
Less: Current Portion of Long-term Debt		(44,150)		(40,000)	
Central Hudson Net Long-term Debt		$ 792,800		$ 706,950	
CH Energy Group:					
Promissory Notes:					
2009 Series B (6.80%)(3)	Dec. 15, 2025	$ 10,547	$ 47	$ 12,265	$ 56
Less: Current Portion of Long-term Debt		(1,837)		(1,718)	
CH Energy Group Net Long-term Debt		$ 801,510	$ 4,795	$ 717,497	$ 4,446

(1) Promissory Notes issued in connection with the sale by NYSERDA of tax-exempt pollution control revenue bonds.
(2) Variable (auction) rate notes.
(3) The maturity date represents the final repayment date, principal repayments are due semi-annually.
(4) Issued pursuant to a 2004 PSC Order approving the issuance by Central Hudson prior to December 31, 2006, of up to $85 million of unsecured medium-term notes.
(5) Issued pursuant to a 2006 PSC Order approving the issuance by Central Hudson prior to December 31, 2009, of up to $120 million of unsecured medium-term notes.
(6) Issued pursuant to a 2009 PSC Order approving the issuance by Central Hudson prior to December 31, 2012, of up to $250 million of unsecured medium-term notes or other forms of long-term indebtedness.
(7) Issued pursuant to a 2012 PSC Order approving the issuance by Central Hudson prior to December 31, 2015, of up to $250 million of unsecured medium-term notes or other forms of long-term indebtedness.
(8) Issued pursuant to a 2015 PSC Order approving the issuance by Central Hudson prior to December 31, 2018, of up to $350 million of unsecured medium-term notes or other forms of long-term indebtedness.
(9) Issued pursuant to a 2018 PSC Order approving the issuance by Central Hudson prior to December 31, 2021, of up to $425 million of unsecured medium-term notes or other forms of long-term indebtedness.

(10) Variable rate notes.

On November 17, 2020, Central Hudson issued $30 million of Series T Senior Notes, with an interest rate of 2.03% per annum and a maturity date of November 17, 2030. On September 28, 2020, Central Hudson issued $40 million of Series S Senior Notes, with an interest rate of 2.03% per annum and a maturity date of September 28, 2030. On July 14, 2020, Central Hudson issued $30 million of Series R Senior Notes, with an interest rate of 3.62% per annum and a maturity date of July 14, 2060. On May 14, 2020, Central Hudson issued $30 million of Series Q Senior Notes, with an interest rate of 3.42% per annum and a maturity date of May 14, 2050. Central Hudson used the proceeds from the sale of the Senior Notes to repay $40 million of maturing debt and for general corporate purposes, including the funding of capital expansion and improvement projects and the repayment of short-term borrowings.

At December 31, 2020, Central Hudson had $30 million of 2014 Series E 10-year notes with a floating interest rate of 3-month LIBOR plus 1%. To mitigate the potential cash flow impact from unexpected increases in short-term interest rates, Central Hudson purchased a four-year interest rate cap on March 26, 2020 that will expire on March 26, 2024. The rate cap has a notional amount equal to the outstanding principal amount of the 2014 Series E notes and is based on the quarterly reset of the LIBOR rate on the quarterly interest payment dates. Central Hudson would receive a payout if the LIBOR rate exceeds 3% at the start of any quarterly interest period during the term of the cap. This interest rate cap replaced a similar interest rate cap that expired on March 26, 2020. There have been no payouts on these interest rate caps during the years ended December 31, 2020 and 2019.

The principal amount of Central Hudson's outstanding 1999 Series B NYSERDA Bonds totaled $33.7 million at December 31, 2020. These are tax-exempt multi-modal bonds that are currently in a variable rate mode and mature in 2034. To mitigate the potential cash flow impact from unexpected increases in short-term interest rates on Series B NYSERDA Bonds, Central Hudson purchased a three-year interest rate cap on March 25, 2019. The rate cap has a notional amount equal to the outstanding principal amount of the Series B bonds and expires on April 1, 2022. The cap is based on the monthly weighted average of an index of tax-exempt variable rate debt, multiplied by 175%. Central Hudson would receive a payout if the adjusted index exceeds 4% for a given month. This interest rate cap replaced a similar interest rate cap that expired on April 1, 2019. Central Hudson received a payout of $0.03 million during the year ended December 31, 2020. There were no payouts on these interest rate caps during the year ended December 31, 2019.

See Note 16 – "Accounting for Derivative Instruments and Hedging Activities" for fair value disclosures related to these interest rate cap agreements.

In its 2018 Rate Order, the PSC extended the continued deferral accounting treatment for variations in the interest costs of the 1999 Series B NYSERDA Bonds and the Series E 10-year notes. As such, variations between the actual interest rates on these bonds and the interest rate included in the current delivery rate structure for these bonds are deferred for future recovery from or refund to customers and therefore do not impact earnings. See Note 4 – "Regulatory Matters" for more detail regarding the regulatory asset related to the variable rate note.

Long-Term Debt Maturities

See Note 17 – "Other Fair Value Measurements" for a schedule of long-term debt maturing or to be redeemed during the next five years and thereafter.

Financing Petition

By Order issued and effective September 13, 2018, the PSC authorized Central Hudson to enter into new credit agreements with maturities of no more than five years and in an aggregate amount not to exceed $200 million; and commencing upon the expiration of the prior financing order on December 31, 2018, grants the authorization to issue and sell long-term debt in an aggregate amount not to exceed $425 million through December 2021.

The continuation of $200 million of credit provides liquidity to support construction forecasts, seasonality, volatile energy markets, adverse borrowing environments, and other unforeseen events. See Note 9 – "Short-Term Borrowing Arrangements" for additional information on the committed credit funding.

The approval to issue and sell $425 million of long-term debt provides Central Hudson with additional means to fund operational needs, continued capital investments and repay maturing debt.

Debt Covenants

CH Energy Group's $10.5 million of privately placed notes require compliance with certain covenants including maintaining a ratio of total consolidated debt to total consolidated capitalization of no more than 0.65 to 1.00 and not permitting certain debt, other than the privately placed notes, associated with the unregulated operations of CH Energy Group to exceed 10% of total consolidated assets.

Central Hudson, under the terms of the various note purchase agreements, is subject to similar financial covenants and restrictions to those of CH Energy Group, including restrictions with respect to Central Hudson's indebtedness and assets.

As of December 31, 2020, CH Energy Group and Central Hudson were in compliance with all covenants.

NOTE 12 – Post-Employment Benefits

In its Orders, the PSC has authorized deferral accounting treatment for any variations between actual Pension and OPEB expense and the amount included in the current delivery rate structure. As a result, variations in expenses for post-employment benefit plans at Central Hudson do not have any impact on earnings.

Pension Benefits

Central Hudson has a non-contributory Retirement Plan covering substantially all of its employees hired before January 1, 2008 and a non-qualified SERP for certain executives. The Retirement Plan is a defined benefit plan, which provides pension benefits based on an employee's compensation and years of service. In 2007, Central Hudson amended the Retirement Plan to eliminate these benefits for managerial, professional, and supervisory employees hired on or after January 1, 2008. The Retirement Plan for unionized employees was similarly amended for all employees hired on or after May 1, 2008. As of December 31, 2020, 60% of all active employees were not eligible to participate in the Retirement Plan. The Retirement Plan's assets are held in a trust fund. Central Hudson has provided periodic updates to the benefit formulas stated in the Retirement Plan.

Central Hudson's accrued liability (i.e. the under-funded status) for Pension benefits was $26.8 million and $12.3 million at December 31, 2020 and 2019, respectively. The increase in Central Hudson's unfunded liability of approximately $14.5 million resulted from an increase in plan liabilities of approximately $108.2 million partially offset by a $93.7 million increase in plan assets. The increase in plan liabilities was primarily driven by a decrease in the discount rate and assumption changes resulting from an updated experience study in 2020, partially offset by an update to the mortality projection scale. The increase in plan assets was primarily driven by investment gains.

Accrued pension costs include the difference between the PBO for the Retirement Plan and the market value of the pension assets and any liability for the non-qualified SERP. The under-funded status does not reflect approximately $32.9 million and $26.5 million of SERP trust assets at December 31, 2020 and 2019.

The cumulative amount of net periodic benefit cost in excess of employer contributions at December 31, 2020 and December 31, 2019 was $25.8 million and $22.8 million, respectively. This does not include any cumulative contributions to the SERP as it is a non-qualified plan.

The difference between these amounts and the accrued liability balance, totaling ($1.1) million at December 31, 2020 and $10.5 million at December 31, 2019, represents the required funded status adjustment and will be recognized in Central Hudson’s future expense. Gains or losses and prior service costs or credits that arise during the period, but that are not recognized as components of net periodic pension cost, would typically be recognized as a component of other comprehensive income (“OCI”), net of tax. However, Central Hudson has PSC approval to record regulatory assets or liabilities rather than adjusting comprehensive income to offset the funding status adjustment for amounts recoverable from customers in future rates. Therefore, these funded status adjustments have been recorded as a regulatory asset for the portion recoverable from Central Hudson customers in accordance with the 1993 PSC Policy and as OCI for the portion, net of tax, that relates to a former Central Hudson employee who transferred to an affiliated company, but continues to accrue benefits in Central Hudson’s Retirement Plan and SERP. These amounts reported as OCI are charged to and reimbursed by the affiliated company.

The balance of Central Hudson's accrued pension costs (i.e. the under-funded status) is as follows (In Thousands):

	December 31, 2020(1)(2)	December 31, 2019(1)(2)
Accrued pension costs	$ (26,813)	$ (12,304)

(1) Includes approximately $0.2 million at December 31, 2020 and 2019 of accrued pension liability recorded at CH Energy Group as a result of the resignation in 2014 of a CH Energy Group officer with a change in control agreement.

(2) Includes approximately $1.5 million at December 31, 2020 and $1.1 million at December 31, 2019 that is reflected in the Balance Sheet under other current liabilities for pension payments expected to be made over the next twelve months.

The following reflects the impact of the recording of funding status adjustments on the Balance Sheets of CH Energy Group and Central Hudson (In Thousands):

	December 31, 2020(1)(2)	December 31, 2019(1)(2)
Accrued pension costs prior to funding status adjustment	$ (25,751)	$ (22,836)
Funding status adjustment required	(1,062)	10,532
Accrued pension costs	$ (26,813)	$ (12,304)
Offset to funding status adjustment - regulatory (liability) assets - pension plan	$ 851	$ (11,061)
Offset to funded status adjustment - accumulated OCI, net of tax of $55 and $138, respectively	$ 156	$ 391

(1) Includes approximately $0.2 million at December 31, 2020 and 2019 of accrued pension liability recorded at CH Energy Group as a result of the resignation in 2014 of a CH Energy Group officer with a change in control agreement.

(2) Includes approximately $1.5 million at December 31, 2020 and $1.1 million at December 31, 2019 that is reflected in the Balance Sheet under other current liabilities for pension payments expected to be made over the next twelve months.

Decisions to fund Central Hudson's Retirement Plan are based on several factors, including, but not limited to, the funded status, corporate resources, projected investment returns, actual investment returns, inflation, the value of plan assets relative to plan liabilities, regulatory considerations, interest rate assumptions and the Pension Protection Act of 2006 ("PPA"). Based on the funding requirements of the PPA, Central Hudson plans to make contributions that maintain the target funded percentage at 80% or higher. Actual contributions could vary significantly based upon a range of factors that Central Hudson considers in its funding decisions.

In accordance with the terms of the Trust agreement for the SERP, following the acquisition of CH Energy Group, Inc. by Fortis on June 27, 2013, Central Hudson is required to maintain a funding level for the SERP at 110% of the present value of the accrued benefits payable under the Plan on an annual basis.

Contributions to the Central Hudson Retirement and SERP Plans were as follows (In Thousands):

	Year Ended December 31, 2020	2019	2018
Retirement Plan	$ -	$ -	$ 11,144
SERP	$ 6,998	$ -	$ 3,256

Retirement Plan Discount Rate

The valuation of the current and prior year PBO was determined using discount rates of 2.34% and 3.20% for December 31, 2020 and 2019, respectively, as determined from the Mercer Pension Discount Yield Curve reflecting projected pension cash flows. A 1.0% increase in the discount rate would decrease the projection of the pension PBO by approximately $109.3 million. Central Hudson accounts for pension activity in accordance with PSC-prescribed provisions, which among other things, requires a ten-year amortization of actuarial gains and losses.

The 2018 Rate Order includes rate allowances for pension and OPEB expense which approximate the recent cost of providing these benefits. Authorization remains in effect for the deferral of any differences between rate allowances and actual costs under the 1993 PSC Policy to counteract the volatility of these costs. The 2018 Rate Order again authorized Central Hudson to offset a significant portion of deferred balances for pension and OPEB expense for the electric department with available deferred credit balances due to customers.

Retirement Plan Expected Long-Term Rates of Return

The expected long-term rate of return on the Retirement Plan assets utilized in the calculation of the net periodic benefit cost, net of investment expense for December 31, 2020 and 2019 is 5.09% and 5.33%, respectively. In determining the expected long-term rate of return on plan assets, Central Hudson considered forward-looking estimated returns evaluated in light of current economic conditions and based on internally consistent economic models. The expected long-term rate of return is a weighted average based on each plan's investment mix and the forward-looking estimated returns for each investment class. Central Hudson monitors actual performance against target asset allocations and adjusts actual allocations and targets in accordance with the Retirement Plan strategy. A 1.0% decrease in the expected long-term rate of return would have increased the 2020 net periodic benefit cost by approximately $7.2 million.

Retirement Plan Policy and Strategy

Central Hudson's Retirement Plan investment policy seeks to reduce the plan's funded status volatility while targeting a rate of growth equivalent to that of the liability within reasonable risk tolerance levels. In addition to traditional risk and return measures, the policy reflects liability-based considerations, including the Retirement Plan's funded status, contribution requirements and financial statement items. Due to market fluctuations, Retirement Plan assets require rebalancing from time to time to maintain the asset allocation within target ranges.

Asset allocation targets in effect as of December 31, 2020, as well as actual asset allocations as of December 31, 2020, and December 31, 2019 expressed as a percentage of the market value of Retirement Plan assets, are summarized in the table below:

Asset Class	Minimum	Target Average	Maximum	December 31, 2020	December 31, 2019
Equity Securities	45%	50%	55%	52.4%	51.9%
Debt Securities	45%	50%	55%	45.9%	47.1%
Other[(1)]	0%	0%	10%	1.7%	1.0%

(1) Consists of temporary cash investments, as well as receivables for investments sold and interest and payables for investments purchased, which have not settled as of that date.

Retirement Plan Investment Valuation

The Retirement Plan assets consist primarily of investment funds which are valued using Net Asset Value, which is not considered fair value. For those assets that are valued under the current fair value framework, the inputs or methodology used are not necessarily an indication of the risk associated with investing in those securities. See Note 16 – "Accounting for Derivative Instruments and Hedging Activities" for further discussion regarding the definition and levels of fair value hierarchy established by accounting guidance.

Below is a listing of the major categories of plan assets held as of December 31, 2020 and 2019, that are reported at net asset value or fair value, as indicated (Dollars in Thousands):

Investment Type	Value at 12/31/20	% of Total	Value at 12/31/19	% of Total
At Net Asset Value:				
Investment Funds - Equities	$ 433,637	52.4%	$ 380,919	51.9%
Investment Funds - Fixed Income	128,325	15.5	119,524	16.3
At Fair Value:				
Level 2:				
Cash Equivalents	12,599	1.5	6,094	0.8
Investment Funds - Fixed Income	251,767	30.4	225,965	30.8
Other Investments	1,842	0.2	1,968	0.2
	$ 828,170	100.0%	$ 734,470	100.0%

Other Post-Retirement Benefits

Central Hudson also provides certain health care and life insurance benefits for certain retired employees through its post-retirement benefit plans. Substantially all of Central Hudson's unionized employees and managerial, professional and supervisory employees ("non-union") hired prior to January 1, 2008, may become eligible for these benefits if they reach retirement age while employed by Central Hudson. Central Hudson amended its OPEB programs for existing non-union and certain retired employees effective January 1, 2008, which eliminated post-retirement benefits for non-union employees hired on or after January 1, 2008. OPEB plans were also amended to eliminate post-retirement benefits for union employees hired on or after May 1, 2008. Benefits for retirees and active employees are provided through insurance companies whose premiums are based on the benefits paid during the year.

The significant assumptions used to account for these benefits are the discount rate, the expected long-term rate of return on plan assets and the health care cost trend rate. Central Hudson currently selects the discount rate using the Mercer Pension Discount Yield Curve reflecting projected cash flows. The expected long-term rates of return and the investment policy and strategy for these plan assets are similar to those used for pension benefits previously discussed in this Note. The estimates of health care cost trend rates are based on a review of actual recent trends and projected future trends.

Central Hudson fully recovers its net periodic post-retirement benefit costs in accordance with the 1993 PSC Policy. Under these guidelines, the difference between the amounts of post-retirement benefits recoverable in rates and the amounts of post-retirement benefits determined by an actuarial consultant in accordance with current accounting guidance related to OPEB is deferred as either a regulatory asset or a regulatory liability, as appropriate.

Central Hudson's asset (i.e. the over-funded status) for OPEB was $6.5 million and $12.5 million at December 31, 2020 and 2019, respectively. The decrease in the over-funded status of approximately $6.0 million resulted from an increase in plan liabilities of approximately $22.2 million partially offset by a $16.2 million increase in plan assets. The increase in plan liabilities was primarily driven by a decrease in the discount rate and unfavorable claims experience in 2020. The increase in plan assets was primarily driven by investment gains.

The cumulative amount of net periodic benefit cost in excess of employer contributions at December 31, 2020 and December 31, 2019 was $7.2 million and $15.0 million, respectively. The difference between these amounts and the over-funded asset balance, totaling $13.7 million at December 31, 2020 and $27.5 million at December 31, 2019 will be recognized as a credit in Central Hudson's future expense and has been recorded as a regulatory liability in accordance with the 1993 PSC Policy.

Contribution levels to the OPEB Plans are determined by various factors including the discount rate, expected return on plan assets, medical claims assumptions used, mortality assumptions used, benefit changes, corporate resources and regulatory considerations.

Contributions to the Central Hudson OPEB Plans were as follows (In Thousands):

	Year Ended December 31,		
	2020	2019	2018
OPEB Plans	$ 1,081	$ 1,001	$ 1,302

OPEB Healthcare Cost Trend Rate

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A 1.0% change in assumed health care cost trend rates would have the following effects (In Thousands):

	One Percentage Point	
	Increase	Decrease
Effect on total of service and interest cost components for 2020	$ 805	$ (640)
Effect on year-end 2020 post-retirement benefit obligation	$ 17,600	$ (14,215)

OPEB Discount Rate

The PBO for Central Hudson's obligation for OPEB costs was determined using a discount rate of 2.32% and 3.18% for December 31, 2020 and 2019, respectively. This rate was determined using the Mercer Pension Discount Yield Curve reflecting projected cash flows. A 1.0% increase in the discount rate for 2020 would have decreased the projection of the OPEB obligation by approximately $20.1 million.

OPEB Expected Long-Term Rates of Return

The expected long-term rate of return on OPEB assets utilized in the calculation of the net periodic benefit cost, net of investment expense for December 21, 2020 and 2019 is 5.55% and 5.62%, respectively. In determining the expected long-term rate of return on plan assets, Central Hudson considered forward-looking estimated returns for each asset class evaluated in light of current economic conditions. The expected long-term rate of return is a weighted average based on each plan's investment mix and the forward-looking estimated returns for each investment class. A 1.0% decrease in the expected long-term rate of return would have increased the 2020 net periodic benefit cost by $1.5 million. Central Hudson monitors actual performance against target asset allocations and adjusts actual allocations and targets as deemed appropriate in accordance with the OPEB plan's strategy.

OPEB Policy and Strategy

Central Hudson currently funds its union OPEB obligations through a voluntary employee's beneficiary association ("VEBA"), and funds its management OPEB liabilities through a 401(h) plan. The VEBA and 401(h) plan are both a form of trust fund. Central Hudson's VEBA investment policy seeks to achieve a rate of return for the VEBA over the long term that contributes to meeting the VEBA's current and future obligations, including interest and benefit payment obligations. The policy also seeks to earn long-term returns from capital appreciation and current income that at least keep pace with inflation over the long term. Central Hudson's 401(h) plan is invested with the previously mentioned Retirement Plan's investments. However, there are no assurances that the OPEB plan's return objectives will be achieved.

The asset allocation strategy employed in the VEBA reflects Central Hudson's return objectives and what management believes is an acceptable level of short-term volatility in the market value of the VEBA's assets in exchange for potentially higher long-term returns. The mix of assets shall be broadly diversified by asset class and investment styles within asset classes, based on the following asset allocation targets, expressed as a percentage of the market value of the VEBA's assets, summarized in the table below:

Asset Class	Minimum	Target Average	Maximum	December 31, 2020	December 31, 2019
Equity Securities	55%	65%	75%	67.9%	66.5%
Debt Securities	25%	35%	45%	31.7%	32.6%
Other	- %	- %	- %	0.4%	0.9%

Due to market value fluctuations, the OPEB plan's assets require periodic rebalancing from time to time to maintain the asset allocation within target ranges.

Management uses outside consultants and outside investment managers to aid in the determination of the OPEB plan's asset allocation and to provide the management of actual plan assets, respectively.

OPEB Investment Valuation

The OPEB plan's assets consist primarily of investment funds which are valued using Net Asset Value, which is not considered fair value. For those assets that are valued under the current fair value framework, the inputs or methodology used are not necessarily an indication of the risk associated with investing in those securities. See Note 16 – "Accounting for Derivative and Hedging Activities" for further discussion regarding the definition and levels of fair value hierarchy established by guidance.

Below is a listing of the major categories of plan assets held as of December 31, 2020 and 2019, that are reported at net asset value or fair value, as indicated (Dollars in Thousands):

401(h) Plan Assets

Investment Type	Market Value at 12/31/20	% of Total	Market Value at 12/31/19	% of Total
At Net Asset Value:				
Investment Funds - Equities	$ 17,080	52.4%	$ 14,667	51.9%
Investment Funds - Fixed Income	5,055	15.5	4,602	16.3
At Fair Value:				
Level 2:				
Cash Equivalents	502	1.5	235	0.8
Investment Funds - Fixed Income	9,917	30.4	8,700	30.8
Other Investments	67	0.2	76	0.2
	$ 32,621	100.0%	$ 28,280	100.0%

Union VEBA Plan Assets

Investment Type	Market Value at 12/31/20	% of Total	Market Value at 12/31/19	% of Total
At Fair Value:				
Level 1:				
Cash Equivalents	$ 549	0.4 %	$ 1,047	0.9 %
Investment Funds - Equities	88,914	67.9	79,311	66.5
Investment Funds - Fixed Income	41,554	31.7	38,820	32.6
	$ 131,017	100.0 %	$ 119,178	100.0 %

Detail of the change in Central Hudson's Pension and OPEBs' benefit obligations, fair value of plan assets and funded status as of and for the period ended December 31, 2020 and 2019 is as follows (In Thousands):

	Pension Benefits[1]		Other Post Retirement Benefits	
	2020	2019	2020	2019
Change in Benefit Obligation:				
Benefit Obligation at beginning of year	$ 746,774	$ 653,385	$ 134,943	$ 123,867
Service cost	13,453	11,244	1,671	1,528
Interest cost	23,688	27,123	4,193	5,059
Participant contributions	-	-	1,234	1,121
Benefits paid	(33,818)	(33,020)	(7,676)	(7,153)
Actuarial loss	104,886	88,042	22,776	10,521
Benefit Obligation at end of year	$ 854,983	$ 746,774	$ 157,141	$ 134,943
Change in Value of Plan Assets:				
Fair Value of Plan Assets at beginning of year	$ 734,470	$ 619,570	$ 147,458	$ 124,725
Actual return on plan assets	128,554	148,899	21,401	27,940
Employer contributions	1,131	1,051	1,081	1,001
Participant contributions	-	-	1,234	1,121
Benefits paid	(33,818)	(33,020)	(7,676)	(7,153)
Other	(2,167)	(2,030)	140	(176)
Fair Value of Plan Assets at end of year	$ 828,170	$ 734,470	$ 163,638	$ 147,458
Funded Status at end of year	$ (26,813)	$ (12,304)	$ 6,497	$ 12,515

(1) The plan assets as presented in this chart do not include approximately $32.9 million and $26.5 million of SERP trust assets at December 31, 2020 and 2019.

The following table summarizes the employee future benefit assets and liabilities and their classifications on the Consolidated Balance Sheets and Statements of Comprehensive Income at December 31 (In Thousands):

	Pension Benefits[1]		Other Post Retirement Benefits	
	2020	2019	2020	2019
Amounts Recognized on Balance Sheet:				
Noncurrent assets	$ -	$ -	$ 6,497	$ 12,515
Current liabilities	(1,473)	(1,076)	-	-
Noncurrent liabilities	(25,340)	(11,228)	-	-
Funded Status at end of year	$ (26,813)	$ (12,304)	$ 6,497	$ 12,515
Regulatory asset:				
Net actuarial gain	$ (1,109)	$ (13,565)	$ (11,435)	$ (24,710)
Prior service costs (credit)	$ 2,171	$ 2,504	$ (2,303)	$ (2,763)
Other comprehensive income:				
Net actuarial loss, net of tax	$ 39	$ 158	$ 1	$ -
Prior service costs, net of tax	$ 117	$ 233	$ 4	$ 8

(1) The funded status in this chart does not reflect approximately $32.9 million and $26.5 million of SERP trust assets at December 31, 2020 and 2019.

Central Hudson's net periodic benefit costs for its Pension and OPEB plans for the periods ended December 31, 2020 and 2019 are as follows (In Thousands):

	Pension Benefits		Other Post Retirement Benefits	
	2020	2019	2020	2019
Components of Net Periodic Benefit Cost:				
Service cost	$ 13,453	$ 11,244	$ 1,671	$ 1,528
Interest cost	23,688	27,123	4,193	5,059
Expected return on plan assets	(35,346)	(31,101)	(7,941)	(6,778)
Amortization of prior service cost (credit)	647	664	(456)	(2,691)
Amortization of recognized actuarial net (gain)/loss	1,605	4,391	(3,916)	(3,138)
Net Periodic (Benefit) Cost	$ 4,047	$ 12,321	$ (6,449)	$ (6,020)

The following table provides the components recognized in net periodic benefit cost and as regulatory assets which otherwise would have been recognized in comprehensive income, as well as, the weighted average assumptions used in the periods (Dollars In Thousands):

	Pension Benefits[1]		Other Post Retirement Benefits	
	2020	2019	2020	2019
Other Changes in Plan Assets and Benefit Obligation Recognized in Regulatory Assets/Liabilities:				
Net (gain)/loss	$ 13,846	$ (27,726)	$ 9,359	$ (10,174)
Amortization of actuarial net (loss) gain	(1,605)	(4,391)	3,916	3,138
Amortization of prior service (cost) credit	(647)	(664)	456	2,691
Total recognized in regulatory asset	$ 11,594	$ (32,781)	$ 13,731	$ (4,345)
Total recognized in net periodic benefit cost and regulatory asset	$ 15,641	$ (20,460)	$ 7,282	$ (10,365)

Weighted-average assumptions used to determine benefit obligations:				
Discount rate	2.34%	3.20%	2.32%	3.18%
Rate of compensation increase (average)	3.90%	4.00%	3.90%	4.00%
Measurement date	12/31/20	12/31/19	12/31/20	12/31/19
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:				
Discount rate	3.20%	4.20%	3.18%	4.19%
Expected long-term rate of return on plan assets	5.09%	5.33%	5.55%	5.62%
Rate of compensation increase (average)	4.00%	4.00%	4.00%	4.00%
Assumed health care cost trend rates at December 31:				
Health care cost trend rate assumed for next year	N/A	N/A	5.52%	5.84%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	N/A	N/A	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	N/A	N/A	2038	2038
Pension plans with accumulated benefit obligations in excess of plan assets:				
Projected Benefit Obligation	$ 854,983	$ 746,774	N/A	N/A
Accumulated Benefit Obligation	$ 795,099	$ 692,347	N/A	N/A
Fair Value of Plan Assets	$ 828,170	$ 734,470	N/A	N/A

(1) The fair value of plan assets presented in this chart does not include approximately $32.9 million and $26.5 million of SERP trust assets at December 31, 2020 and 2019.

Estimated net loss of $2.5 million and prior service cost of $0.5 million for the defined benefit pension plans will be amortized from regulatory asset and OCI into net periodic benefit cost over the next fiscal year. Estimated net gain of $2.6 million and prior service credit of $0.5 million for the other defined benefit post-retirement plans will be amortized from regulatory liability and OCI into net periodic benefit cost over the next fiscal year. The amount of transitional obligation to be amortized from regulatory liabilities and OCI is immaterial.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service as appropriate, are expected to be paid (In Thousands):

Year	Pension Benefits - Gross	Other Benefits - Gross	Other Benefits - Net[1]
2021	$ 37,621	$ 7,307	$ 6,717
2022	38,778	7,668	7,065
2023	39,170	7,967	7,351
2024	39,807	8,197	7,564
2025	40,492	8,305	7,649
Next five years	210,074	43,470	39,823

(1) Estimated benefit payments reduced by estimated gross amount of Medicare Act of 2003 subsidy receipts expected.

401(k) Retirement Plan

Central Hudson sponsors a 401(k) plan for its employees. The 401(k) plan provides for employee tax-deferred salary deductions for participating employees and employer matches. The matching benefit varies by employee group. Central Hudson’s matching contributions for the years ended December 31, 2020, 2019 and 2018 were $5.6 million, $5.2 million, and $4.9 million, respectively. Central Hudson also provided an additional contribution of 4% for 2020, 2019 and 2018 to the 401(k) plan of annualized base salary for eligible employees who do not qualify for Central Hudson’s Retirement Income Plan.

NOTE 13 – Equity-Based Compensation

Share Unit Plan Units

In January 2020, officers of CH Energy Group and Central Hudson were granted 19,912 Units under the 2020 Fortis Restricted Share Unit Plan ("2020 RSUP"), representing a portion of the officers' long-term incentives. The issued 2020 Restricted Units granted are time-based and vest at the end of the three-year period without regard to performance. Each 2020 RSUP Unit granted has an underlying value equivalent to the value of one common share of Fortis and if earned and vested is paid in cash, unless a participant does not satisfy their share ownership requirements or chooses to settle in shares. The settlement in shares by a participant will result in the modification from a liability award to an equity award and an election to settle in shares cannot be made later than 30 days prior to the awards vesting. The foreign exchange rate utilized for cash payout in the US dollar equivalent for each plan corresponds to the exchange rate on the business day prior to the date of the 2020 RSUP Unit grant. Each 2020 RSUP Unit accrues notional dividend equivalents equal to the dividends declared by the Fortis Board of Directors on Fortis common shares.

In January 2020, officers of Central Hudson were granted 25,311 Units under the Central Hudson 2020 Share Unit Plan ("2020 SUP"), representing a portion of the officers' long-term incentives. The issued 2020 SUP Units granted are performance based and vest at the end of the three-year performance period upon achievement of specified cumulative performance goals. Each 2020 SUP Unit granted has an underlying value equivalent to the value of one common share of Fortis and if earned and vested is paid in cash. The foreign exchange rate utilized for cash payout in the US dollar equivalent for each plan corresponds to the exchange rate on the business day prior to the date of the 2020 SUP Unit grant. Each 2020 SUP Unit accrues notional dividend equivalents equal to the dividends declared by the Fortis Board of Directors on Fortis common shares.

In January 2020, CH Energy Group granted 21,770 Units to an officer of CH Energy Group under a 2020 Share Unit Plan ("2020 PSUP"). The issued 2020 PSUP Units granted are performance based and vest upon achievement of specified performance goals over the applicable three-year performance period. Each 2020 PSUP Unit has an underlying value equivalent to the value of one common share of Fortis and if earned and vested is paid in cash. The foreign exchange rate utilized for cash payout in the US dollar equivalent corresponds to the exchange rate on the business day prior to the date of the 2020 PSUP Unit grant. Each 2020 PSUP Unit accrues notional dividend equivalents equal to the dividends declared by the Fortis Board of Directors on Fortis common shares.

In prior periods, CH Energy Group granted Units to an officer of CH Energy Group under Performance Share Unit Plans, the ("2019 PSUP") in 2019, the ("2018 PSUP") in 2018, and in 2017 the ("2017 PSUP"), (collectively "PSUP"). The PSUP Units granted under these plans are primarily performance based and vest upon achievement of specified performance goals over the applicable three-year performance period. The 2019 PSUP also included the grant of time-based awards that vest at the end of the three-year period without regard to performance. Each PSUP Unit has an underlying value equivalent to the value of one common share of Fortis and if earned and vested is paid in cash. The foreign exchange rate utilized for cash payout in the US dollar equivalent corresponds to the exchange rate on the business day prior to the date of the PSUP Unit grant. Each PSUP Unit accrues notional dividend equivalents equal to the dividends declared by the Fortis Board of Directors on Fortis common shares.

Officers of Central Hudson were granted Units under the Central Hudson 2019 ("2019 SUP"), the 2018 ("2018 SUP"), and the 2017 ("2017 SUP") Share Unit Plans, collectively the ("SUP plans"); representing the officers' long-term incentives. Two-thirds of the SUP Units granted under the SUP plans are performance based and vest at the end of the respective three-year performance period upon achievement of specified cumulative performance goals. The remaining SUP Units that were granted under the SUP plans are time-based and vest at the end of the respective three-year period without regard to performance. For all grants issued, each SUP Unit is equivalent to the value of one common share of Fortis and if earned and vested is paid in cash. The foreign exchange rate utilized for cash payout in the US dollar equivalent for each plan corresponds to the exchange rate on the business day prior to the date of that SUP Unit grant. Each SUP Unit accrues notional dividend equivalents equal to the dividends declared by the Fortis Board of Directors on Fortis common shares.

Awards granted under the 2017 PSUP and 2017 SUP Plans vested and were paid out during the first quarter of 2020.

CH Energy Group:			Grant Date	Time Based		Performance Based	
	Grant Date		Fair Value	Granted	Outstanding(6)	Granted	Outstanding(6)
2020 RSUP(5)	January 1, 2020	$	41.55	7,257	7,523	-	-
2020 PSUP(5)	January 1, 2020	$	41.55	-	-	21,770	22,569
2019 PSUP	January 1, 2019	$	33.10	8,838	9,495	26,514	28,483
2018 PSUP	January 1, 2018	$	36.59	-	-	29,514	32,998
2017 PSUP(1)	January 1, 2017	$	30.85	-	-	30,085	-

Central Hudson:			Grant Date	Time Based		Performance Based	
	Grant Date		Fair Value	Granted	Outstanding(2)(6)	Granted	Outstanding(2)(6)
2020 RSUP(5)	January 1, 2020	$	41.55	12,655	13,120	-	-
2020 SUP(5)	January 1, 2020	$	41.55	-	-	25,311	26,240
2019 SUP(4)	January 1, 2019	$	33.10	15,691	13,404	31,383	31,533
2018 SUP(3)	January 1, 2018	$	36.59	16,337	14,683	32,675	33,511
2017 SUP(1)	January 1, 2017	$	30.85	18,359	-	36,717	-

(1) In the first quarter of 2020, 58,145 units under the 2017 SUP and 33,633 units under the 2017 PSUP vested and were paid out at $40.15 per unit for a total of approximately $5.1 million.
(2) In the second quarter of 2019, 3,337 2017 SUP units, 2,814 2018 SUP units, and 3,075 2019 SUP units were forfeited following the resignation of an Officer.
(3) In the third quarter of 2020, per the 2018 SUP agreement, time based units were paid out related to Officer retirements at 859 shares at $42.93 per unit and 1,140 shares at $44.91 per unit.
(4) In the third quarter of 2020, per the 2019 SUP agreement, time based units were paid out related to Officer retirements at 942 shares at $39.57 per unit and 1,336 shares at $41.39 per unit.
(5) Grant date fair value share price was corrected from the previously disclosed Canadian dollar share price of CAD$53.97 to the US dollar share price. There was no financial statement impact resulting from the change to the disclosure.
(6) Includes notional dividends accrued as of December 31, 2020.

Compensation Expense

The following table summarizes compensation expense for share unit plan units as follows (In Thousands):

	Year Ended December 31,					
	2020		2019		2018	
CH Energy Group (1)	$	2,434	$	3,023	$	1,299
Central Hudson (1)	$	2,435	$	3,012	$	1,299

(1) Included in compensation expense for 2018 is a reduction to expense resulting from a transfer of a former Central Hudson officer who is retirement eligible to an affiliated company.

The liabilities associated with the 2020 RSUP, and the annual SUP and PSUP plans are recorded at fair value at each reporting date until settlement, recognizing compensation expense over the vesting period on a straight-line basis. The fair value of the respective liabilities is based on the Fortis common share 5 day volume weighted average trading price at the end of each reporting period and the expected payout based on management's best estimate in accordance with the defined metrics of each grant.

Under the 2020 RSUP, and the annual SUP and PSUP agreements ("the Plans"), the amount of any outstanding awards payable to an employee who retires during the term of the grant and who has 15 years of service and provides at least six months prior notice of retirement under the terms of the Plans, is determined as if the employee continued to be an employee through the end of the performance period. In accordance with ASU 2014-12, in this situation, compensation expense for that individual is recognized over the requisite service period, instead of the performance period. In all periods presented, additional expense was recognized in accordance with ASU 2014-12 for Central Hudson officers who are retirement eligible under terms of the Plans in which they have attained the required retirement age and met the required 15 years of service. Fluctuations in compensation expense in the comparative periods can result from changes in the Fortis Inc. common stock share price and the projected performance payout percentages.

Employee Share Purchase Plan

Effective May 17, 2017, the Company adopted the Fortis Amended and Restated 2012 Employee Share Purchase Plan ("ESPP"). Fortis authorized 600,000 of its common shares to be offered under the ESPP. The ESPP allows eligible employees of Fortis and adopting subsidiaries to contribute during any investment period an amount not less than 1% and not more than 10% of their eligible compensation to purchase Fortis' common shares. Under the ESPP, employees are entitled to fund contributions through interest free loans from the Company. At December 31, 2020 and 2019, employee loans due to the Company related to the ESPP were approximately $0.3 million and $0.2 million, respectively.

The ESPP provides that the Company will contribute as additional salary an amount equal to 10% of an employee's contribution to a maximum contribution of 1% of eligible compensation. The Company will also contribute an amount equal to 10% of all dividends payable by Fortis on all common stock allocated to an employee's ESPP account. Common shares are purchased under the ESPP concurrent with the quarterly dividend payment dates of March 1, June 1, September 1 and December 1.

NOTE 14 – Commitments and Contingencies

Electricity Purchase Commitments

Central Hudson meets its capacity and electricity obligations through contracts with capacity and energy providers, purchases from the NYISO energy and capacity markets and its own generating capacity.

Energy Credit Purchase Obligations

In August 2016, the PSC issued Order 15-E-0302 adopting a Clean Energy Standard that includes Renewable Energy Credits ("RECs") and Zero-Emissions Credit ("ZECs") requirements. Beginning in 2017, LSEs, which include Central Hudson, are required to obtain RECs and ZECs in amounts determined by the PSC. LSEs may satisfy their REC obligation by either purchasing RECs acquired through central procurement by NYSERDA, by self-supply through direct purchase of tradable RECs, through value stack payments, or by making alternative compliance payments. Through March 31, 2021 LSEs will purchase ZECs from NYSERDA at tranche prices approved by the PSC based on qualifying in-state nuclear plant output and Central Hudson's full-service customer New York Control Area load-ratio share. Starting April 1, 2020, Central Hudson's obligation is comprised of an administratively determined ZEC price, Central Hudson's monthly load volume, as defined by NYISO billing data and a load modifier adjustment factor. The actual obligation will be determined and is contingent upon actual load served. At December 31, 2020, based on Central Hudson's estimated annual load to be served through March 31, 2021, the total obligation to procure ZECs is estimated to be approximately $2.4 million. Currently, the requirement to procure ZECs will continue based upon Central Hudson's future load served to its customers through 2029. The current obligation to procure RECs is defined as a percentage of load served in the state through December 31, 2023 and is estimated for Central Hudson to be approximately $9.5 million. NYSERDA will be introducing indexed RECs beginning January 1, 2021. REC pricing will change each quarter (weighted average of vintage fixed and new indexed RECs) and the Alternative Compliance Payment will be set in advance of the compliance year. These future costs are recoverable from customers through electric cost adjustment mechanisms.

Natural Gas Commitments

Central Hudson meets its natural gas capacity and supply obligations through firm natural gas supply contracts with energy providers for the purchase of natural gas including peak demand supply. Gas supply contracts are generally short term in nature. Central Hudson also enters into contracts associated with natural gas interstate pipeline capacity, and supply contracts for storage of natural gas.

Commitments

The following is a summary of commitments for CH Energy Group and its affiliates as of December 31, 2020 (In Thousands):

		Projected Payments Due By Period						
		Year Ending 2021	Year Ending 2022	Year Ending 2023	Year Ending 2024	Year Ending 2025	Thereafter	Total
Recorded Contractual Obligations:								
Operating Leases		$ 457	$ 460	$ 465	$ 423	$ 385	$ 2,097	$ 4,287
Repayments of Long-Term Debt		45,987	25,364	2,100	32,245	22,401	719,400	847,497
Stock-based compensation obligations		3,416	3,243	1,880	-	-	-	8,539
Unrecorded Contractual Obligations:								
Purchased Electric Contracts	(1)	23,250	8,272	1,150	150	150	452	33,424
Energy Credit Purchase Agreements		3,625	3,356	4,906	-	-	-	11,887
Purchased Natural Gas Contracts	(1)	28,135	17,074	16,333	12,711	5,591	16,168	96,012
Interest Obligations on Long-Term Debt		32,447	31,009	30,478	30,054	29,507	483,331	636,826
Total		$ 137,317	$ 88,778	$ 57,312	$ 75,583	$ 58,034	$ 1,221,448	$ 1,638,472

(1) Purchased electric and purchased natural gas costs for Central Hudson are fully recovered via their respective regulatory cost adjustment mechanisms.

The following is a summary of commitments for Central Hudson as of December 31, 2020 (In Thousands):

		Projected Payments Due By Period						
		Year Ending 2021	Year Ending 2022	Year Ending 2023	Year Ending 2024	Year Ending 2025	Thereafter	Total
Recorded Contractual Obligations:								
Operating Leases		$ 457	$ 460	$ 465	$ 423	$ 385	$ 2,097	$ 4,287
Repayments of Long-Term Debt		44,150	23,400	-	30,000	20,000	719,400	836,950
Stock-based compensation obligations		1,888	2,143	1,450	-	-	-	5,481
Unrecorded Contractual Obligations:								
Purchased Electric Contracts	(1)	23,250	8,272	1,150	150	150	452	33,424
Energy Credit Purchase Agreements		3,625	3,356	4,906	-	-	-	11,887
Purchased Natural Gas Contracts	(1)	28,135	17,074	16,333	12,711	5,591	16,168	96,012
Interest Obligations on Long-Term Debt		31,761	30,450	30,054	29,775	29,385	483,331	634,756
Total		$ 133,266	$ 85,155	$ 54,358	$ 73,059	$ 55,511	$ 1,221,448	$ 1,622,797

(1) Purchased electric and purchased natural gas costs for Central Hudson are fully recovered via their respective regulatory cost adjustment mechanisms.

Other Commitments

Capital Expenditures

Central Hudson is a regulated utility and, as such, is obligated to provide service to customers within its service territory. Central Hudson's capital expenditures are largely driven by the need to ensure the continued and enhanced reliability and safety of the electric and natural gas systems for the long-term benefit of customers.

Pension Benefit and OPEB Funding Contributions

Central Hudson is subject to certain contractual benefit payment obligations. Decisions about how to fund the Retirement and OPEB Plans to meet these obligations are made annually and are primarily affected by the discount rate used to determine benefit obligations, current asset values, corporate resources and the projection of Retirement and OPEB Plan assets. Based on the funding requirements of the Pension Protection Act of 2006, Central Hudson plans to make contributions that maintain the target funded percentage for the Retirement Plan at 80% or higher. Actual contributions could vary significantly based upon economic growth, projected investment returns, inflation and interest rate assumptions. Actual funded status could vary significantly based on asset returns and changes in the discount rate used to estimate the present value of future obligations. In January 2021, Central Hudson made a contribution of $0.8 million to the 401(h) Plan to fund the management OPEB liabilities, in accordance with Central Hudson's OPEB policy and strategy. No funding contributions are expected to be made to the Retirement and VEBA Plans for the 2020 Plan years. See Note 19 – "Subsequent Events" for details of the January payment.

Supplemental Executive Retirement Plan

As a result of the acquisition of CH Energy Group, Inc. by Fortis on June 27, 2013, in accordance with the terms of the Trust agreement for the SERP, Central Hudson is required to maintain a funding level at 110% of the present value of the accrued benefits payable under the Plan on an annual basis. Annual contributions to the SERP could vary based on investment returns, discount rates, and participant demographics. Central Hudson is expected to make a contribution to the SERP for 2020 of $8.1 million in March 2021, resulting in a funding status that achieves the requirements of the Trust agreement.

Parental Guarantee

CHET was established to be an investor in Transco, which was created to develop, own and operate electric transmission projects in New York State. In December 2014, Transco filed an application with the FERC for the recovery through a formula rate, of the cost of and a return on five high voltage transmission projects totaling $1.7 billion. CH Energy Group guaranteed to Transco the payment of CHET's maximum commitment of $182 million for these five projects, which is the maximum budgeted amount for these projects at 100% equity. On July 16, 2020, CH Energy Group's parental guarantee to Transco was adjusted from $182 million to $73.7 million. The Transco Board of Directors approved the reduction based on CHET's maximum commitment associated with the AC Project, the only project remaining under Transco's original FERC application and the initial guarantee. As of December 31, 2020, CHET's investment in Transco was approximately $9.2 million and CH Energy Group is currently not aware of any existing condition that would require any payments under this guarantee.

Contingencies

Environmental Matters

Central Hudson

- Site Investigation and Remediation Program

Central Hudson has been notified by the New York State Department of Environmental Conservation ("DEC") that it believes Central Hudson or its predecessors at one time owned and/or operated manufactured gas plants ("MGP") to serve their customers' heating and lighting needs, at seven sites in Central Hudson's franchise territory. The DEC has further requested that Central Hudson investigate and, if necessary, remediate these sites. In addition, Central Hudson is also performing environmental SIR at two non-MGP sites within its service territory, Little Britain Road and Eltings Corners.

Central Hudson accrues for remediation costs based on the amounts that can be reasonably estimated at a point in time. At December 31, 2020, Central Hudson has accrued $74.9 million with respect to all SIR activities, including operation, maintenance and monitoring costs ("OM&M"), of which $21.0 million is anticipated to be spent in the next twelve months.

SIR can be divided into various stages of completion based on the milestones of activities completed and reports reviewed. The types of costs accrued during the various stages include:

1. *Investigation* – Begins with preliminary investigations and is completed upon filing and approval by DEC of a Remedial Investigation ("RI") Report. Central Hudson accrues for estimated investigation costs.

2. *Remedial Alternatives Analysis ("RAA")* – Engineering analysis of alternatives for remediation based on the RI is compiled into a RAA Report. Management accrues for an estimate of remediation costs developed and quantified in the RAA based on DEC approved methods, as well

as an estimate of post-remediation OM&M. These amounts represent a significant portion of the total costs to remediate and are subject to change based on further investigations, final remedial design and associated engineering estimates, regulatory comments and requests, remedial design changes/negotiations and changed or unforeseen conditions during the remediation or additional requirements following the remediation. Prior to the completion of the RAA, management cannot reasonably estimate what cost will be incurred for remediation or post-remediation activities.

3. *Remedial Design* - Upon approval of the RAA and final decision of remediation approach based on alternatives presented, a Remedial Design ("RD") or Remedial Action Work Plan is developed and filed with the DEC for approval.

4. *Remediation* – Completion of the work plan as defined in the approved RD. Upon completion, final reports are filed with the DEC for approval and may include a Construction Completion Report, Final Engineering Report, or other reports required by the DEC based on the work performed.

5. *Post-Remediation Monitoring* – Entails the OM&M as directed by the DEC based on the approved final report of remediation. The activities are typically defined in a Site Management Plan, which is approved by the DEC. The extent of activities during this phase may increase or decrease based on the results of ongoing monitoring being performed and future potential usage of the property.

6. *No Action Required* – No further investigation or remedial action is currently required. No further costs are expected, and no amounts are accrued related to this site.

These stages, the costs accrued and the sites currently in each stage include (dollars in millions):

Stage	Sites	Total Accrued Cost at December 31, 2020	Estimated spend in the next twelve months
Investigation	# 9 - Little Britain Road [1]	$ 2.2	$ 0.2
Remedial Alternatives Analysis		-	-
Remedial Design		-	-
Remediation	#5 - North Water Street [2]	68.1	20.5
Post-Remediation Monitoring	#2 - Newburgh Areas A, B & C #3 - Laurel Street #4 - Catskill #6 - Kingston #8 - Eltings Corners		
	Subtotal	4.6	0.3
No Action Required	#1 - Beacon #7 - Bayeaux Street	-	-
Total		$ 74.9	$ 21.0

There were no significant updates during the year ended December 31, 2020 or changes in the nature and amounts of Central Hudson's contingencies related to environmental matters, except as noted below.

- **(1) Remedial Investigation in Progress - Site #9 – Little Britain Road**
  - The New York State DEC issued a letter of Completeness in August 2018, and a Brownfield Cleanup Agreement was fully executed with the DEC in March 2019.

- A Sub-slab Depressurization System ("SSDS") Evaluation Work Plan to evaluate the existing system and mitigate the potential for vapor intrusion into the building located at this site was approved by the DEC in May 2019. Sampling of the SSDS commenced and was completed in mid-2020 and results were submitted to the DEC and New York State Department of Health ("NYSDOH"). An operation and maintenance ("O&M") plan for the SSDS that includes routine inspections and air testing was approved by the DEC and NYSDOH in August 2020. Quarterly O&M events commenced on the SSDS in October 2020.
- The results from the most recent groundwater monitoring event were submitted to the DEC in October 2020 and were consistent with historic trends.
- A summary report of investigation activities to further delineate impacts to the soil and groundwater at the site with the installation of several groundwater monitoring wells was approved in March 2019. Based on the results of this investigation, higher concentrations of contaminants were encountered with a distribution more widespread horizontally and vertically than previously observed. On July 22, 2019, the DEC requested additional investigation to be performed. A Remedial Investigation Work Plan was approved in September 2020 and estimated costs to complete the investigation have been accrued for work that is anticipated to commence in the spring of 2021. The results of the additional investigative procedures and any potential additional remedial activities required, if any, cannot be predicted at this time.

- **(2) Remediation in Progress - Site #5 – North Water Street**
  - As a result of several issues relating to fabrication, installation and the inability to operate the moon pool as designed, remedial activities were halted in December 2019.
  - A Moon Pool Performance Root Cause Analysis Summary was submitted to the DEC for review on February 18, 2020 and a conference call was held on March 12, 2020 to discuss the analysis of the failures that developed with the moon pool as well as a recommendation that the moon pool containment and mechanical dredging approach was no longer technically feasible.
  - The DEC requested that Central Hudson proceed to develop a design and work plan for piloting hydraulic dredging for source removal, including providing enhanced water quality monitoring. The DEC has continued to emphasize a path forward that includes the removal of source material versus an alternative remedial approach (e.g. capping).
  - An assessment of a high-solids hydraulic dredging remedial alternative including predictive cost modeling for a pilot test and full-scale remediation was performed with an estimated total project cost range from $71 million to $114 million.
  - Based on the above discussions and analyses performed, Central Hudson revised its estimate of the total remediation costs associated with this site during the first quarter of 2020 to remove "moon pool" mechanical dredging as a viable solution and record the low end of the range of projected costs for remediation activities at this site.
  - In September 2020, the DEC approved the Hydraulic Dredging Pilot Test Water Supply Protection and Contingency Plan. Preliminary site monitoring and mobilization activities commenced in October 2020 and pilot test activities, including demobilization, were completed in December 2020.
  - The goals of the pilot study were successfully achieved. Hydraulic dredging was completed in three areas with different degrees of impacted sediment (no impact, medium impact and high impact). Data was compiled related to production rates in each area, impacts on sheening and the ability to contain it. Two methods of dewatering were effectively utilized during the pilot study and the production rates and capabilities of each are now being further analyzed.

- Central Hudson believes the remaining costs to complete the analysis of data from the pilot study and the full scale-remediation could range from $61 million to $104 million. The procedures performed during the pilot did not provide any indication or evidence to support a change in the estimated range or that any point within the range is a better estimate at this time. As such, the accrual as of December 31, 2020 continues to be the low end of the range of projected costs for remediation activities at this site, plus estimated OM&M activities following remediation. The estimated costs will continue to be updated as further testing is performed and assumptions are refined.
- The estimated spending as of December 31, 2020 for the next 12 months of approximately $20.5 million is based primarily on the initiation of a full-scale hydraulic pilot test anticipated during the fall of 2021.

Future remediation activities, including OM&M and related costs may vary significantly from the assumptions used in Central Hudson's current cost estimates and these costs could have a material adverse effect (the extent of which cannot be reasonably determined) on the financial condition, results of operations and cash flows of CH Energy Group and Central Hudson if Central Hudson were unable to recover all or a substantial portion of these costs via collection in rates from customers and/or through insurance.

Central Hudson expects to recover its remediation costs from its customers. The current components of this recovery include:

- ➢ As part of the 2018 Rate Order, Central Hudson maintained previously granted deferral authority and future recovery for the differences between actual Environmental SIR costs (both MGP and non-MGP) and the associated rate allowances, with carrying charges to be accrued on the deferred balances at the authorized pre-tax rate of return.
- ➢ The 2018 Rate Order includes cash recovery of approximately $25.7 million during the three-year rate plan period ending June 30, 2021, with $21.1 million recovered through December 31, 2020.
- ➢ The total spent related to site investigation and remediation for the years ended December 31, 2020 and 2019 was approximately $11.2 million and $9.0 million, respectively.
- ➢ The regulatory asset balance including carrying charges as of December 31, 2020 and 2019 was $84.4 million and $62.7 million, respectively, which represents the cumulative difference between amounts spent or currently accrued as a liability and the amounts recovered to date through rates or insurance recoveries.

Central Hudson has put its insurers on notice and intends to seek reimbursement from its insurers for its costs. Certain of these insurers have denied coverage. There were no insurance recoveries during the year ended December 31, 2020 and $0.2 million of insurance recoveries for the year ended December 31, 2019. We do not expect insurance recoveries to offset a meaningful portion of total costs.

Litigation

Asbestos Litigation

Central Hudson is involved in various asbestos lawsuits.

As of December 31, 2020, of the 3,382 asbestos cases brought against Central Hudson, 1,169 remain pending. Of the cases no longer pending against Central Hudson, 2,051 have been dismissed or discontinued without payment by Central Hudson and Central Hudson has settled 162 cases. Central Hudson is presently unable to assess the validity of the remaining asbestos lawsuits; however, based on information known to Central Hudson at this time, including Central Hudson's experience in settling asbestos cases and in obtaining dismissals of asbestos cases, Central Hudson believes that the costs which may be incurred in connection with the remaining lawsuits will not have a material adverse effect on the financial position, results of operations or cash flows of either CH Energy Group or Central Hudson.

Other Litigation

CH Energy Group and Central Hudson are involved in various other legal and administrative proceedings incidental to their businesses, which are in various stages. While these matters collectively could involve substantial amounts, based on the facts currently known, it is the opinion of management that their ultimate resolution will not have a material adverse effect on either CH Energy Group's or Central Hudson's financial positions, results of operations or cash flows. CH Energy Group and Central Hudson expense legal costs as incurred.

NOTE 15 – Segments and Related Information

CH Energy Group's reportable operating segments are the regulated electric utility business and regulated natural gas utility business of Central Hudson. Other activities of CH Energy Group, which do not constitute a business segment, include CHEC's investments in limited partnerships, CHET's investment in Transco (a regulated entity), CHGT which has no current activity, and the holding company's activities, which consist primarily of financing its subsidiaries, and are reported under the heading "Other Businesses and Investments."

General corporate expenses and Central Hudson's property common to both electric and natural gas segments have been allocated in accordance with practices established for regulatory purposes. The common allocation per the terms of the 2018 Rate Order is 80% for electric and 20% for natural gas.

CH Energy Group Segment Disclosure

(In Thousands)

	Year Ended December 31, 2020				
	Segments		Other Businesses and Investments	Eliminations	Total
	Central Hudson				
	Electric	Natural Gas			
Revenues from external customers	$ 552,002	$ 159,893	$ -	$ -	$ 711,895
Intersegment revenues	52	209	-	(261)	-
Total operating revenues	552,054	160,102	-	(261)	711,895
Energy supply costs	136,182	37,430	-	(261)	173,351
Operating expenses	302,534	72,132	241	-	374,907
Depreciation and amortization	50,847	16,016	-	-	66,863
Operating income (loss)	62,491	34,524	(241)	-	96,774
Other income, net	17,000	5,018	1,120	-	23,138
Interest charges	25,099	9,648	800	-	35,547
Income before income taxes	54,392	29,894	79	-	84,365
Income tax expense	9,058	6,087	117	-	15,262
Net Income(Loss) Attributable to CH Energy Group	$ 45,334	$ 23,807	$ (38)	$ -	$ 69,103
Segment Assets at December 31, 2020	$ 1,886,780	$ 737,757	$ 20,805	$ (1,218)	$ 2,644,124
Capital Expenditures	$ 170,931	$ 81,926	$ -	$ -	$ 252,857

CH Energy Group Segment Disclosure
(In Thousands)

	Year Ended December 31, 2019				
	Segments		Other		
	Central Hudson		Businesses		
		Natural	and		
	Electric	Gas	Investments	Eliminations	Total
Revenues from external customers	$ 529,460	$ 162,203	$ -	$ -	$ 691,663
Intersegment revenues	46	299	-	(345)	-
Total operating revenues	529,506	162,502	-	(345)	691,663
Energy supply costs	142,131	49,729	-	(345)	191,515
Operating expenses	272,357	67,121	208	-	339,686
Depreciation and amortization	45,204	14,161	-	-	59,365
Operating income (loss)	69,814	31,491	(208)	-	101,097
Other income, net	8,892	2,464	1,299	-	12,655
Interest charges	24,851	8,680	921	-	34,452
Income before income taxes	53,855	25,275	170	-	79,300
Income tax expense	10,151	4,117	466	-	14,734
Net Income (Loss) Attributable to CH Energy Group	$ 43,704	$ 21,158	$ (296)	$ -	$ 64,566
Segment Assets at December 31, 2019	$ 1,730,543	$ 669,656	$ 18,349	$ (709)	$ 2,417,839
Capital Expenditures	$ 162,023	$ 76,694	$ -	$ -	$ 238,717

CH Energy Group Segment Disclosure
(In Thousands)

	Year Ended December 31, 2018				
	Segments		Other		
	Central Hudson		Businesses		
		Natural	and		
	Electric	Gas	Investments	Eliminations	Total
Revenues from external customers	$ 558,533	$ 166,098	$ -	$ -	$ 724,631
Intersegment revenues	39	328	-	(367)	-
Total operating revenues	558,572	166,426	-	(367)	724,631
Energy supply costs	191,501	63,967	-	(367)	255,101
Operating expenses	254,494	60,539	911	-	315,944
Depreciation and amortization	41,749	12,745	-	-	54,494
Operating income (loss)	70,828	29,175	(911)	-	99,092
Other income, net	3,764	797	1,156	-	5,717
Interest charges	23,259	7,907	1,016	-	32,182
Income (loss) before income taxes	51,333	22,065	(771)	-	72,627
Income tax expense (benefit)	9,612	5,605	(133)	-	15,084
Net Income (Loss) Attributable to CH Energy Group	$ 41,721	$ 16,460	$ (638)	$ -	$ 57,543
Segment Assets at December 31, 2018	$ 1,650,929	$ 582,169	$ 13,715	$ (953)	$ 2,245,860
Capital Expenditures	$ 118,598	$ 70,375	$ -	$ -	$ 188,973

NOTE 16 – Accounting for Derivative Instruments and Hedging Activities

Purpose of Derivatives

Central Hudson enters into derivative contracts in conjunction with the Company's energy risk management program to hedge certain risk exposure related to its business operations. The derivative contracts are typically either exchange-traded or over-the-counter ("OTC") instruments. The primary risks the Company seeks to manage by using derivative instruments are interest rate risk, commodity price risk and adverse or unexpected weather conditions. Central Hudson uses derivative contracts to reduce the impact of volatility in the prices of natural gas and electricity and to hedge exposure to volatility in interest rates for its variable rate long-term debt. Derivative transactions are not used for speculative purposes. Central Hudson's derivative activities consist of the following:

- Interest rate caps are used to minimize interest rate risks and to improve the matching of assets and liabilities. An interest rate cap is an interest rate option agreement in which payments are made by the seller of the option when the reference rate exceeds the specified strike rate (or the set rate at which the option contract can be exercised). The purpose of these agreements is to reduce exposure to rising interest rates while still having the ability to take advantage of falling interest rates by putting a "cap" on the interest rate Central Hudson pays on debt for which such caps are purchased. See Note 11 - "Capitalization – Long-Term Debt" for further details regarding Central Hudson's interest rate cap agreements.

- Natural gas futures are used to mitigate commodity price volatility for natural gas purchases. A natural gas futures contract is a standardized contract to buy or sell a specified commodity (natural gas) of standardized quantity at a certain date in the future, at a market determined price (the futures price). Central Hudson's reason for purchasing these contracts is to moderate price fluctuations for natural gas and the impact of volatility in the commodity markets on its customers.

- Electricity swaps are used to mitigate commodity price volatility for electricity purchases for Central Hudson's full service customers. A swap contract or a contract for differences is the exchange of two payment streams between two counterparties where the cash flows are dependent on the price of the underlying commodity. In an effort to moderate commodity price volatility, Central Hudson enters into contracts to pay a fixed price and receive a market price for a defined commodity and volume. These contracts are aligned with Central Hudson's actual commodity purchases at market price, resulting in a net fixed price payment.

- Weather derivative contracts are used to hedge the effect of significant variances in weather conditions from normal patterns on purchased electricity and natural gas costs, and on the related revenues. Premiums paid for weather related instruments are amortized based on the pattern of normal purchases of electricity or natural gas over the term of the contract and any payouts earned will be recorded as a reduction of the cost.

Energy Contracts Subject to Regulatory Deferral

Central Hudson has been authorized to fully recover certain risk management costs through its natural gas and electricity cost adjustment mechanisms. Risk management costs are defined by the PSC as costs associated with transactions that are intended to reduce price volatility or reduce overall costs to customers. These costs include transaction costs and gains and losses associated with risk management instruments. The related gains and losses associated with Central Hudson's derivatives are included as part of Central Hudson's commodity cost and/or price-reconciled in its natural gas and electricity cost adjustment charge mechanisms and are not designated as hedges.

The percentage of Central Hudson's electric and natural gas requirements covered with fixed price forward purchases at December 31, 2020 are as follows:

Central Hudson	% of Requirement Hedged [1]
Electric Derivative Contracts:	0.5 million MWh
January 2021 – August 2021	30.4%
Natural Gas Derivative Contracts:	0.5 million Dth
January 2021 – March 2021	11.6%

[1] Projected coverage as of December 31, 2020.

In 2020, OTC derivative contracts covered approximately 32.1% of Central Hudson's total electricity supply requirements as compared to 45.6% in 2019.

Cash Flow Hedges

Central Hudson has been authorized to fully recover the interest costs associated with its $33.7 million Series B NYSERDA Bonds and its $30.0 million of variable rate debt, which includes costs and gains or losses associated with its interest rate cap contracts.

Derivative Risks

The basic types of risks associated with derivatives are market risk (that the value of the derivative will be adversely impacted by changes in the market, primarily the change in commodity prices and interest rates) and credit risk (that the counterparty will not perform according to the terms of the contract). The market risk of the derivatives generally offset the market risk associated with the hedged commodity.

The majority of Central Hudson's derivative instruments contain provisions that require Central Hudson to maintain specified issuer credit ratings and financial strength ratings. Should Central Hudson's ratings fall below these specified levels, it would be in violation of the provisions and the derivatives' counterparties could terminate the contracts and request immediate payment.

To help limit the credit exposure of derivatives, Central Hudson enters into master netting agreements with counterparties whereby contracts in a gain position can be offset against contracts in a loss position. Of the 26 total agreements held by Central Hudson, 11 agreements contain credit risk contingent features. As of December 31, 2020, three open contracts with credit risk contingent features were in a liability position. The aggregate fair value of the open derivative contracts that contain contingent features and the amount that would be required to settle these instruments on December 31, 2020 if the contingent features were triggered, are described below.

Contingent Contracts

(Dollars In Thousands)

	As of December 31, 2020		
Triggering Event	# of Contracts in a Liability Position Containing the Triggering Feature	Gross Fair Value of Contract	Cost to Settle if Contingent Feature is Triggered (net of collateral)
Central Hudson:			
Credit Rating Downgrade	1	$ (16)	$ (16)
Adequate Assurance	2	(1,752)	(1,752)
Total Central Hudson	3	$ (1,768)	$ (1,768)

Derivative Contracts

CH Energy Group and Central Hudson have elected gross presentation for their derivative contracts under master netting agreements and collateral positions. On December 31, 2020 and December 31, 2019, Central Hudson did not have collateral posted against the fair value amount of derivatives.

The net presentation for CH Energy Group's and Central Hudson's derivative assets and liabilities are as follows (In Thousands):

Description	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amount of Assets Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position: Financial Instruments	Cash Collateral Received	Net Amount
As of December 31, 2020(1)						
Derivative Contracts:						
Central Hudson - electric	$ -	$ -	$ -	$ -	$ -	$ -
Central Hudson - natural gas	18	-	18	14	-	4
Total CH Energy Group and Central Hudson Assets	$ 18	$ -	$ 18	$ 14	$ -	$ 4
As of December 31, 2019(1)						
Derivative Contracts:						
Central Hudson - electric	$ -	$ -	$ -	$ -	$ -	$ -
Central Hudson - natural gas	-	-	-	-	-	-
Total CH Energy Group and Central Hudson Assets	$ -	$ -	$ -	$ -	$ -	$ -

(1) Interest rate cap agreements are not shown in the above chart. As of December 31, 2020 and 2019 the fair value was $0.

Description	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amount of Liabilities Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position: Financial Instruments	Cash Collateral Received	Net Amount
As of December 31, 2020(1)						
Derivative Contracts:						
Central Hudson - electric	$ 2,104	$	$ 2,104	$ -	$ -	$ 2,104
Central Hudson - natural gas	49		49	14	-	35
Total CH Energy Group and Central Hudson Liabilities	$ 2,153	$ -	$ 2,153	$ 14	$ -	$ 2,139
As of December 31, 2019(1)						
Derivative Contracts:						
Central Hudson - electric	$ 5,542	$ -	$ 5,542	$ -	$ -	$ 5,542
Central Hudson - natural gas	720	-	720	-	-	720
Total CH Energy Group and Central Hudson Liabilities	$ 6,262	$ -	$ 6,262	$ -	$ -	$ 6,262

(1) Interest rate cap agreements are not shown in the above chart. As of December 31, 2020 and 2019 the fair value was $0.

Gross Fair Value of Derivative Instruments

Current accounting guidance related to fair value measurements establishes a fair value hierarchy to prioritize the inputs used in valuation techniques based on observable and unobservable data, but not the valuation techniques themselves. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability. Unobservable inputs are inputs that reflect the reporting entity’s own assumptions about the assumptions market participants would use in pricing an asset or a liability. Classification of inputs is determined based on the lowest level input that is significant to the overall valuation. The fair value hierarchy prioritizes the inputs to valuation techniques into the three categories described below:

Level 1 Inputs: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Inputs: Directly or indirectly observable (market-based) information. This includes quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3 Inputs: Unobservable inputs for the asset or liability for which there is either no market data, or for which asset and liability values are not correlated with market value.

Derivative contracts are measured at fair value on a recurring basis. As of December 31, 2020 and 2019, CH Energy Group's and Central Hudson's derivative assets and liabilities by category and hierarchy level are as follows (In Thousands):

Asset or Liability Category	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2020[(1)]				
Assets:				
Derivative Contracts:				
Central Hudson - electric	$ -	$ -	$ -	$ -
Central Hudson - natural gas	18	18	-	-
Total CH Energy Group and Central Hudson Assets	$ 18	$ 18	$ -	$ -
Liabilities:				
Derivative Contracts:				
Central Hudson - electric	$ 2,104	$ -	$ 2,104	$ -
Central Hudson - natural gas	49	49	-	-
Total CH Energy Group and Central Hudson Liabilities	$ 2,153	$ 49	$ 2,104	$ -
As of December 31, 2019[(1)]				
Assets:				
Derivative Contracts:				
Central Hudson - electric	$ -	$ -	$ -	$ -
Central Hudson - natural gas	-	-	-	-
Total CH Energy Group and Central Hudson Assets	$ -	$ -	$ -	$ -
Liabilities:				
Derivative Contracts:				
Central Hudson - electric	$ 5,542	$ -	$ 5,542	$ -
Central Hudson - natural gas	720	720	-	-
Total CH Energy Group and Central Hudson Liabilities	$ 6,262	$ 720	$ 5,542	$ -

(1) Interest rate cap agreements are not shown in the above chart. These are classified as Level 2 in the fair value hierarchy using SIFMA Municipal Swap Curves and 3 month US Dollar Libor rate forward curves. As of December 31, 2020 and 2019 the fair value was $0.

The Effect of Derivative Instruments on the Statements of Income

Realized gains and losses on Central Hudson’s derivative instruments are returned to or recovered from customers through PSC authorized deferral accounting mechanisms, with no material impact on cash flows, results of operations or liquidity. Realized gains and losses on Central Hudson’s energy derivative instruments are reported as part of purchased natural gas, purchased electricity and fuel used in electric generation in CH Energy Group’s and Central Hudson’s Statements of Income as the corresponding amounts are either recovered from or returned to customers through fuel cost adjustment mechanisms in revenues. Additionally, unrealized gains and losses on Central Hudson's derivative contracts have no impact on earnings since the energy contracts are subject to regulatory deferral.

For the years ended December 31, 2020, 2019 and 2018, neither CH Energy Group nor Central Hudson had derivatives designated as hedging instruments. The following table summarizes the effects of CH Energy Group's and Central Hudson's derivatives on the Statements of Income (In Thousands):

	Amount of Gain(Loss) Recognized as Increase/(Decrease) in the Statements of Income			
	Year Ended December 31,			
	2020	2019	2018	Location of Gain (Loss)
Central Hudson:				
Electricity swap contracts	$ (14,379)	$ (15,145)	$ (2,670)	Deferred purchased electric costs(1)
Natural gas swap contracts	(866)	(23)	287	Deferred purchased natural gas costs(1)
Total CH Energy Group and Central Hudson	$ (15,245)	$ (15,168)	$ (2,383)	

(1) Realized gains and losses on Central Hudson's derivative instruments are returned to or recovered from customers through PSC authorized deferral accounting mechanisms with no net impact on results of operations.

Other Hedging Activities

Central Hudson – Electric

In October 2020, Central Hudson entered into a weather option for the period December 1, 2020 through March 31, 2021, to hedge the effect of significant variances in weather conditions on electricity costs. For Central Hudson, this transaction will impact purchased electric expense and revenue, but will not have a net income impact due to the full deferral authority over commodity costs through its electric cost adjustment charge mechanisms. The aggregate limit on the contract is $5 million. This contract will be accounted for in accordance with guidance specific to accounting for weather derivatives. The $1.3 million premium paid will be amortized to purchased electricity over the term of the contract and all payouts will be recorded as a reduction to purchased electricity in the Statements of Income. In December 2020, the $0.2 million payout earned was recorded as an offset to purchase electric cost. The unamortized premium at December 31, 2020 is approximately $1 million and is included in the "special deposits and prepayments" line item of CH Energy Group's and Central Hudson's Balance Sheets.

In 2019 and 2018, Central Hudson entered into similar weather options for the periods of December 1, 2019 through March 31, 2020 and December 1, 2018 through March 31, 2019, respectively, with an aggregate limit of $5 million per contract. Premiums paid were amortized to purchased electricity over the term of the agreements. The respective payouts earned of $0.1 million and $0.7 million on the 2019 and 2018 contracts were recorded as a reduction to purchased electricity in the Statements of Income in the first quarter of 2020 and 2019, respectively.

Based on Central Hudson's valuation model, the fair value of the weather option purchased for the December 1, 2020 through March 31, 2021 period, as of December 31, 2020 was approximately $0.5 million. The fair value of the December 1, 2019 through March 31, 2020 weather option was approximately $1.4 million as of December 31, 2019. The valuations were based on significant unobservable inputs, including short term temperature forecast and historical temperature fluctuations in winter and, as such, would be a Level 3 valuation.

Central Hudson – Natural Gas

In October 2020, Central Hudson entered into a weather option for the period December 1, 2020 through March 31, 2021, to hedge the effect of significant variances in weather conditions and price on natural gas costs. For Central Hudson, this transaction will impact purchased natural gas expense and revenue, but will not have a net income impact due to the full deferral authority over commodity costs through its natural gas cost adjustment charge mechanisms. The aggregate limit on the contract is $5 million. The terms of this contract included both a weather and natural gas price trigger. However, management believes weather was the predominant trigger for any payout that would have been earned under the contract. Therefore, this contract was accounted for in accordance with guidance specific to accounting for weather derivatives. The $1.7 million premium paid will be amortized to purchased natural gas over the term of the contract and all payouts will be recorded as a reduction to purchased natural gas in the Statement of Income. The unamortized premium at December 31, 2020 was approximately $1.3 million and is reflected in the "special deposits and prepayments" line item of CH Energy Group's and Central Hudson's Balance Sheets.

In 2019 and 2018, Central Hudson entered into similar weather options for the periods of December 1, 2019 through March 31, 2020 and December 1, 2018 through March 31, 2019, respectively. The aggregate limit per contract was $5 million. Premiums paid were amortized to purchased natural gas over the term of the related agreement. There was no payout earned on the 2019 contract. The payout earned of $0.5 million on the 2018 contract was recorded as a reduction to purchased natural gas in the Statements of Income during the first quarter of 2019.

Based on Central Hudson's valuation model, the fair value of the weather options purchased for the December 1, 2020 through March 31, 2021 and December 1, 2019 through March 31, 2020 period was approximately $0.4 million as of December 31, 2020 and $2.2 million as of December 31, 2019, respectively. The valuations were based on an analysis, which includes significant unobservable inputs, specifically short-term weather forecasts, historical temperature fluctuations and correlation between daily temperature fluctuations and natural gas prices in winter and, as such, would be a Level 3 valuation.

NOTE 17 – Other Fair Value Measurements

Other Assets Recorded at Fair Value

In addition to the derivatives reported at fair value discussed in Note 16 – "Accounting for Derivative Instruments and Hedging Activities", CH Energy Group and Central Hudson report certain other assets at fair value in the Balance Sheets. The following table summarizes the amounts reported at fair value related to these assets (In Thousands):

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2020:				
Other Investments	$ 14,776	$ 14,776	$ -	$ -
As of December 31, 2019:				
Other Investments	$ 8,865	$ 8,865	$ -	$ -

As of December 31, 2020 and December 31, 2019, a portion of the trust assets for the funding of the SERP and Deferred Compensation Plan were invested in mutual funds and money market accounts, which are measured at fair value on a recurring basis. These investments are valued at quoted market prices in active markets and, as such, are Level 1 investments as defined in the fair value hierarchy.

These amounts are included in “Other investments” within the Deferred Charges and Other Assets section of the CH Energy Group’s and Central Hudson’s Balance Sheets.

The remaining amount reported in “Other investments” represents trust assets for the funding of the SERP and Deferred Compensation Plan held in trust-owned life insurance policies, which are recorded at cash surrender value. As of December 31, 2020 and December 31, 2019, the total cash surrender value of trust-owned life insurance held by these trusts was approximately $33.1 million and $31.6 million, respectively. The change in the cash surrender value is reported in “Other – net” income in the CH Energy Group’s and Central Hudson’s Income Statements.

Other Fair Value Disclosure

Financial instruments are recorded at carrying value in the financial statements, however, the fair value of these instruments are disclosed below in accordance with current accounting guidance related to financial instruments.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents: Carrying amount.

Short-Term Borrowings: Carrying amount.

Due to the short-term nature (typically one month or less) of these borrowings, the carrying value is equivalent to the current fair market value.

Long-term Debt: Quoted market prices for the same or similar issues (Level 2).

Valuations were obtained for each issue using the observed Treasury market in conjunction with secondary market trading levels and recent new issuances of comparable companies.

The following tables summarize the long-term debt maturing or to be redeemed during the next five years and thereafter, as well as the estimated fair value of both CH Energy Group and Central Hudson’s long-term debt including the current portion (Dollars in Thousands):

CH Energy Group

	Fixed Rate		Variable Rate		Total Debt Outstanding	
Expected Maturity Date	Amount	Estimated Effective Interest Rate	Amount	Estimated Effective Interest Rate	Amount	Estimated Effective Interest Rate
As of December 31, 2020:						
2021	$ 45,987	4.30%	$ -	-%		
2022	25,364	3.69%	-	-%		
2023	2,100	6.92%	-	-%		
2024	2,245	6.92%	30,000	1.25%		
2025	22,401	3.42%	-	-%		
Thereafter	685,700	4.27%	33,700	0.16%		
Total	$ 783,797	4.24%	$ 63,700	0.68%	$ 847,497	3.98%
Fair Value	$ 949,413		$ 63,700		$ 1,013,113	

As of December 31, 2019:						
2020	41,718	3.20%	-	-%		
2021	45,987	4.30%	-	-%		
2022	25,364	3.69%	-	-%		
2023	2,100	6.91%	-	-%		
2024	2,245	6.91%	30,000	2.98%		
Thereafter	578,101	4.58%	33,700	2.41%		
Total	$ 695,515	4.46%	$ 63,700	2.68%	$ 759,215	4.31%
Fair Value	$ 790,711		$ 63,700		$ 854,411	

Central Hudson

	Fixed Rate		Variable Rate		Total Debt Outstanding	
Expected Maturity Date	Amount	Estimated Effective Interest Rate	Amount	Estimated Effective Interest Rate	Amount	Estimated Effective Interest Rate
As of December 31, 2020:						
2021	$ 44,150	4.19%	$ -	-%		
2022	23,400	3.42%	-	-%		
2023	-	-%	-	-%		
2024	-	-%	30,000	1.25%		
2025	20,000	3.00%	-	-%		
Thereafter	685,700	4.27%	33,700	0.16%		
Total	$ 773,250	4.21%	$ 63,700	0.68%	$ 836,950	3.94%
Fair Value	$ 937,666		$ 63,700		$ 1,001,366	
As of December 31, 2019:						
2020	40,000	3.04%	-	-%		
2021	44,150	4.19%	-	-%		
2022	23,400	3.42%	-	-%		
2023	-	-%	-	-%		
2024	-	-%	30,000	2.98%		
Thereafter	575,700	4.57%	33,700	2.41%		
Total	$ 683,250	4.42%	$ 63,700	2.68%	$ 746,950	4.27%
Fair Value	$ 777,318		$ 63,700		$ 841,018	

NOTE 18 – Related Party Transactions

Thompson Hine LLP serves as outside counsel to CH Energy Group and Central Hudson. One partner in that firm serves as each corporation's General Counsel and Corporate Secretary. In addition, The Chazen Companies perform engineering services for Central Hudson, and a principal in the firm serves as a director of Central Hudson.

The following are fees paid by CH Energy Group and Central Hudson to Thompson Hine LLP and The Chazen Companies, respectively, as follows (In Thousands):

	Year Ended December 31,					
		2020		2019		2018
CH Energy Group (Thompson Hine LLP)	$	2,264	$	2,096	$	2,199
Central Hudson (Thompson Hine LLP)	$	2,233	$	2,055	$	2,158
Central Hudson (The Chazen Companies)	$	710	$	829	$	596

CH Energy Group and Central Hudson may provide general and administrative services ("services") to and receive services from each other, Fortis and other subsidiaries of Fortis. The costs of these services are reimbursed by the beneficiary company through accounts receivable and accounts payable, as necessary. CH Energy Group and Central Hudson may also incur charges from Fortis or each other for the recovery of general corporate expenses incurred by one another, Fortis or other affiliates. In addition, CH Energy Group and Central Hudson may also incur charges from Fortis for federal income taxes under their tax sharing agreement. These transactions are in the normal course of business and are recorded at the United States dollar amounts.

Related party transactions included in accounts receivable and accounts payable for CH Energy Group and Central Hudson are as follows (In Thousands):

		December 31, 2020		December 31, 2019
CH Energy Group[(1)]		Fortis		Fortis
Accounts Receivable	$	1,350	$	982
Accounts Payable	$	-	$	-

	December 31, 2020						December 31, 2019					
Central Hudson[(1)]		CHEG		Fortis		Other Affiliates		CHEG		Fortis		Other Affiliates
Accounts Receivable	$	157	$	25	$	9	$	109	$	23	$	4
Accounts Payable	$	931	$	-	$	-	$	574	$	-	$	-

(1) Fortis amounts include Fortis and all Fortis subsidiaries.

Related party transactions in operating expenses for CH Energy Group and Central Hudson are as follows (In Thousands):

	December 31, 2020				December 31, 2019				December 31, 2018			
		CHEG		Fortis[(1)]		CHEG		Fortis[(1)]		CHEG		Fortis[(1)]
CH Energy Group	$	-	$	3,692	$	-	$	3,121	$	-	$	2,799
Central Hudson	$	4,172	$	-	$	3,545	$	-	$	3,107	$	-

(1) Fortis amounts reported above include Fortis and all Fortis subsidiaries.

NOTE 19 – Subsequent Events

An evaluation of subsequent events was completed through February 11, 2021, the date these Consolidated Financial Statements were available to be issued, to determine whether circumstances warranted recognition and disclosure of events or transactions in the Consolidated Financial Statements as of December 31, 2020.

On January 29, 2021, Central Hudson made a contribution of $0.8 million to the 401(h) Plan to fund the management OPEB liabilities.

MANAGEMENT'S DISCUSSION and ANALYSIS of FINANCIAL CONDITION and RESULTS of OPERATIONS
For the Year Ended December 31, 2020

This Management Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the 2020 Financial Statements and the notes thereto.

Overview

CH Energy Group is the holding company parent corporation of four principal, wholly owned subsidiaries, Central Hudson Gas & Electric Corporation ("Central Hudson" or the "Company"), Central Hudson Enterprises Corporation, Central Hudson Electric Transmission LLC ("CHET") and Central Hudson Gas Transmission LLC ("CHGT"). Central Hudson is a regulated electric and natural gas transmission and distribution utility. CH Energy Group formed CHET to hold its 6.1% ownership interest in New York Transco LLC ("Transco"). Transco is a partnership with affiliates of other investor owned utilities in New York State which was created to develop, own and operate electric transmission projects in New York State. CHGT was formed to hold CH Energy Group's ownership stake in possible gas transmission pipeline opportunities in New York State. All of CH Energy Group's common stock is indirectly owned by Fortis Inc. ("Fortis"), a well-diversified leader in the North American regulated electric and gas utility industry, with 2020 revenue of CAD$8.9 billion and total assets of approximately CAD$55 billion. Fortis and its subsidiaries' 9,000 employees serve 3.3 million utility customers in five Canadian provinces, nine U.S. states and three Caribbean countries.

Central Hudson purchases, sells at wholesale and retail, and distributes electricity and natural gas at retail, in portions of New York State to electric and natural gas customers and is subject to regulation by the New York Public Service Commission ("PSC" or "Commission").

Purpose and Strategy

In the fourth quarter of 2020, Central Hudson adopted a new Purpose Statement - **"Together We Power Endless Possibilities,"** supported by the following Core Values:

- *We Never Compromise on **Safety***
- *We Value Our **People***
- *We Put the **Customer** First*
- *We Aim for **Excellence** Every Day*
- *We Put Energy Into Our **Communities***

CH Energy Group's strategy is to:
- Invest primarily in electric and gas transmission and distribution; and
- Maintain a financial profile that supports a credit rating for Central Hudson in the "A" category.

Human Capital Resources

Central Hudson recognizes the importance of its employees and dedicates substantial efforts toward attracting, developing and retaining individuals who exemplify the values that are the cornerstone of our Company. In 2020, Central Hudson reaffirmed our core purpose and values as outlined above. In these statements we made it clear that our people are absolutely essential to our success. As of December 31, 2020, we had 1,061 employees, with approximately 60% covered by collective bargaining ("union") agreements. In addition, we work with many outside firms to obtain additional resources to support our business. We utilize human capital resources employed by these firms to supplement our internal labor forces to address fluctuations in certain aspects of the Company's operations, including contact center overflow, storm restoration, capital construction, tree trimming, and other field operations. We believe we have good relationships with both our union and suppliers of contracted services.

Safety is of the utmost importance for our employees, and we consider safety to be a priority for our Company. We value continuous improvement in everything we do, including safety, and we have devoted additional resources, including external consultation services and collaboration with our union on a grass roots effort to improve our safety performance and culture.

We believe that our compensation and benefit programs have been appropriately designed to attract and retain first-class talent. We provide our employees competitive compensation, a comprehensive benefits package and extensive training and professional development opportunities.

We strive to provide an inclusive and diverse environment for all of our employees. We want our employees to know that their individual input and contribution is valued and to feel that they can be their authentic selves at work. We believe that by recognizing and valuing each employee for who they are, we make our shared goals possible. We also place great focus on veteran recruiting. Veterans currently comprise approximately 7% of our current workforce and contribute to the organization as some of our most skilled and productive employees. In addition to our internal commitments to inclusion and diversity, we also have a supplier diversity program that is committed to developing an inclusive supplier base through the selection of businesses owned by minorities, women and veterans when all other considerations are equal.

Strategy Execution

Management continues to focus on investment in Central Hudson's electric and natural gas infrastructure as the core of its strategy. Central Hudson invested approximately $250 million in 2020, and its five year forecast includes an average of approximately $270 million of capital expenditures per year. The long-term capital program provides for continued strengthening of existing electric and natural gas infrastructure, resiliency and automation of distribution systems, new common facilities, and investments in information and distribution system technologies that are expected to allow for greater penetration of distributed energy resources and improve reliability and customer satisfaction.

As part of CH Energy Group's overall strategy to invest in electric transmission and distribution, CHET made an investment in Transco. In April 2019, National Grid and Transco were awarded the Segment B portion of one of its proposals for a transmission project that will improve the flow of power from upstate renewable resources to meet downstate demand and enhance the reliability and resilience of the grid. Transco will be authorized to earn a return on equity invested in the project (up to 53% of the project cost) of 9.65%, with up to an additional 1% available for incentives. The project has an estimated cost of $600 million plus interconnection costs, and CHET's equity funding requirement of this cost as a 6.1% owner of Transco is expected to be $19.4 million. At December 31, 2020, CHET's investment in Transco was approximately $9.2 million.

In November 2018, Transco's limited liability company agreement was amended ("Transco Amendment") to allow Transco to pursue additional projects that might come out of future New York Independent System Operator ("NYISO") Public Policy Transmission Planning Processes ("PPTP Processes"). Under the Transco Amendment, CHET would have a 10% ownership stake in transmission solutions related to future projects that result from future PPTP Processes. CHET would also be allocated 10% of future development costs for any new transmission projects as part of future PPTP Processes.

Central Hudson
Business Description and Strategy

Central Hudson is subject to regulation by the PSC. Central Hudson's earnings are derived predominately from the revenue it generates from delivering energy to approximately 300,000 electric and 80,000 natural gas customers, with earnings growth coming primarily from increases in net utility plant. Central Hudson's delivery rates are designed to recover the cost of providing safe and reliable service while affording the opportunity to earn a fair and reasonable return on its capital.

Central Hudson's strategy is to provide exceptional value to its stakeholders by:

- Modernizing its business through electric and natural gas system investments and process improvements;
- Continuously improving its performance while maintaining cost effective, efficient and secure operations;
- Advocating on behalf of customers and other stakeholders; and
- Investing in programs and employee development to position the organization for continued success in the future.

Central Hudson is committed to a cleaner energy future by supporting New York State's energy policies and its Reforming the Energy Vision ("REV") goals and strongly believes that maintaining affordability must be part of the solution. Central Hudson is making investments in infrastructure, technologies and programs that cost-effectively reduce carbon emissions while continuing to provide reliable, resilient and affordable power by:

- Upgrading electric transmission and distribution lines, including support for statewide transmission upgrades to deliver renewable energy sources to areas of high electric demand including the Hudson Valley, and investments in the regional electric distribution system to facilitate greater levels of locally sited renewable generators;
- Pursuing the lowest cost approach to emission reduction, by examining current incentives to determine which offer the highest value in lowering emissions;
- Integrating natural gas benefits, utilized for fast-start electric generation to enable intermittent renewable resources, and as a low-carbon option for heating and manufacturing;
- Expanding energy efficiency programs, the most cost-effective method to reduce emissions; and
- Advancing environmentally beneficial electrification, for example promoting electric vehicles and heat pumps to lower emissions from the transportation and building heating sectors.

Opportunities and Risks

Central Hudson invests significant capital on an annual basis. Central Hudson's investments enhance safety and reliability through solutions which are intended to improve customer satisfaction and reduce risk. Opportunities to enhance transmission and distribution systems and information systems technologies are evaluated and prioritized based on their expected benefits, projected costs and estimated risks. Central Hudson's capital expenditures through June 2021 were approved by the PSC in the 2018 Rate Order. Central Hudson filed an electric and natural gas rate case on August 27, 2020, which included a request for continued funding of its capital investment program.

The economy in Central Hudson's service territory affects the growth of utility rate base and earnings through a direct relationship to customer affordability, customer additions and peak demand growth as well as affecting Central Hudson's ability to collect receivables. Management believes the economy in Central Hudson's service territory has reasonable long-term growth prospects, but unexpected prolonged downturns could inhibit its ability to meet long-term business objectives. Central Hudson has an economic development program intended to increase job growth and income in its service territory.

Management believes Central Hudson's commitments to providing safe and reliable service, customer satisfaction, operational excellence and promoting positive customer and regulatory relations are important for supportive regulatory relationships and obtaining full cost recovery and competitive returns on invested capital.

The key risks management sees in achieving its overall strategy are operating risks related to effectively executing its capital program, managing costs and customer bill pressure, maintaining customer satisfaction, navigating the current political and regulatory environment, as well as ensuring adherence to compliance requirements as further discussed below. Central Hudson has policies, procedures and controls in place to address these risks.

COVID-19

We provide essential services to our customers and it is paramount that we keep our employees safe. The outbreak of the novel Coronavirus pandemic ("COVID-19") is an ongoing situation that has adversely impacted economic activity and business conditions on a global scale and specifically within Central Hudson's service territory. In particular, efforts to control the spread of COVID-19 have led to shutdowns of various businesses in our service territory and have required changes to our operations to mitigate potential risks and impacts to our customers and employees. Along with all major utilities in New York State, we have temporarily suspended service disconnections and finance charges for non-payment to help mitigate the economic impact of COVID-19 on our customers. Central Hudson has not experienced any significant issues with our supply chain, contractor availability or access to capital; however, we have increased our inventory levels to meet anticipated operational needs. The Company is continuing with electric and natural gas capital investments, although non-essential construction was paused for a period as mandated in the second quarter. In December, vaccines were approved by the Food & Drug Administration and are now available for select individuals as defined by New York State. Throughout the area there has been an increase in positive cases and hospitalizations. New York State has implemented a Regional Micro-Cluster Strategy and has imposed higher restrictions within certain sections of Central Hudson's service territory based on thresholds exceeded related to the region's positivity rate over the past 10 days, hospital admissions per capita over the past week, and week-over-week growth in daily admissions. There continues to be uncertainty regarding the continued progression and timing of re-opening, potential setbacks if increases in cases continue, and the full economic impact this will have on our customers and business.

Central Hudson has incurred approximately $4.0 million of pre-tax incremental operating expenses through December 31, 2020 related to costs for the sequestration of key employees to ensure the continued reliability of system operations, additional personal protective equipment and cleaning services and supplies. Central Hudson has identified approximately $3.0 million in cost reductions during the pandemic through December 31, 2020 primarily due to reduced overtime labor, contractor, training and travel expenses. Central Hudson has also increased its reserve for uncollectible accounts by $4.9 million based on a quantitative and qualitative assessment of forecasted economic conditions related to COVID-19. This assessment included a historical analysis of the relationship of write-offs to accounts receivable balances in arrears and taking into consideration certain qualitative factors of both current, and an estimated forecast of future, economic conditions including the nature and cause of this economic downturn, as well as legislative actions taken which provide relief and assistance to customers financially impacted by the COVID-19 pandemic. Additionally, Central Hudson has experienced lost revenues associated with the discontinuation of finance charges on customers' past due balances of approximately $3.7 million to date, bringing the total net impact on Central Hudson to $9.6 million on a pretax basis, or $8.4 million impact on net income to date in 2020. Barring any additional setbacks, management does not expect to incur continued incremental costs associated with sequestration of key employees. Incremental operating expenses associated with personal protective equipment and cleaning services and supplies are expected to continue for the foreseeable future, but management expects to be able to manage these incremental costs with identified cost reduction efforts.

Central Hudson is actively communicating with New York State Department of Public Service ("DPS") with regard to COVID-19 incremental costs and lost revenues and cost reductions identified through the Generic Proceeding (Case 20-M-0266). Central Hudson has also taken measures to support our customers, employees and communities impacted by the COVID-19 pandemic and to support the economic recovery in our service territory. For all its customers, Central Hudson suspended certain collection activities including terminating service for non-payment, waived finance charges, doubled its contribution to its last resort grant program and postponed scheduled rate increases. For small businesses, the Company accelerated certain energy efficiency programs and committed up to $1 million of Economic Development funding through our Back to Business program.

Central Hudson has also begun to reach out to customers regarding past due balances to ensure the customers are aware of certain financial assistance programs available to them and to proactively engage with them in managing these balances with deferred payment arrangements. Due to current legislation, Central Hudson cannot resume residential terminations until at least March 31, 2021. Management is monitoring the New York State, State of Emergency and will determine the appropriate time to begin additional collection efforts, including re-instating finance charges on past due balances and termination activities.

Additionally, Central Hudson's rate filing in August 2020 requesting an increase in electric and natural gas delivery rates to be effective July 1, 2021, incorporated reductions from the initial planned rate increase request to mitigate the bill impact on customers. These reductions included delays in certain planned investments and reductions to operations and maintenance which management believes could be accomplished without impacting safety and reliability. The rate filing also included a requested deferral for COVID-19 related costs.

On June 11, 2020, the Commission established a new proceeding, to identify and address the effects of the COVID-19 pandemic on utility service in New York State. The proceeding included, but is not limited to, impacts on rate-setting, collections and termination of service, and ensuring the provision of safe and adequate service at just and reasonable rates in recognition of the ramifications from the COVID-19 pandemic. Central Hudson is providing the monthly requested information to the PSC with regards to COVID-19 lost finance charge revenues and incremental costs, including the increase in past due balances and the uncollectible reserve and cost reductions.

The total extent of COVID-19 related impacts on our results of operations is unknown at this time and is contingent upon the continued progression of the re-opening of the economy in our service territory, the ability of our customers to recover from the economic slowdown and related Federal and New York State mandates and regulatory proceedings. An extended delay or potential setback in the economic recovery of our service territory and/or material changes in governmental policy could impact the ability of our customers, contractors, suppliers and other business partners to fulfill their obligations to us, which could have a material adverse effect on our results of operations and financial condition. COVID-19 and its related impacts continues to be an evolving situation, and we will continue to monitor any developments, including regulatory or legislative mandates, affecting our workforce, our customers, contractors and suppliers, as well as our access to capital markets and the potential to recover all or a portion of these incremental costs.

Regulatory/Compliance Risks:

- Federal Energy Regulatory Commission ("FERC"): under the Federal Power Act, FERC has the authority to impose penalties on Central Hudson for violations of the Federal Power Act, the Natural Gas Act or related rules, including reliability and cyber security rules. Environmental agencies could seek penalties for failure to comply with laws, regulations or permits. Central Hudson may be subject to new laws, regulations, or other requirements or the revision or reinterpretation of such requirements, which could adversely affect the Company.

- North American Electric Reliability Corporation ("NERC"): Central Hudson, as owner and operator of the Bulk Electric System, is subject to potential penalties for violations of NERC Reliability Standards.

- PSC: Rates are generally designed for but do not guarantee the recovery of Central Hudson's cost of service, including a return on equity. Central Hudson's ability to meet its financial objectives is largely dependent on approval of the Company's rate proposals and the continuation of supportive ratemaking practices by the PSC. Risks related to these practices include: (1) reduced allowed returns on equity, (2) PSC-allowed revenues that result in less than full recovery of the legitimate costs of providing service, resulting in earned returns below authorized returns, (3) declining PSC support for strong capital structures and credit ratings, (4) New York State energy policy, (5) changes in deferral accounting that increase the volatility of earnings and/or defer cash recovery of costs, and (6) elimination of Revenue Decoupling Mechanism ("RDMs") or Rate Adjustment Mechanism. The PSC can initiate proceedings to prohibit Central Hudson from recovering from our customers the cost of service (including energy costs) that the regulators determine to have been imprudently incurred. In addition the PSC could seek to impose substantial penalties on the Company for violations of state utility laws, regulations or orders.

- REV: Governor Cuomo and the PSC announced the commencement of its REV initiative that aims to improve the efficiency of the electric system; reduce emissions; encourage greater development of clean generation, fuel diversity and energy efficiency measures; and provide customers with knowledge and tools for more effective management of their total energy use through the adoption of new technologies on both the utility and customer side of the meter. Central Hudson expects to continue its efforts of working with the other New York electric utilities and various stakeholders in the energy industry to develop policy positions in order to facilitate the implementation of REV. In addition, the Climate Leadership and Community Protection Act ("CLCPA") was passed by the New York State Senate and the New York State Assembly and includes renewable energy and emission reduction goals in New York State, which are among the most aggressive in the nation. The outcome of REV and the CLCPA and the many related proceedings cannot be predicted at this time, but they could result in an increased scope of regulated activities, potential for decreased earnings, and other risks.

- Department of Environmental Conservation ("DEC"): Central Hudson, as owner and operator of certain hydroelectric facilities and environmental site investigation and remediation activities is subject to DEC regulations and could incur penalties for violations.

- The Pipeline and Hazardous Materials Safety Administration ("PHMSA"): Central Hudson, as owner and operator of certain natural gas transmission facilities, is subject to PHSMA regulation and could incur penalties for violations.

- NYISO: In accordance with the Market Service Tariff, Central Hudson is obligated to provide current load forecasting and generator bid requirements and could incur penalties for violations.

- United States Army Corps of Engineers: Central Hudson owns and operates certain natural gas and electric infrastructure that may cross or are located within a federally protected wetland or water body. Any operation, maintenance, construction, repair or replacement of this infrastructure is subject to certain compliance requirements and could incur penalties for non-compliance.

Operations Risks:

- Central Hudson provides electricity and natural gas service to customers in its territory. Failure of, or damage to, facilities, or an error in operation or maintenance could result in bodily injury or death, property damage, the release of hazardous substances or extended service interruptions. A natural disaster, such as a major storm, could impact Central Hudson's ability to access supplies and utilize critical facilities. Central Hudson's response to such events may be perceived to be below customer expectations. Central Hudson could incur substantial costs that may not be covered by Central Hudson's insurance policies or recovered through other regulatory mechanisms for storm preparation, to repair or replace facilities, compensate others for injury or death or other regulatory penalties imposed by state utility regulators or other regulatory agencies. The occurrence of such events could also adversely affect the cost and availability of insurance.

- Central Hudson, as an operator of critical energy infrastructure, may face a heightened risk of cyber-attack. In the event of a cyber-attack that Central Hudson was unable to defend or mitigate, operations could be disrupted, financial and other information systems could become impaired, property could be damaged and customer and employee information could be stolen. Central Hudson could incur substantial cost for response, including repair to systems, litigation and reputational damage, which may not be recoverable from customers.

- Another risk is the ability to effectively manage costs, which is a key component of Central Hudson's strategy. The continued use of Lean Six Sigma techniques – a data-driven approach to develop processes that are faster, higher quality and less costly – to streamline existing business processes and foster innovation will play a critical role in managing the costs of doing business in a sustainable manner.

Environmental Risks:

- Central Hudson is exposed to risks from the environmental consequences of its operations and the operations of its predecessors. Hazardous substances, such as asbestos, PCBs and coal tar have been used or produced in the course of Central Hudson' operations and are present on properties or in facilities and equipment currently or previously owned. To the extent not covered by insurance or recovered through rates, remediation costs, fines, judgments and settlements could reduce earnings and cash flows.

CH Energy Group - Regulated Operations - Central Hudson
Financial Highlights
Period Ended December 31

	Year to Date		
	2020	**2019**	**Change**
Electricity Sales (GWh)	4,969	4,963	6
Natural Gas Sales (PJ)	22.5	21.9	0.6
(In millions)			
Revenues	$ 711.9	$ 691.7	$ 20.2
Energy Supply Costs - Matched to Revenues	173.4	191.5	(18.1)
Operating Expenses - Matched to Revenues	94.6	76.8	17.8
Operating Expenses - Other	280.0	262.7	17.3
Depreciation and Amortization	66.9	59.4	7.5
Other Income, net	22.0	11.4	10.6
Interest Charges	34.7	33.5	1.2
Income Taxes	15.1	14.3	0.8
Net income	$ 69.1	$ 64.9	$ 4.2

Earnings: Despite challenges in the current year associated with the impacts of the COVID-19 pandemic, Central Hudson was able to achieve earnings growth compared to the prior year. The PSC-approved increase in delivery rates effective July 1, 2019 and July 1, 2020 provided return on additional capital invested in the business and recovery of higher operating and financing expenses. Although the delivery rate increase approved for July 1, 2020 was delayed until October 1, 2020, the associated revenue during the third quarter was recorded as an alternative revenue program and is currently being billed to and recovered from customers over the remaining period of the rate year ending June 30, 2021. Additionally, the Company recorded earnings adjustment mechanisms and earned incentives in the current year based on achieving certain targets and milestones associated with energy efficiency, reliability and customer service as provided in the 2018 Rate Order. These increases in earnings were partially offset by the impacts of the COVID-19 pandemic.

The impacts of the COVID-19 pandemic on earnings was approximately $8.4 million which included both reduced revenues and net incremental costs incurred. The reduction to revenues resulted from the discontinuation of finance charges applied to customers' past due balances beginning April 1, 2020 in recognition of the impacts of governmental mandates on Central Hudson's customers during the pandemic. Central Hudson's current rates include a RDM which provides recovery of variations in sales for 97% of its business and those customers not covered by the RDM did not experience a change in sales volume as a result of the COVID-19 pandemic. As such, there was no earnings impact associated with variations in residential and small commercial sales during the pandemic. Incremental COVID-19 related operating costs included costs associated with measures taken to ensure continued safe and reliable service provided during the initial peak of the pandemic, including the sequestration of key employees responsible for the overseeing the reliability of system operations, and the purchase of additional personal protective equipment ("PPE") and cleaning services and supplies. During the third and fourth quarters, the impacts of the on-going incremental operating expenses associated with PPE and cleaning were offset by cost reductions as a result of the pandemic, including reduced overtime labor and contractor expense, as well as employee training and travel costs. Increases in the allowance for uncollectible accounts were also recorded in 2020 based on a quantitative and qualitative assessment of future uncollectible expense based on the increase in customer receivable balances in arrears, an historical analysis of the relationship of write-offs to accounts receivable balances in arrears and taking into consideration both current and a forecast of future economic conditions.

Energy supply costs reflect overall lower electric and natural gas commodity prices coupled with lower purchased volumes due to milder weather in 2020 as compared to 2019. This did not have a direct impact on earnings due to the full deferral of commodity costs and the RDM. However, Central Hudson is authorized to bill customers' volumetric factors for the recovery of bad debt and working capital costs related to commodity purchases, and fluctuations in volume and price will impact the revenues collected through these factors. Both the quarter-over-quarter and year-over-year variations in revenues billed through these volumetric factors were not material.

Electricity Sales

Electricity sales were essentially flat compared to 2019, with the increase in residential sales slightly outweighing the decrease in sales to commercial and industrial customers as a result of changes in consumption patterns due to government mandates as a result of the on-going COVID-19 pandemic.

Natural Gas Sales

Natural gas sales increased slightly, with higher sales to interruptible customers, mostly offset by lower sales to firm customers primarily attributed to a warmer than normal 2019-2020 heating season.

Depreciation and Amortization: Depreciation increased due to the increased investment in Central Hudson's electric and gas infrastructure in accordance with its capital expenditure program.

Other Income, net: The increase in other income is primarily due to a decrease in the non-service component of pension expense, which resulted from the end of the 10-year amortization period of actuarial losses on investments incurred in 2009.

Income Taxes: The combined effective tax rate is lower than the statutory rate due to tax normalization rules and the timing of flow through tax items related to capital expenditures.

Central Hudson Revenues - Electric

Period Ended December 31

(In millions)

	Year to Date		
	2020	**2019**	**Change**
Revenues with Matching Expense Offsets:[(1)]			
Recovery of commodity purchases	$ 129.3	$ 133.9	$ (4.6)
Sales to others for resale	6.8	8.2	(1.4)
Other revenues with matching offsets	69.6	62.3	7.3
Subtotal	205.7	204.4	1.3
Revenues Impacting Earnings:			
Customer sales	358.1	326.8	31.3
RDM and other regulatory mechanisms	(19.8)	(12.7)	(7.1)
Finance Charges	0.8	3.3 [(2)]	(2.5)
Incentives earned	3.3	2.5	0.8
Net plant & depreciation targets	(2.8)	(2.5)	(0.3)
Other revenues	6.8	7.7 [(2)]	(0.9)
Subtotal	346.4	325.1	21.3
Total Electric Revenues	$ 552.1	$ 529.5	$ 22.6

(1) Revenues with matching offsets do not affect earnings since they offset related costs, the most significant being energy cost adjustment revenues, which provide for the recovery of purchased electricity costs. Other related costs include certain authorized business expenses recovered through rates and the cost of special programs authorized by the PSC and funded with certain available credits. Changes in revenues from electric sales to other entities for resale also do not affect earnings since any related profits or losses are returned or charged, respectively, to customers.
(2) Other revenues reported for the year ended December 31, 2019 have been reclassified to conform with current period presentation.

Central Hudson Revenues - Natural Gas

Period Ended December 31

(In millions)

	Year to Date		
	2020	**2019**	**Change**
Revenues with Matching Expense Offsets:[1]			
Recovery of commodity purchases	$ 29.4	$ 41.4	$ (12.0)
Sales to others for resale	7.9	8.1	(0.2)
Other revenues with matching offsets	7.2	7.5	(0.3)
Subtotal	44.5	57.0	(12.5)
Revenues Impacting Earnings:			
Customer sales	102.7	98.9	3.8
RDM and other regulatory mechanisms	5.7	0.6	5.1
Finance Charges	0.3	1.0 [2]	(0.7)
Incentives earned	1.4	0.8	0.6
Net plant & depreciation targets	(1.4)	(1.2)	(0.2)
Other revenues	6.7	5.1 [2]	1.6
Subtotal	115.4	105.2	10.2
Total Natural Gas Revenues	$ 159.9	$ 162.2	$ (2.3)

(1) Revenues with matching offsets do not affect earnings since they offset related costs, the most significant being energy cost adjustment revenues, which provide for the recovery of purchased natural gas costs. Other related costs include certain authorized business expenses recovered through rates and the cost of special programs authorized by the PSC and funded with certain available credits. For natural gas sales to other entities for resale, 85% of such profits are returned to customers.

(2) Other revenues reported for the year ended December 31, 2019 have been reclassified to conform with current period presentation.

Central Hudson's revenues consist of two major categories: those that offset specific expenses in the current period (matching revenues) and those that impact earnings. Matching revenues represent amounts billed in the current period to recover costs for particular expenses (most notably, purchased electricity and purchased natural gas, pensions and other post-employment benefits ("OPEB") and New York State energy efficiency programs). Any difference between these revenues and the actual expenses incurred is deferred for future recovery from or refund to customers and, therefore, does not impact earnings, with the exception of related carrying charges, which are recorded within other income or interest charges in the CH Energy Group and Central Hudson Statements of Income.

Electric Revenues:

The year over year increase in electric revenues is primarily due to the increase in customer delivery rates as prescribed in the 2018 Rate Order. Although the delivery rate increase approved for July 1, 2020 was delayed until October 1,2020, the associated revenue was recorded as an alternative revenue program and is currently being billed to and recovered from customers over the remaining period of the rate year ending June 30, 2021. Additionally, the Company recorded earnings adjustment mechanisms and earned incentives ("PRA's") in the current year based on achieving certain targets and milestones associated with energy efficiency and customer service as provided in the 2018 Rate Order. Partially offsetting these increases was the discontinuation of finance charges applied on customers' past due balances in order to alleviate additional financial hardship on customers during the current economic conditions as a result of the COVID-19 pandemic. The revenue deferral for the Net plant and depreciation targets resulted from delays in the completion of certain capital projects as compared to levels included in current rates and was offset, in part, by lower depreciation expense compared to the level provided in current rates and higher allowances for funds used during construction. Revenues also reflect lower revenues billed for the recovery of electric commodity costs due to a decrease in electric prices and sales volumes compared to the prior year.

Natural Gas Revenues:

Natural gas revenues decreased year over year as a result of lower natural gas commodity costs driven by decreases in price and sales volume, as well as the discontinuation of finance charges applied on customers' past due balances in order to alleviate additional financial hardship during the current economic conditions caused by the COVID-19 pandemic. These decreases were partially offset by the increase in customer delivery rates effective July 1, 2019 and July 1, 2020. The Company also recorded PRA's in the current year based on achieving certain targets and milestones associated with energy efficiency, reliability and customer service as provided in the 2018 Rate Order.

Central Hudson Operating Expenses

Period Ended December 31

(In millions)	Year to Date		
	2020	**2019**	**Change**
Expenses Currently Matched to Revenues:[(1)]			
Purchased electricity	$ 136.1	$ 142.1	$ (6.0)
Purchased natural gas	37.6	49.7	(12.1)
Pension & OPEB	13.5	6.0	7.5
New York States energy efficiency programs	39.8	37.9	1.9
Major storm reserve	11.7	6.8	4.9
Low income programs	11.6	9.8	1.8
Other matched expenses	17.7	16.0	1.7
Subtotal	268.0	268.3	(0.3)
Other Operating Expense Variations:			
COVID-19 incremental operating expenses	4.0	-	4.0
COVID-19 related uncollectible reserve	4.9	-	4.9
Depreciation and amortization	66.9	59.4	7.5
Property and school taxes[(2)]	57.7	53.6	4.1
Weather related service restoration	7.2	5.4	1.8
Distribution and transmission maintenance	6.1	5.4	0.7
Information technology	9.6	8.8	0.8
Labor and related benefits	92.9	91.5	1.4
Tree trimming	22.9	23.1	(0.2)
Other expenses	74.7	74.9 [(3)]	(0.2)
Subtotal	346.9	322.1	24.8
Total Operating Expenses	$ 614.9	$ 590.4	$ 24.5

(1) Includes expenses that, in accordance with the 2018 Rate Order, are adjusted in the current period to equal the revenues billed for the applicable expenses and the differences are deferred.
(2) In accordance with the 2018 Rate Order, Central Hudson is authorized to continue to defer for the benefit of or recovery from customers 90% of any difference between actual property tax expense and the amounts provided in rates for each Rate Year. Central Hudson's portion is limited to 5 basis points, with a maximum of approximately $0.5 million, pre-tax per Rate Year.
(3) Certain expenses reported for the year ended December 31, 2019 have been reclassified to "Other" to conform to the current period presentation.

Operating Expenses:

The increase in operating expenses is primarily attributed to increases in certain expenses as provided for in delivery rates including depreciation, property and school taxes and labor and related benefits. In addition, weather related restoration costs increased as a result of several major storm events during the year.

Central Hudson incurred incremental costs in 2020 associated with the COVID-19 pandemic. Specifically, incremental operating expenses included costs for the sequestration of key employees to ensure the continued reliability of system operations during the second quarter of 2020, additional PPE, and cleaning services and supplies. In the second half of the year, the impacts of the on-going incremental operating expenses associated with PPE and cleaning were offset by cost reductions as a result of the pandemic, including labor and contractor expense, as well as employee training and travel costs. Additionally, increases in the allowance for credit losses were recorded in 2020 based on a quantitative and qualitative assessment of future uncollectible expense based on the increase in customer receivable balances in arrears, a historical analysis of the relationship of write-offs to arrears, taking into consideration both, current and estimated forecast of future economic conditions.

Variations in purchased natural gas and electricity costs and other expenses currently matched to revenues do not have a direct impact on earnings due to Central Hudson's regulatory mechanism for the full deferral of these expenses.

Financial Position

CH Energy Group – Regulated – Central Hudson
Significant Changes in the Balance Sheets
as of December 31, 2020
(In millions)

Balance Sheet Account	Increase (Decrease)	Explanation
Accounts receivable, net of allowance for credit losses	8.0	Increase is primarily due to the impacts of the COVID-19 pandemic on customers, including legislative actions related to ceasing service terminations for non-payment and offering more flexible payment arrangements.
Other Receivables	(7.6)	Decrease is primarily due to the collection of costs previously billed for contributions in aid of construction to developers for their share of a capital project and for mutual aid related to hurricane restoration efforts in Puerto Rico.
Special deposits and prepayments	5.4	Increase primarily due to the transfer of natural gas balances from Fuel, Material and Supplies as a result of the Asset Management Agreement, coupled with the prepayment of school taxes.
Regulatory assets / liabilities - related to pension plan costs	9.3	Increase in regulatory asset (coupled with the decrease in the prior year regulatory liability balance) primarily attributed to the decrease in the funded status of the plans as described below within the change to Accrued Pension costs.
Regulatory assets - long term	39.4	Increase primarily reflects an increase in amounts accrued for future environmental remediation costs at the North Water Street manufactured gas plant ("MGP") site coupled with several major storm events in 2020, higher deferred taxes recoverable through future rates attributable to plant and the deferral of Rate Year 3 electric rate increases.
Prefunded OPEB costs	(6.0)	Decrease is the result of an increase in the projected benefit obligation due to a decrease in discount rate and unfavorable claims experience, which was only partially offset by investment gains on the OPEB plan assets.

Other investments	7.7	Increase primarily due to funding of the non-qualified Supplemental Executive Retirement Plan.
Long term debt, including current maturities	90.0	Increase is due to the issuance of $130 million in long-term debt during 2020, partially offset by the repayment of $40 million of maturing debt in September 2020.
Notes Payable	15.0	Increase is related to short-term borrowings to meet working capital needs.
Accounts payable	8.5	Increase is primarily due to costs associated with major storm restoration efforts, environmental remediation costs at the North Water Street MGP site and payments to New York State Energy Research and Development Authority ("NYSERDA") for Clean Energy Fund ("CEF") initiatives.
Regulatory liabilities - current	(5.7)	Decrease is primarily due to payments submitted to NYSERDA to fund CEF initiatives in excess of amounts collected, bill credits provided to customers per the 2018 Rate Order, partially offset by amounts billed to customers in excess of revenue targets.
Accrued environmental remediation costs, net	17.9	Net increase is primarily due to higher estimated remediation costs related to the North Water Street MGP site as a result of a change in the expected method of remediation.
Regulatory liabilities - long term	(11.9)	Decrease is primarily due to bill credits provided to customers per the 2018 Rate Order, the amortization of plant related deferred tax liabilities as a result of the Tax Cuts and Jobs Act and an increase in energy efficiency program expenses above amounts included in rates. Partially offsetting these decreases were negative revenue adjustments ("NRAs") related to net plant and depreciation targets.
Regulatory liabilities - related to OPEB costs	(13.1)	Decrease is primarily attributed to the decrease in funded status of the plan as described above within the change to Prefunded OPEB costs.
Accrued pension costs	14.1	Increase is primarily due to an increase in the projected benefit obligation due to a decrease in the discount rate and assumption changes resulting from the updated experience study, which were only partially offset by investment gains on retirement income plan assets and an update to the mortality projection scale.
Other liabilities - long term	5.6	Increase is primarily due to a deferral of payment of payroll taxes in accordance with the Coronavirus Aid, Relief, and Economic Security ("CARES") Act.

Liquidity and Capital Resources

CH Energy Group - Regulated, Non-regulated and Holding Company Summary of Cash Flow
Period Ended December 31,

(In millions)	Year to Date	
	2020	**2019**
Cash, cash equivalents and restricted cash - beginning of period	$ 21.1	$ 43.8
Cash from operations pre-working capital	142.4	126.9
Working capital	(11.4)	4.5
Operating Activities	131.0	131.4
Investing Activities	(256.8)	(237.8)
Financing Activities	117.5	83.7
Cash, cash equivalents and restricted cash - end of period	$ 12.8	$ 21.1
Dividends paid on Common Stock - CH Energy Group	$ -	$ (16.5)

Operating Activities: The increase in cash from operations pre-working capital in 2020 as compared to 2019 was primarily attributable to the growth in net income from delivery rate increases which provided earnings on rate base and the recovery of eligible deferrals through the rate adjustment mechanisms. These were partially offset by higher expenditures for major storm restoration. Working capital needs resulted in a draw on cash flow in 2020 primarily due to the impacts of the COVID-19 pandemic, most notably the impacts on customer billings and collections. Additionally, there was an increase in remittances of CEF collections to NYSERDA in 2020 and increased funding for certain internal energy efficiency programs to provide customers assistance in reducing their energy consumption and costs during the pandemic. The impact of these items on working capital was partially tempered by lower commodity costs, delayed payment of payroll taxes in accordance with the CARES Act and lower income taxes paid due to the utilization of net operating losses in 2020.

Investing Activities: Cash used in investing activities during 2020 increased $19 million, as compared to 2019 due to increased investment in Central Hudson's utility plant. The long-term capital program provides for continued strengthening of existing electrical and natural gas infrastructure, resiliency and automation of distribution systems, new common facilities and investments in information and distribution system technologies.

Financing Activities: During 2020, Central Hudson issued $130 million in Senior Notes, as compared to $100 million in the prior year. Proceeds received were used for general corporate purposes, including the repayment of a higher level of maturing debt and capital investments. The Company did not pay dividends in 2020 compared with the payment of $16.5 million in common stock dividends in 2019.

Anticipated Sources and Uses of Cash

CH Energy Group's cash flow is primarily generated by the operations of its utility subsidiary, Central Hudson. Generally, the subsidiary does not accumulate significant amounts of cash but rather re-invests its earnings into future capital investments and distributes excess cash to CH Energy Group in the form of dividends or receives capital contributions from CH Energy Group to meet equity financing needs.

Central Hudson expects to fund capital expenditures with cash from operations, a combination of short-term and long-term borrowings and capital infusions. Central Hudson may alter its plan for capital expenditures as its business needs require.

Central Hudson intends to fund growth in its long-lived assets in a manner that maintains an equity ratio of approximately 50%, excluding short-term debt balances. Central Hudson plans to utilize short-term debt to fund seasonal and temporary variations in working capital requirements. If wholesale energy prices increase, Central Hudson would expect a corresponding increase in its current level of working capital.

Central Hudson's secondary sources of funds is its cash reserves and credit facilities. Central Hudson's ability to use its credit facilities is contingent upon maintaining compliance with certain financial covenants. Central Hudson does not anticipate that those covenants will restrict its access to funds in 2021 or the foreseeable future.

CH Energy Group and Central Hudson are actively monitoring effects on cash flow related to the impact of COVID-19 on the economy of its utility service territory, customers, and operations. As a provider of essential electricity and natural gas services, Central Hudson continues to see uninterrupted demand. Cash expended by the Company in pandemic response activities is expected to be partially mitigated by reductions in other planned expenditures. Central Hudson has not experienced any issues with accessing capital markets during the pandemic, having successfully secured new financing in the third quarter at favorable interest rates. Central Hudson has also filed a request for a delivery rate increase to be effective July 1, 2021. While Management took initiatives to mitigate the impact of the rate increase on customers during this difficult economic environment, the requested increase would continue to provide the necessary cost recovery to ensure safe and reliable service, as well as a reasonable rate of return on its investments. At this time, CH Energy Group believes cash generated from operations and funds obtained from its financing program will be sufficient in 2021 and the foreseeable future to meet working capital needs, pay dividends on its Common Stock, fund Central Hudson's capital program and CHET's investment obligations in Transco and meet Central Hudson's public service obligations and growth objectives.

Committed Credit Facilities

The PSC issued a Financing Order, effective September 13, 2018, authorizing Central Hudson to enter into new credit agreements with maturities of no more than five years and in an aggregate amount not to exceed $200 million. On March 13, 2020, Central Hudson entered into a $200 million, five-year revolving credit agreement with five commercial banks to replace the agreement that was set to expire on October 15, 2020. Proceeds received from the new revolving credit agreement are to be used for working capital needs and for general corporate purposes. Letters of credit are available up to $15 million from three participating banks. The credit facility is subject to certain covenants and certain restrictions and conditions as well as Central Hudson is required to pay a commitment fee calculated at a rate based on the applicable Standard and Poor's or Moody's rating on the average daily unused portion of the credit facility.

On July 10, 2015, CH Energy Group entered into a Third Amended and Restated Credit Agreement with four commercial banks. The credit commitment of the banks under the facility was $50 million with a maturity date of July 10, 2020. Due to low demand for cash and the ability to receive funding from either dividends or equity capital contributions, CH Energy Group did not replace this credit agreement upon its maturity.

On a consolidated basis, CH Energy Group's committed credit as of December 31, 2020 and December 31, 2019 was $200 million and $250 million, respectively. There were no borrowings outstanding under the various credit arrangements as of December 31, 2020 and 2019.

Uncommitted Credit

At December 31, 2020, Central Hudson had uncommitted short-term credit arrangements with two commercial banks totaling $30 million. At December 31, 2019, Central Hudson had uncommitted short-term credit arrangements with three commercial banks totaling $40 million.

At December 31, 2020, CH Energy Group and Central Hudson had $15 million in borrowings outstanding under Central Hudson's uncommitted credit agreements with an effective weighted average interest rate of 0.9%. There were no outstanding borrowings under the uncommitted credit agreements at December 31, 2019.

Central Hudson's Bond Ratings

	December 31, 2020		December 31, 2019	
	Rating(1)	Outlook	Rating(1)	Outlook
S&P	A-	Stable	A-	Stable
Moody's	A3	Negative	A3	Stable
Fitch	A-	Stable	A-	Stable

(1) These senior unsecured debt ratings reflect only the views of the rating agency issuing the rating, are not recommendations to buy, sell, or hold securities of Central Hudson and may be subject to revision or withdrawal at any time by the rating agency issuing the rating. Each rating should be evaluated independently of any other rating.

On October 13, 2020, Moody's affirmed the rating of Central Hudson's senior unsecured debt and changed its rating outlook from stable to negative. Moody's indicated that the outlook reflects its view that the growing capital expenditure program, compounding the on-going impacts of federal tax reform on operating cash flow generation, could continue to have a negative impact on the Company's financial ratios. In addition, Moody's cited an increasingly challenging regulatory environment in New York State that could have an impact on the outcome of the Company's pending rate case. On December 11, 2020 Fitch affirmed its rating (A-) and stable outlook.

Central Hudson meets its need for long-term debt financing through privately placed debt. As a regulated electric and natural gas utility company, Central Hudson is required to obtain authorization from the PSC to issue securities with maturities greater than 12 months.

In accordance with the approved 2018 Financing Order, Central Hudson is authorized to issue and sell long-term debt in an aggregate amount not to exceed $425 million through December 2021, including $360 million for traditional utility purposes and up to $65 million to refinance its variable interest debt.

On November 17, 2020, Central Hudson issued $30 million of Series T Senior Notes, with an interest rate of 2.03% per annum and a maturity date of November 17, 2030. On September 28, 2020, Central Hudson issued $40 million of Series S Senior Notes, with an interest rate of 2.03% per annum and a maturity date of September 28, 2030. On July 14, 2020, Central Hudson issued $30 million of Series R Senior Notes, with an interest rate of 3.62% per annum and a maturity date of July 14, 2060. On May 14, 2020, Central Hudson issued $30 million of Series Q Senior Notes, with an interest rate of 3.42% per annum and a maturity date of May 14, 2050. Central Hudson used the proceeds from the sale of the Senior Notes to repay $40 million of maturing debt and for general corporate purposes, including the funding of capital expansion and improvement projects and the repayment of short-term borrowings.

Central Hudson's strong investment-grade credit ratings help facilitate access to long-term debt; however, management can make no assurance that future financing will be available or economically viable.

CH Energy Group and Central Hudson's capital structure is as follows: *(Dollars in millions)*

CH Energy Group

	December 31, 2020		December 31, 2019	
		%		%
Long-term Debt[1]	$ 847.5	49.3	$ 759.2	49.6
Short-term Debt	15.0	0.9	-	-
Common Equity	855.8	49.8	772.6	50.4
Total	$ 1,718.3	100.0	$ 1,531.8	100.0

(1) Includes current maturities of long-term debt.

Central Hudson

	December 31, 2020		December 31, 2019	
		%		%
Long-term Debt[1]	$ 837.0	49.1	$ 747.0	49.2
Short-term Debt	15.0	0.9	-	-
Common Equity	852.4	50.0	772.2	50.8
Total	$ 1,704.4	100.0	$ 1,519.2	100.0

(1) Includes current maturities of long-term debt.

In accordance with the 2018 Rate Order, Central Hudson's customer rates were premised on a capital structure, excluding short-term debt with a common equity ratio of 49% for the rate year beginning July 1, 2019. Beginning July 1, 2020 the common equity ratio increased to 50%. Central Hudson continues to manage its financing to maintain its common equity ratio at approximately 50%.

CH Energy Group and Central Hudson believe they will be able to meet their short-term and long-term cash requirements, given the flexibility awarded under the 2018 Rate Order, including a return on equity of 8.8%.

Critical Accounting Estimates

The preparation of Central Hudson's consolidated financial statements requires management to make estimates that affect the reported amounts of assets, liabilities, revenue and expenses, and the related disclosure of contingent assets and contingent liabilities. Estimates are based on the Company's historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making estimates about the carrying values of assets and liabilities. The accuracy of these estimates and the likelihood of future changes depend on a range of possible outcomes and a number of underlying variables, many of which are beyond our control. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following judgments and estimates are critical in the preparation of Central Hudson's consolidated financial statements.

- Central Hudson is subject to cost-based rate regulation. As a result, the effects of regulatory actions are required to be reflected in the financial statements. Regulatory accounting guidance results in differences in the application of generally accepted accounting principles between regulated and non-regulated businesses and requires the recording of regulatory assets and liabilities for certain transactions that would have been treated as expense or revenue in non-regulated businesses. Management periodically assesses whether the regulatory assets are probable of future recovery by considering factors such as changes in the applicable regulatory and political environments, the ability to recover costs through regulated rates, recent rate orders to Central Hudson and other regulated entities, and the status of any pending or potential deregulation legislation. Based on this assessment, management believes the existing regulatory assets are probable of recovery. This assessment reflects the current political and regulatory climate at the state and federal levels and is subject to change in the future. If future recovery of costs ceases to be probable, the regulatory asset would be written-off, which would materially impact earnings. Additionally, the regulatory agencies can provide flexibility in the manner and timing of recovery of regulatory assets.
- Depreciation and amortization is based on estimates of the useful lives and estimated net salvage value of properties.
- Estimates for uncollectible accounts are based on customer accounts receivable aging data as well as consideration of various quantitative and qualitative factors, including special collection issues, a historical analysis of the relationship of write-offs to accounts receivable balances in arrears, and estimated impacts of the current and future economic conditions.
- The tax reserve recorded by Central Hudson relates to a change in 2010 to its tax return methodology for claiming deductions for incidental repair and maintenance expenditures on its utility assets. Although management believes that its methodology for claiming the deduction is consistent with the Internal Revenue Code and case law, management cannot predict whether the Internal Revenue Service will accept the entirety of the deduction claimed.

- The estimates for other operating reserves are based on assessments of future obligations related to injuries and damages and workers' compensation claims.
- Unbilled revenues are determined based on the estimated sales for service rendered to customers whose meters are not read on the last day of the month.
- The significant assumptions and estimates used to account for the pension plan and OPEB expenses and liabilities are the discount rate, the expected long-term rate of return on the Retirement Plan and OPEB plans assets, the rate of compensation increase, the healthcare cost trend rate, mortality assumptions, and the method of amortizing gains and losses.
- Estimates are also reflected for certain commitments and contingencies where there is sufficient basis to project a future obligation, including environmental remediation costs and NRAs associated with gas code rule compliance audits.

Changes in Internal Controls over Financial Reporting

There have been no material changes in CH Energy Group's or Central Hudson's internal control over financial reporting during the year ended December 31, 2020.

Regulatory Proceedings

<u>2018 Rate Order</u>
On June 14, 2018, the PSC issued an Order Approving Rate Plan in cases 17-E-0459 and 17-G-0460. The 2018 Rate Order adopted the terms set forth in the April 18, 2018 Joint Proposal, with minor modifications. The 2018 Rate Order was effective July 1, 2018, with Rate Year 1, Rate Year 2 and Rate Year 3 defined as the twelve months ending June 30, 2019, June 30, 2020 and June 30, 2021, respectively.

The 2018 Rate Order provides electric delivery revenue increases of $19.725 million, $18.581 million and $25.083 million in Rate Year 1, Rate Year 2 and Rate Year 3, respectively and gas delivery revenue increases of $6.654 million, $6.702 million and $8.183 million Rate Year 1, Rate Year 2 and Rate Year 3, respectively. The Rate Order also provides electric bill credits of $6.0 million in Rate Year 1, $9.0 million in Rate Year 2, and $11.0 million in Rate Year 3; and gas bill credits up to $3.5 million in Rate Year 1 and $4.0 million in Rate Years 2 and 3.

On June 11, 2020, the Commission issued Order Postponing Approved Electric and Natural Gas Delivery Rate Increases, which approved Central Hudson's petition to ease the financial impact on customers during the critical months of the COVID-19 pandemic. The Order postponed for three months Central Hudson's approved Rate Year 3 electric and natural gas delivery rate increase scheduled to take effect on July 1 to October 1, 2020, without carrying charges and provided recovery of the forgone revenues over the period from October 1, 2020 through June 30, 2021. Central Hudson's RDM Targets were adjusted to be consistent with the delayed electric and natural gas delivery rate increase implementation.

On June 18, 2020, Central Hudson filed its Assessment of Natural Gas Demand Side Load Management Programs with the Commission in compliance with the 2018 Rate Order and Case 18-M-0084 based on the required Request for Proposal ("RFP"). The RFP, which currently is underway, was designed to solicit technology and fuel neutral market responses to a defined level of peak reduction. Central Hudson will conduct an analysis including a benefit cost analysis ("BCA")to determine the potential value of various levels of peak reduction provided by a Demand Response program. Following the implementation of a Gas Demand response program, annual reports that include an updated BCA will be filed with the Secretary within 60 days of the end of each Rate Year.

August 2020 Rate Filing

Central Hudson filed an electric and natural gas rate case (Cases 20-E-0428 and 20-G-0429) on August 27, 2020 with the PSC seeking electric and natural gas delivery revenue increases of $32.8 million and $14.4 million, respectively, to become effective July 1, 2021. The filing includes net regulatory liability balances proposed for rate moderation of $20 million for electric and $8 million for natural gas. The rate filing was made in order to align electric and natural gas delivery rates with the projected costs of providing service to our customers and reflects a return on equity of 9.1% and a 50.0% equity ratio to maintain financial integrity. Additionally, due to the severe economic impact of COVID-19 within its service territory, Central Hudson included specific actions within the filing to reduce the customer bill impact, which included delaying a meaningful portion of the capital plan ($48.5 million during the rate year ending June 30, 2022) and a COVID-19 Adjustment Customer Bill Moderation credit that reduces Central Hudson's revenue requirements by $1.8 million for electric and $0.5 million for natural gas.

The primary drivers for the increase in projected costs include: 1) capital investments to modernize Central Hudson's electric and natural gas infrastructure and information technology) systems resulting in increases in depreciation expense, return on rate base, and property taxes; 2) increasing expenses associated with vegetation management or trimming; 3) increasing employee levels and labor costs; and 4) initiation of a new Heat Pump program. Modernization of electric transmission and distribution infrastructure addresses the underlying age and condition of the assets and the need to enable the Distributed System Platform in order to better monitor and control the distribution system while facilitating increasing levels of Distributed Energy Resources penetration. This is directly tied to the goals of CLCPA. Central Hudson's filing also proposes the continued replacement of gas Leak Prone Pipe ("LPP"), replacing 15 miles per year resulting in an elimination of LPP from the Company's natural gas system in approximately eight years. Central Hudson also proposes to invest in information technology systems to transform and modernize customer interactions, complete the replacement of its 40-year old Enterprise Resource Planning mainframe solution and sustain the security and maintenance of its IT systems. Central Hudson is also proposing additional funding to maintain a four-year cycle for distribution line clearance and a five-year cycle for its transmission right-of way trimming maintenance while implementing a targeted tree removal program aimed at reducing the impact of the increasing number of severe weather events brought about by climate change and the proliferation of invasive insect infestations and tree diseases. Central Hudson is also seeking recovery of costs associated with the New York State Clean Heat program, which seeks to replace high carbon intensive heating sources with heat pumps and related measures.

The filing also proposes to:

1) modify and expand the current Earnings Adjustment Mechanisms ("EAM") that were approved in the 2018 Rate Plan;
2) introduce new PRAs while eliminating or modifying the structure of certain NRAs;
3) expansion of Central Hudson's RDMs to include additional service classes;
4) institute new deferral mechanisms, including authority to defer incremental COVID-19 related costs and lost revenues; and
5) expand the eligibility criteria for the Low Income Bill Discount Program to include customers who receive other forms of public assistance.

PSC Staff and intervenor testimony was filed on December 22, 2020. Central Hudson and certain intervener's filed rebuttal testimony on January 22, 2021. A PSC Order in response to the filing is anticipated with new rates to become effective July 1, 2021.

August 2020 Tropical Storm Isaias

On August 5, 2020, the New York State Governor instituted proceeding 20-01633 directing the Commission to initiate an investigation of certain New York State utilities' responses to Tropical Storm Isaias, which impacted Central Hudson's service territory on August 4. On August 19, 2020, the Office of Investigations and Enforcement of the DPS issued a Notice of Apparent Violations Related to Tropical Storm Isaias (the "Notice") to the Company. The Notice identified two potential violations based on the Staff's initial investigation into Central Hudson's storm response to Tropical Storm Isaias. On November 19, 2020, DPS Staff issued an interim Storm Report setting forth preliminary findings, including purported failures by the identified utilities to comply with their respective Commission approved Emergency Response Plans ("ERPs"). On the same day, the Commission issued an Order to Commence Proceeding and Show Cause ("Show Cause Order") that initiated proceedings against Central Hudson and the other utilities. The Show Cause Order identified 32 apparent violations by Central Hudson, which, if established, could result in up to $16 million of penalties. The Show Cause Order directed the utilities to respond to the allegations of noncompliance within 30 days and to show cause why civil penalties or appropriate injunctive relief should not be imposed to remedy such noncompliance. Central Hudson filed its response to the Show Cause Order on December 21, 2020. The Company performed a thorough investigation and, as indicated in its response, believes no penalty should be issued because the facts demonstrate that Central Hudson fully complied with its PSC approved ERP, which serves as the standard against which Central Hudson should be evaluated. As such, no accrual has been made related to this Proceeding and Show Cause Order or the Notice. On January 20, 2021, the PSC authorized the appointment of Administrative Law Judges to the pending proceedings and authorized the holding of evidentiary hearings. Management cannot predict the outcome of this matter or the impact it may have on Central Hudson's earnings, financial position or cash flows.

Central Hudson Reverse Sales Tax Refund

On March 16, 2020, Central Hudson filed a petition for the disposition of a sales tax refund, pursuant to PSL Section 113(2) under Case 20-M-0134. The tax refund is the result of a reverse sales tax audit that Central Hudson initiated with the New York State Department of Taxation & Finance for the claim period of June 1, 2017 through December 31, 2018. The Commission solicited comments on the filing via notice published in the April 22, 2020 edition of the New York State Register. Central Hudson asked the Commission to take notice of a tax refund received from the New York State Department of Taxation and Finance, in the amount of approximately $3.4 million on October 16, 2019 and waive the rule requiring the Company to give the Commission notice of the refund within 60 days. Central Hudson proposed that the refund received be allocated (1) for the benefit of ratepayers; and (2) to reimburse the costs incurred by Central Hudson in securing the refund. The Company proposed to retain approximately $0.6 million, or 24% of the refund, net of costs to achieve. Most of the refund has been credited to plant as the majority of the refund related to sales taxes that were capitalized as part of plant costs. The petition requested the PSC approve Central Hudson retaining the portion of the net refund related to amounts that were previously recorded to sales tax expense.

On June 18, 2020, Multiple Intervenors ("MI") filed comments in response to Central Hudson's petition that recommends the Commission direct Central Hudson to distribute customers' share of the tax refund directly to customers in the form of bill credits as expeditiously as practicable to provide immediate financial assistance to customers when it is most needed and proposed the refund should be returned to customers utilizing the same allocation methodology as was employed by Central Hudson to collect the taxes in the first place. Staff's testimony in the August 2020 filing requested that this proceeding be incorporated into the Rate Case filing rather than ruled upon separately. Although the outcome is unknown, any potential adjustments that may result from a PSC ruling differing from how the refund has been recorded to date is not expected to be material to Central Hudson's financial statements.

Central Hudson 2018 Financing Order
On September 13, 2018, the Commission approved the Company's request under Section 69 of the Public Service Law to enter into multi-year committed credit agreements in an aggregate amount not to exceed $200 million and maturities not to exceed five years, to issue and sell long-term debt in an aggregate amount not to exceed $425 million through December 2021, and to enter into derivative instruments to hedge interest rate risk for its variable rate debt obligations.

FERC Proceeding
On December 31, 2019, Central Hudson submitted to FERC a new rate schedule pursuant to Rate Schedule 12 of the NYISO Open Access Transmission Tariff ("OATT") to establish a Facilities Charge for System Deliverability Upgrades ("SDU") being installed on Central Hudson's transmission facilities, which are required to provide four Large Generating Facility Developers with Capacity Resource Interconnection Service. This charge provides Central Hudson with full recovery of all reasonably incurred costs related to the development, construction, operation and maintenance of the SDU and a reasonable return on its investment. Project costs to be recovered by Central Hudson and allocated to the Load Serving Entities ("LSEs") pursuant to Rate Schedule 12 of the NYISO OATT are expected to be approximately $2.6 million plus operation, maintenance and other applicable costs and will be updated annually. FERC has appointed a settlement judge and Central Hudson has circulated a settlement proposal at an updated Return on Equity ("ROE") of 9.4% plus a 50 basis point technology adder for a total ROE of 9.9%. Settlement conferences are in process.

The below matters are ongoing regulatory proceedings. We cannot predict the ultimate outcome or whether these proceedings would potentially impact Central Hudson in the future. Should it become reasonably possible or probable in the future that a loss will be sustained from any of the below proceedings, disclosure that it is reasonably possible or an accrual of the probable amount of loss will be made consistent with our accounting policies.

Value of Distributed Energy Resources Proceeding ("DER") – Value of "D"
In December 2015, the Commission instituted Case 15-E-0751, "In the Matter of the Value of Distributed Energy Resources ("VDER")" to propose valuation methods for DER. These compensation reforms are being considered as a reform to net metering. The Joint Utilities ("JU") believe that a demand-based rate structure will more accurately reflect utility cost causation, deliver efficient price signals and lead to distributed energy resource investment decisions that appropriately reflect grid impacts and support REV goals.

On April 18, 2019, the PSC issued an Order Regarding Value Stack Compensation, which is intended to improve the predictability, transparency, and accuracy of Demand Reduction Value ("DRV"), Locational System Relief Value ("LSRV"), and Capacity Value calculations and compensation as well as an authorized new rate component to encourage robust Community Distributed Generation ("CDG") development. In addition, the Order provided for an opt-in to participate in Central Hudson's demand response programs as an alternative to DRV and LSRV compensation, the expansion of Phase One Net Energy Metering eligibility for certain demand-billed customer projects under 750 kilowatts and a provision for a Community Adder as an upfront incentive for Market Transition Charge replacement applicable to the development of at least 50 MW of new CDG projects funded by NYSERDA from previously collected, uncommitted ratepayer funds.

On December 12, 2019, the Commission issued an Order Regarding Modifications to Value Stack Compensation for High-Capacity-Factor resources. The order directed utilities to adjust the Market Transition Credit and Community Credit that is applicable to subscribers of qualifying CDG projects with generation produced by dispatchable, high-capacity-factor resources, specifically fuel cells and also to limit the Environmental component of the Value Stack to renewable energy systems with resources that are defined under PSL 66 (p). These changes were made to the Company's tariffs to be effective February 1, 2020.

On May 16, 2019, the PSC issued an Order on Standby and Buyback Service Rate Design and Establishing Demand Based Rates. The Order provides current Standby and Buyback customers an increased ability to manage their usage and provides other customers the benefits of standby service rates as optional rates. Effective July 1, 2019, the tariffs offer Standby Service Rates to all demand-metered customers, in lieu of customer's existing rate structure. Customer's opting-in to standby rates must do so for a period of not less than one year and will continue to be included in the RDM reconciliation. A reliability credit, which provides a monetary credit based on the difference between a customer's Contract Demand and maximum Daily As-Used Demand, will be restricted by excluding customers' DERs that receive Value Stack compensation for exports to the system. A 5 MW project-level uninstalled capacity compensation limit was established for installed capacity purchased from buyback service customers, consistent with the maximum project size allowed under VDER. Resources with a capacity greater than 5 MW operating under existing capacity purchase contracts will be grandfathered.

On June 12, 2020, the Commission issued Order Granting Reconsideration Regarding Compensation of Community Generation Compensation in response to a petition filed April 19, 2020 by the Coalition for Community Solar Access and New York Solar Energy Industries Association. The Order directs that the Proposed Community Credit ("CC") in the VDER Compensation Order will be part of the compensation for large customers of each eligible CDG project starting with the first billing cycle for that project for which the entire billing period falls after July 31, 2020. The CC authorized in this Order will not be provided for generation for which CDG members have already received compensation.

On July 16, 2020, the Commission issued Order Establishing Net Metering Successor Tariff setting forth directives that allow certain Distributed Generation projects utilizing Net Energy Metering-eligible technologies, to be eligible for a range of delivery rate options presently offered in utility tariffs, including standard, time-of-use and standby rates, while beginning to address cost shifts and improve incentives. The Order also establishes a Customer Benefit Contribution which is a monthly $/kW charge to recover public benefit program costs applicable to customers that install solar photovoltaic technology and interconnect on or after January 1, 2022.

On November 25, 2020, the DPS Staff issued a Whitepaper on Allocated Cost of Service ("ACOS") Methods Used to Develop Standby and Buyback Service Rates. The whitepaper recommends a standardized ACOS study methodology and rate design for standby rates and buyback service rates for stand-alone energy storage systems. The whitepaper recommends that each of the Joint Utilities file new ACOS studies and resulting rates based on a consistent standardized methodology. The whitepaper also recommends that the Commission implement an exemption from Buyback Service Contract Demand Charges for stand-alone energy storage systems that export electricity to the electric grid. Initial Comments are due February 15, 2021 and Reply Comments are due March 1, 2021.

Hybrid Storage Energy Systems

On December 13, 2018 the Commission issued an Order Implementing a Hybrid Energy Storage System Tariff. Owners of Hybrid Facilities must choose one of four metering options prior to operation and owners are responsible for paying for necessary metering and/or controls consistent with the Standard Interconnection Requirements. The four metering options are: 1) designed for a project where the owner intends to charge the hybrid facility exclusively from a renewable generator and not from the utility system, 2) designed for projects where the owner intends to use the storage resource only to serve on-site load and not to inject energy into the utility system, 3) designed for projects where the storage resources may be charged from both a renewable generator and the utility site and both the renewable generator and the storage system may be used to inject into the utility system for compensation and 4) applies to Hybrid Facilities that are separately sited. Owners may make a one-time, irrevocable decision to switch from Option 1 or 2 to Option 3. The hybrid energy storage system tariffs became effective January 1, 2019.

Climate Change Risk Reporting
On October 15, 2020, the Commission issued Case 20-M-0499, an Order Instituting Proceeding to consider adoption of the Financial Stability Board's Task Force on Climate-related Financial Disclosure recommendations for a uniform approach and set of corporate-related financial disclosures at the utility operating company level. The Commission's Order states that for public utilities with significant assets and changing physical infrastructure needs, increased transparency of climate related financial risks would allow for better planning and investment consistent with New York State's climate goal of a carbon neutral economy by 2050. The Order seeks to gather information from utility operating companies and other interested parties, including pros/cons and costs/benefits of climate risk disclosure and the use of a uniform framework. On December 15, 2020, the JU filed comments in response to the Commission's October Order supporting the use of enhanced climate risk reporting at the operating company level based on the AGA/EEI Template and recommended that this information be provided through separate annual filings with the Commission in a new proceeding.

Strategic Use of Energy Data Proceeding
On March 19, 2020, the Commission issued an Order Instituting Proceeding: Strategic Use of Energy Related Data in Case 20-M-0082 to combine the multiple proceedings where data related topics have been addressed in recent years. As directed in the Order, Staff filed two whitepapers which establish a Data Access Policy Framework that standardizes necessary privacy, cyber security and quality requirements for access to energy related data and the creation of an integrated energy data resource that provides a platform for access to customer and system data. The Staff Whitepaper Regarding Data Access Framework creates a statewide certification process to grant Energy Service Entity ("ESE") access to energy-related customer data. Staff recommends the Commission direct individual utilities to submit a compliance filing that details how each utility has updated all existing policies to comply with the Data Access Framework. The whitepaper also recommends the Commission direct the JU to file for Commission review and approval an implementation plan for ESE risk management program and implementation plan for an interim centralized certification model. The purpose of the Staff Whitepaper Recommendation to Implement an Integrated Energy Data Resource ("IEDR") is to provide useful access to energy data and enable achievement of CLCPA. Staff recommends the Commission adopt a statewide NYSERDA sponsored IEDR, funding framework and governance, for which the utility would have a small role. Technical Conferences for Data Access and Data Framework were held July 21 and 22, 2020, respectively. The JU filed initial comments on August 24, 2020 and reply comments on September 11, 2020. In October, Staff issued a series of interrogatories to each utility requesting cost estimates for an IEDR implementation. The JU worked with Staff collaboratively in preparation of their information request responses which were filed with Staff on December 11, 2020.

Gas Planning Procedure
The Commission issued an Order Instituting Proceeding on Gas Planning on March 19, 2020 in Case 20-G-0131. This proceeding was initiated to ensure more useful and comprehensive planning for natural gas usage and investments in New York State. The proceeding will focus on several major issues including examining constraints, gas planning, non-pipe solutions, gas moratoria standards and demand-side resources.

Central Hudson and the Joint Local Distribution Companies ("LDCs") filed the following items in compliance with the Order:

- Supply/demand analysis for locations identified as "vulnerable" within each utility service territory on July 17, 2020 (as amended);
- Supply/demand analysis for the entire utility service territory on July 31, 2020 (as amended);
- Peaking Services and Moratorium Management Proposal on July 17, 2020;
- Utility Status Report/Proposals on Plans for Utilizing Demand Reducing Measures (Energy Efficiency ("EE"), Demand Reduction Non-Pipe Alternatives, other) to aid in management of moratoria (including existing EE and electrification programs and targets) on August 17, 2020; and
- Staff Proposal to Modernize Gas System Planning Process was extended to February 12, 2021.

COVID-19 Related Orders and Proceedings

On March 7, 2020, New York State Governor Andrew Cuomo issued Executive Order 202 Declaring a Disaster Emergency in the State of New York which addresses the threat that COVID-19 poses to the health and welfare of New York's residents and visitors. The Executive Order has been extended several times and is currently in effect until January 29, 2021. Central Hudson has suspended terminations or shut-offs for customers and has aided customers impacted by COVID-19 who may be experiencing financial hardship. Effective April 1, 2020, Central Hudson began waiving finance charges for late payments.

On April 6, 2020, the Commission issued an Order Suspending Certain Payment Obligations related to Standardized Interconnection Requirements. These payments relate to the final 75% of estimated interconnection costs paid to the utility by applicants and are suspended for the length of the Disaster Emergency plus thirty calendar days. This Order also directed electric utilities to continue all interconnection activities that can be conducted in accordance with the Governor's orders relating to the conduct of essential and non-essential work.

On April 15, 2020, the Commission issued an Order Granting Extension of Time to Complete Gas Service Line Inspections and Leakage Surveys. These extensions were necessary to protect the health and safety of LDCs' employees, customers, and the general public during the COVID-19 pandemic because completing these inspections would require LDC employees to enter buildings for non-emergency reasons, which would risk community contact transmission of the COVID-19 virus. On September 2, 2020, the National Gas Association, on behalf of the New York State LDCs, submitted a report with a progress summary and proposed next steps to complete the Gas Service Line Inspection and Leakage Surveys with Staff and proposed to work collaboratively with Staff to further advance completion of baseline inspections hindered by access issues.

On April 10, 2020, MI filed a petition with the Commission requesting an expeditious ruling and recommendation that, at a minimum, surcharges and collections devoted towards funding programs and projects be either reduced or delayed providing relief to customers. The petition also proposed that prior collections from customers for such programs and projects that remain uncommitted be returned to customers and to the extent activity in such programs and projects has been paused due to the pandemic, current customer collections to fund such programs similarly should be paused. MI filed supplemental comments to support its April 10, 2020 petition that cited NYSERDA's "Clean Energy Fund Quarterly Performance Report through December 31, 2019" (dated March 2020) that indicates (1) As of December 31, 2019 $1.2 billion of the amount approved for collection across all New York State utilities remained unspent and uncommitted and could be utilized to provide much-needed rate relief to customers during these very-challenging times and (2) Central Hudson has a regulatory liability of approximately $59.3 million as of June 30, 2020 associated with CEF collections from customers in excess of amounts drawn by NYSERDA for program spending. The Commission incorporated this filing into the new proceeding, Case 20-M-0266 further discussed below.

On April 20, 2020, Public Utility Law Project of New York ("PULP") filed a petition with the PSC requesting the Commission to commence a proceeding to investigate and consider the effects of COVID-19 and the impacts of Governor Cuomo's Executive Order 202 on the rates and provisions of utility services. The petition urged that utilities currently in litigation, settlement or with recently filed rates cases be required to file up-to-date rate case quality data, and that these utilities should be required to file potential austerity updates and adjust their requested return on equity and debt to equity ratios. PULP also stated that rate increases included in approved multi-year rate plans currently in effect are based on inaccurate data and will devastate individuals already suffering in the aftermath of the COVID-19 crisis. PULP's petition identified a need for the Commission and the Office of Temporary and Disability Assistance to determine a method that will ensure customers can still receive Emergency

Home Energy Assistance during the moratorium on utility service shutoffs. The Commission incorporated this filing into the new proceeding, Case 20-M-0266 further discussed below.

On June 11, 2020, the Commission established a new proceeding, Case 20-M-0266 to identify and address the effects of the COVID-19 pandemic on utility service in New York State, including all entities subject to Commission jurisdiction or permitting authority. The proceeding included, but is not limited to, impacts on rate-setting, rate design, utility financial strength, low income programs, collections and termination of service ensuring the provision of safe and adequate service at just and reasonable rates in recognition of the ramifications from the COVID-19 pandemic and the extent to which the Commission's clean energy programs should be maintained or accelerated. Public comments on the following topics: collection and termination of service, commission principles in serving the public interest and rate and financial aspects, as provided in an Appendix to the Order, were filed by parties on July 13, 2020 and reply comments were filed August 28, 2020. As requested by Staff, utilities are providing on a monthly basis, financial information to enable an assessment of the COVID-19 impacts on utility earnings and cash flow. Central Hudson is providing the monthly requested information to Staff with regards to COVID-19 lost finance charge revenues and incremental costs, including the increase in past due balances and the uncollectible reserve and cost reductions.

On June 17, 2020, Governor Cuomo signed legislation (S8113A), which amended Public Service Law 66, Section-32 for a period of time currently set to expire March 31, 2021. The bill prohibits any utility corporation or municipality from terminating or disconnecting services to any residential customer for the non-payment of an overdue charge for the duration of the COVID-19 state disaster emergency declared pursuant to Executive Order 202. Further, the law imposed a duty on utility corporations and municipalities to restore service, to the extent not already required under the law, to any residential customer within forty-eight hours if such service was terminated during the pendency of the COVID-19 State of Emergency.

Offshore Wind Proceeding

On July 12, 2018, the Commission issued an Order Establishing an Offshore Wind ("OSW") Standard and Framework for Phase 1 Procurement under Case 18-E-0071, in order to comply with NYSERDA's New York State Offshore Wind Master Plan, a comprehensive roadmap that encourages the development of at least 2,400 MW of offshore wind capacity to be operational by 2030. NYSERDA will serve as the procurement agent for OSW.

The standard calls for Phase 1 Offshore Renewable Energy Credits ("ORECs") associated with approximately 800 MW of OSW to be procured over a two-year period. On July 18, 2019 Governor Cuomo announced the selection of two offshore wind building projects that include an 880 MW project and 816 MW project. LSEs were obligated to acquire, on behalf of their retail customers, the ORECs procured in Phase 1 in an amount proportional to their load in relation to the energy load served by all LSEs in the New York Control Area.

On April 23, 2020, the Commission issued an Order Authorizing Offshore Wind Solicitation, allowing NYSERDA to issue an additional offshore wind solicitation in 2020 for 1,000 MW or more in response to a petition filed by NYSERDA. The petition is based on NYSERDA's goal of maintaining its trajectory toward meeting its Clean Energy Goals as detailed in the CLCPA, which requires 9,000 MWs of OSW to be operational by 2035. As part of this goal, NYSERDA executed contracts for two proposals with an aggregate nameplate rating of 1,696 MWs at an average OREC price of $25.15 and took advantage of the extension of the federal Investment Tax Credit of 18% which applies to wind facilities that begin construction during 2020. The Order directed NYSERDA to conform its solicitation with the Index REC Order where developers have the option to bid either a Fixed-Price OREC bid or an Index OREC bid, but not both. NYSERDA will use a Reference Energy Price that reflects the average Locational Based Marginal Pricing from a project's zone of delivery and a Reference Capacity Price that is calculated using a project's specific NYISO-designated locality. Developers have the option to select an

Uninstalled Capacity production factor that will be utilized for the life of the contract and a ceiling on the index price payable for all hours was set at the strike price.

Energy Storage System Proceeding

In January 2018, Governor Cuomo announced a target to install 1,500 MW of Energy Storage Systems in New York State by 2025. On June 21, 2018, PSC Staff and NYSERDA released their proposal to achieve this target in their Energy Storage Roadmap. The roadmap groups storage application into three market segments – customer sited, distribution system and bulk system – based on where storage is located on the electric grids and the needs it serves.

On December 13, 2018, the Commission issued its Order Establishing Energy Storage Goal and Deployment Policy. Each electric Investor Owned Utility was required to issue a Request for Proposal in 2019 to competitively procure dispatch rights for bulk-level energy storage systems sited within their service territory. On September 30, 2019, Central Hudson posted its RFP and Energy Storage Service Agreement Terms and Conditions for prospective bidders and stakeholders to prequalified bidders. Central Hudson received proposals for six projects. On July 1, 2020, Central Hudson reviewed those proposals with Staff, which were not economically viable, and none accepted.

On September 17, 2020, the Commission issued an Order Establishing Term –Dynamic Load Management ("DLM") and Auto-Dynamic Load Management Procurements and Associated Cost Recovery to address longer-term rule and price certainty in the DLM programs. The Order implements two new DLM program options (Term-DLM and Auto-DLM) which will provide incentive payment certainty for participants for a period of three years or longer. The Order was established to incentivize customers on the use of energy storage technologies and encourage further deployment of these solutions. The Order directs the following:

- Resources to be operational and provide load relief by May 1, 2021;
- Resources for both programs be procured through a sealed-bid, pay-as-bid auction method;
- Require utilities to develop bid ceiling prices, consulting with Staff that bid ceilings are proper and consistently designed prior to determining the bids to award;
- Payment structure with contract value equally spread over the contract term subject to performance requirements;
- Term-DLM Day Ahead Peak Shaving Program whereby participants will provide load relief on not less than 21 hours advance notice during a specified four-hour period and available throughout the utility service territory (called only Mon-Fri and may participate in DLRP during the same period); and
- Auto-DLM Reliability and Peak Shaving Program whereby participants will provide load relief on not less than 10 minutes advance notice at any time, except for specified off-peak charging hours, for a period of four hours. (This program is available in specified areas of each utility's service territory and customers cannot participate in any other distribution DR program.)

On November 16, 2020, Central Hudson made tariff filings describing cost allocation and cost recovery in compliance with the Order. The Order is temporarily effective December 1, 2020, with the report on the effectiveness of Term DLM and Auto-DLM to be included in the utility's annual DLM report due November 15, 2021. On December 9, 2020, the Company submitted its RFP seeking three-year contracts for resource participation in the DLM Programs.

Electric Vehicle ("EV") Direct Current Fast Charging ("DCFC") Infrastructure Program

On February 7, 2019, the Commission issued an Order Establishing Framework for a DCFC Infrastructure program. The Order adopted the multi-party DCFC per plug incentive proposal to support critical public infrastructure in furtherance of the State Energy Plan carbon reduction targets and zero emission vehicle deployment goals. On January 13, 2020, Staff issued its Whitepaper Regarding Electric Vehicle Supply Equipment and Infrastructure Deployment. A Commission notice and formal comment period is expected to follow.

On March 2, 2020, Central Hudson filed its 2019 Annual Report describing participation in the program, geographic plug location, installation costs, energy usage details and technologies used to manage demand.

On March 19, 2020, the Commission issued Order Providing Clarification and Modifying Direct Current Charging Incentive Program which adopted the following clarifications/modifications to the previous EV DCFC orders, including:

- Tesla's method of payment will qualify under the DCFC incentive program;
- DCFC per-plug incentive program data collection will only be used publicly in fully anonymized aggregated annual reports;
- A two-year extension of the 2019 incentive level to December 31, 2021 was approved;
- DCFC per-plug incentive program rules were modified so that, at co-located stations, any plug type capable of simultaneously charging two vehicles at 75 kW or greater will receive a full per-plug incentive, and standardized plug equipment at the site capable of simultaneously charging two vehicles at 62.5 kW to 74 kW will receive 60% of full incentive;
- Mixed tier incentives will cease after three years on March 19, 2023; and
- No single station developer or operator may seek incentives for installations of greater than 50% of the plugs per utility service area.

On April 28, 2020, the JU filed comments supporting higher incentives, more program flexibility and a less prescriptive approach.

On July 16, 2020, the PSC issued Order Establishing Electric Vehicle Infrastructure Make Ready Program and Other Programs. The Order establishes a statewide EV Make Ready Program ("MRP") with a total budget capped at $701 million through 2025 including $206 million for the benefit of low/moderate income and environmental justice communities. The MRP is targeted at public/workplace chargers and Direct Current Fast Chargers and includes a Medium Duty and Heavy Duty MRP Pilot Program. The Order requires utilities offer a Fleet Assessment Service and creates three new NYSERDA Environmental Justice prize competitions totaling $85 million. The JU filed an MRP Participant Guide and Central Hudson filed its MRP Implementation Plan on August 17, 2020 and September 14, 2020, respectively. Utilities were required to develop an on-line EV supply application portal in a phased approach with Phase 1 and Phase 2 completed on October 16, 2020 and January 19, 2021, respectively. On December 4, 2020, Central Hudson filed tariffs for recovery of the EV MRP costs its Charging Proposal with the PSC. As directed by the Order, Central Hudson completed publication of load serving capacity maps tailored to support electric vehicle charging station siting by December 31, 2020 and is working with developers to determine the feasibility of future proofing plans from a grid and site perspective at each participating station. On December 17, 2020, the Commission issued a declaratory ruling that prize competitions are open to projects located anywhere in the State, but projects located outside of the investor-owned utility service territories must be funded incrementally and are not eligible to access the $85 million in Prize Competition funds established by the Make-Ready Order.

Energy Efficiency Proceeding

On December 13, 2018, the Commission issued an Order Adopting Accelerated Energy Efficiency Targets that established an interactive approach with immediate accelerated utility targets and budgets adopted for the years 2019-2020 and a process for developing utility-specific targets and budgets for the years 2021-2025, to be authorized by the Commission in 2019. The Order also develops processes to establish third party data access protocols, fuel switching, low-moderate income ("LMI") targets and future EAM development. Central Hudson's 2019-2020 targets did not increase since the 2018 Rate Order already reflects increased targets.

On April 1, 2019, the JU filed the New Efficiency New York filing. Central Hudson accepted the Commission's provisional electric and gas energy efficiency targets but proposed a higher incremental budget of $18 million and $1.1 million for electric and natural gas, respectively. The increase in incremental budget would align Central Hudson with the $/kWh and $/MMBtu average of other New York State utilities. The increase would be funded in part by unspent energy efficiency funds. Additionally, the utilities and NYSERDA were directed to begin implementation of a statewide ratepayer Low Income Plan in 2020, which is further discussed below. Finally, utilities were instructed to continue to file a System Energy Efficiency Plan, including quarterly progress reports.

On May 21, 2019, the JU filed an updated report, which included a discussion of heat pump program budgets and targets. Within the report, Central Hudson proposed a target installation of 11,934 residential and small commercial heat pumps with a budget of $30.2 million for the period 2020 through 2025. The 11,934 installation target results in savings of 253 GBtu, which is 39% lower than the target proposed by NYSERDA. Central Hudson's target was derived through a robust service territory specific analysis conducted by a third-party evaluation consultant.

On January 16, 2020, the Commission issued Order Authorizing Utility Energy Efficiency and Building Electrification Portfolios Through 2025. The Commission estimates bill impacts of the contained budgets to average 0.7% of electric bills and 0.4% of gas bills. Unspent funds from prior periods will be leveraged to the extent possible to cover incremental expenditures. Additionally, companies were directed to use the 2020 budgets to reimburse NYSERDA for heat pump incentives paid within our service territory. The JU and NYSERDA jointly filed a Heat Pump Implementation Plan and Program Manual on March 16, 2020 in compliance with the Order.

The JU were directed to convene with NYSERDA and on a LMI Management Committee to develop a statewide LMI framework, including a customer-facing hub, as well as conducting LMI stakeholder engagement. On July 24, 2020, the JU filed a Statewide Low and Moderate Income Portfolio Implementation Plan and 2020 Stakeholder Input Companion Document with the Commission. On September 14, 2020, Staff issued a letter of approval to the JU confirming compliance of the Implementation Plan with the provisions of the Order contingent on Program Administrators following supplemental filings that address: (1) details of the operation of the Joint Management Committee, (2) development of a single application across Program Administrators, (3) a timeline detailing progress on milestones, (4) updates to the CEF/LMI Investment Plan, and (5) continuation of stakeholder engagement.

The Accelerated Renewable Energy Growth and Community Benefit Act (the "ARECB Act") and related Proceedings and Orders

On April 3, 2020, Governor Cuomo signed the ARECB Act into law in recognition that achieving the CLCPA climate protection targets requires restructuring and repurposing the State's electric transmission and distribution infrastructure. The ARECB Act has resulted in activities as discussed further below under the Renewable Energy Facility Host Community Benefit Program, Transmission Planning, and the Clean Energy Standard Proceedings subheadings.

Renewable Energy Facility Host Community Benefit Program
On May 29, 2020, the Commission opened a new proceeding, Case 20-E-0249, to consider the establishment of a Host Community Benefit Program for municipalities within which major renewable energy facilities are constructed. Section eight of the ARECB Act provides that the PSC will establish a program through which the owners of major renewable energy facilities will fund a benefit for customers located in the municipalities that host the facilities in the form of a bill discount or credit, or a compensatory or environmental benefit for the impacted electric utility customers. The JU filed comments on how the Host Community Benefit should be structured on July 2, 2020, recommending additional collaboration to evaluate the various methods of implementing the Act and the merits of the various types of benefits that can be provided to communities.

Transmission Planning – Accelerated Renewable Energy Growth and Community Benefit
On May 14, 2020, the Commission instituted a proceeding on Transmission Planning pursuant to the ARECB Act to develop and consider proposals for implementing the distribution and transmission upgrades, capital expenditures and planning. The ARECB Act directs the Commission to develop and implement plans for future investments in the electric grid to ensure it will support the State's aggressive climate goals. This Order reviews the legislative directives under the ARECB Act, immediately implements certain mandates, and outlines the additional actions the Commission plans to pursue to fulfill the objectives of the ARECB Act over the next several months.

Clean Energy Standard Proceedings
Governor Cuomo announced New York State's 2015 State Energy Plan as a comprehensive roadmap to build a clean, resilient and affordable energy system for New York State.

On January 16, 2020, in an Order issued Modifying Tier 1 Renewable Procurements, the Commission directed NYSERDA to offer bidders an Index Renewable Energy Credit ("REC") price option in future Renewable Energy Standards ("RES") solicitations, beginning in 2020. NYSERDA filed its RES Program evaluation and Clean Energy Standard ("CES") Triennial Review report on June 1, 2020 in compliance with the CES reporting requirements.

On June 5, 2020, NYSERDA filed a petition regarding Clean Energy Resources Development and Incentive Program submitted in fulfillment of the ARECB Act requesting approval and funding to initiate and advance the "build ready" program through 2025. The program is expected to sustain six large scale renewable projects through 2025 with focus on utility scale solar and wind projects that may be paired with energy storage. The program focuses on reuse of previously developed and otherwise underutilized sites offered to renewable energy developers with bundled long-term REC contracts. The petition has been published for public comment.

On June 18, 2020, NYSERDA and DPS Staff submitted a whitepaper for public notice and comment, as well as Commission consideration on Clean Energy Procurements to Implement New York's CLCPA. The whitepaper identifies a proposed regulatory structure to address the CLCPA requirements for a renewable energy program and proposes to use the existing regulatory and procurement structure established under the Commission's CES to meet the 70 by 30 Target and adopts policy changes and other modifications to the CES to align with the CLCPA. A technical conference was held July 14, 2020 by NYSERDA and DPS Staff to discuss the regulatory framework proposed in the whitepaper. The JU submitted comments in response to the whitepaper and parties' preliminary comments on August 31, 2020.

On August 10, 2020, NYSERDA filed a petition with the Commission for the ability to convert generators currently under fixed-price REC contracts that have not yet achieved commercial operation to index-REC contracts; comments were filed by the JU on October 13, 2020.

On November 20, 2020, the Commission issued Order Authorizing Voluntary Modification of Certain Tier 1 Agreements which directed NYSERDA to issue a notice, within 60 days of the issuance of the Order, inviting all eligible developers to express interest in receiving an Index Renewable Energy Credit strike price offer. The Order also directed NYSERDA to provide a one-time option for eligible developers that have existing Fixed-Price Renewable Energy Credit contracts, but have not yet commenced commercial operation, to accept or reject, within 45 days, an offered Index Renewable Energy Credit strike price offer.

On August 13, 2020, the Commission approved the CES Phase 4 Implementation Plan Proposal submitted jointly by NYSERDA and Staff on April 16, 2020. The plan addressed the following implementation steps:

- NYSERDA was authorized to employ an index pricing structure in its future Tier 1 solicitations,
- the establishment of the process of setting market prices, performance criteria of auctions and the managing of REC vintages of the Tier 1 RECs that NYSERDA procures under this new structure,
- addressing unintentional impacts on the market for RECs imported to or exported from New York, and
- determining the impacts to the Value Stack Environmental Value tariffs.

NYSERDA filed the final Phase 4 Implementation plan that conformed changes required by the Phase 4 order on September 12, 2020.

Consolidated Billing for Community Distributed Generation

On December 12, 2019, the Commission issued an Order under Case 19-M-0463 in the Matter of Consolidated Billing for Distributed Energy Resources, adopting implementation of consolidated billing for CDG through a net crediting model, which will be available to all CDG projects, both existing and new. The Order requires CDG sponsors to guarantee a minimum CDG savings rate of 5.0% for participants, requires the net member credit to appear on customers' bills, requires the utility to provide the CDG sponsor with a sponsor payment which is equal to the total generation value less the net credits provided to subscribers, less a discount retained by the utility to recover costs for performing the consolidated billing function which the Order initially set at 1.0%. Central Hudson filed a Consolidated Billing Implementation Plan on February 3, 2020 that included an anticipated timeline for implementation of net crediting as well as a cost estimate. The Order directed utilities to file a Sponsor Net Crediting Agreement, Net Crediting Manual, tariff leaves and a Billing Upgrade Report which were filed on August 31, 2020, September 1, 2020 and November 24, 2020. On December 15, 2020, DPS Staff issued a CDG Banked Credits whitepaper intended to establish consistent banked credit distribution rules and processes across the utilities and avoid the forfeiture of credits when subscribers to projects either closes its utility account or terminates participation in the CDG project. Initial comments are due March 1, 2021 and Reply Comments are due March 15, 2021.

In the Matter of Utility Preparation & Response to Power Outages During the March 2018 Winter Storms

On March 14, 2018, following the March 2018 Nor'easter storms on March 2nd (Riley) and March 7th (Quinn), the PSC notified the chief executives of the state's major electric utility companies that an investigation into preparedness of and response to the two early March storms was underway, including all aspects of the Company's filed and approved emergency plans.

On April 18, 2019 the Commission released its 2018 Winter and Spring Storms Investigation Report ("Report") following its investigation. The Report has 94 recommendations that cover 18 topics, detailing actions to be taken to improve future storm preparation and restoration performance. The most significant recommendations address road clearing, damage assessments, estimated restoration times and communications with customers during the event. Utilities are directed to review each of the 94 recommendations and file a response with the Commission identifying whether the Commission should mandate, reject, or modify, in whole or in part, such recommendations. The Report cited Central Hudson's alleged failure to comply with a section of its ERP related to updates of its Interactive Voice Response ("IVR") within one hour of the Company's press releases. In an Order instituting proceeding and to show cause issued April 18, 2019, utilities were directed to show cause why the Commission should not pursue civil penalties pursuant to PSL §25 and/or administrative penalties, pursuant to PSL §25-a, for the apparent failure to follow their ERPs as approved and mandated by the ERP Order and Commission regulations. On May 20, 2019, Central Hudson responded to the show cause Order stating that the Commission should not penalize Central Hudson because the Company complied with its applicable 2016 ERP procedures, as approved by the Commission in Case 16-E-0635, which was in effect for the Riley and Quinn storms. Central Hudson's effective and approved ERP did not include a requirement that the IVR be updated within one hour after Central Hudson issued a press release.

Gas Plastic Fusion Proceeding

On May 18, 2018, the PSC issued an Order Adopting Further Improvements in Plastic Fusion Practices on Natural Gas Systems under Case 14-G-0212. The Order requires the filing of Quality Assurance/Quality Control Program and ongoing annual reports of all visually failed and visually passed fuses revealed and inspected. In a Department of Public Service Staff whitepaper issued February 12, 2019, Staff proposed Operator Qualification Best Practices for Commission adoption to address operator covered tasks as defined in 16NYCRR §255.3(9) on pipelines in New York State. The Company filed comments on Staff's whitepaper on May 28, 2019, supporting Staff's recommendations, including proposed timeframe for implementation and compliance as outlined in the collaborative process and continues to file monthly reports as directed in the Order.

Cybersecurity Protocols Proceeding

On June 14, 2018, the PSC instituted Proceeding on Motion of the Commission Regarding Cybersecurity Protocols and Protections in the Energy Market Place, under Case 18-M-0376. The Order was established to ensure that appropriate protections are being implemented and followed throughout the industry.

On February 4, 2019, the JU filed a Petition for Approval of the Business-to-Business Process Used to Formulate a Data Security Agreement ("DSA") and for Affirming the JUs' Authority to Require and Enforce Execution of the DSA by Entities Seeking Access to the Utility Customer Data or Utility Systems. The JUs proposed cybersecurity standards that should be applicable to any entity that electronically exchanges data with the utility, including energy service companies, distributed energy resource suppliers, direct customers and their applicable contractors. On October 17, 2019, the Commission issued an Order Establishing Minimum Cybersecurity and Privacy Protections. The Order adopts minimum cybersecurity and data privacy requirements for entities that receive from, or exchange customer data with, utilities on an electronic basis other than by mail. The JUs filed a revised DSA and Self Attestation on January 9, 2020 and executed agreements with each Energy Service Entity a DSA in compliance with the Order. The Commission granted several extension requests to file a DSA for State entities. The JU filed DSAs for State entities on July 13, 2020 and August 21, 2020. The Commission will continue to develop cybersecurity and data privacy requirements and modify or expand upon them in the future, as appropriate. The Commission will continue to develop cybersecurity and data privacy requirements and modify or expand upon them in the future, as appropriate.

Clean Energy Standard Proceedings

In June 2015, Governor Cuomo announced New York State's 2015 State Energy Plan as a comprehensive roadmap to build a clean, resilient and affordable energy system for New York State. On March 15, 2018, the Commission ordered modifications to the existing Maintenance Tier program, which applies only to eligible, preexisting renewable facilities. The modifications include expanding the funding capability for already-built renewable energy projects under the program in cases of need, increasing the size threshold for eligible existing hydroelectric facilities from 5 MW up to 10 MW, and lowering regulatory burdens making it easier to participate in the program if the facility is under economic duress. This will facilitate New York State meeting its renewable targets by 2030. Additionally, in 2018, NYSERDA awarded $1.4 billion for 26 new large-scale renewable energy projects from the 2017 Renewable Energy Standard Solicitation. The awarded projects are located throughout New York State and include 22 solar farms, three wind farms, and one hydroelectric project. These projects are expected to be operational by 2022 and, once operational, will add more than 1,380 MW of renewable capacity. NYSERDA expects these projects to create more than 3,000 short and long term jobs in construction, operations and maintenance. On December 13, 2018, the PSC issued an Order Approving Phase 3 Implementation Plan. The Order directs NYSERDA to offer expiring RECs at a reduced rate to LSEs equal to the current year price.

On September 20, 2019, the Commission issued Order Approving Zero Emissions Credit Implementation Plan which adopts a "pay-as-you-go" model to address the program design issue that payment obligations were not responsive to changes in LSEs' loads. Under the "pay-as-you-go" model, changes in LSE load can be automatically adjusted, eliminating the need for LSEs to petition the Commission for relief. NYSERDA is required to provide each affected LSE with a revised agreement. Central Hudson provided NYSERDA with an executed copy of the Agreement for the Sale of Zero-Emission Energy Certificates on January 2, 2020.

<u>Climate Leadership and Community Protection Act</u>

In June 2019, the CLCPA was passed by the New York State Senate and the New York State Assembly and includes renewable energy and emission reduction goals in New York State, which would be the most aggressive in the nation. The Act defines targets for 70 percent renewable electricity by 2030 and 100 percent carbon-free electricity by 2040. It requires the PSC to establish a program to require all load serving entities to together procure 6,000 MW of solar energy by 2025, 3,000 MW of energy storage by 2030 and 9,000 MW of offshore wind energy by 2035.

The CLCPA also requires New York State to cut green-house gas emissions 40% (from 1990 baseline levels) by 2030 and 85% by 2050 and achieve net-zero carbon emissions by 2050. The remaining 15% of emissions needed to achieve net-zero are to be offset or captured via the use of carbon capture and sequestration technology and expansion of natural carbon sinks through planting trees and wetlands restoration. These emissions offset projects may be established by the DEC as an alternative compliance mechanism for sources subject to the emissions limits.

A 22-member Climate Action Council, comprised of technical experts appointed by the governor and led by NYSERDA and the DEC, was established and charged with preparing and approving a scoping plan within 3 years outlining recommendations to attain the statewide greenhouse gas emissions limits. The bill requires the PSC to issue a comprehensive review of the program by July 1, 2024. The PSC will have the authority to temporarily suspend or modify the obligations under the program provided a hearing finds that the program impedes the provision of safe and reliable electric service, impairs existing obligations or significantly increases arrears or service disconnections determined related to the program.

<u>FERC Notice of Pending Jurisdictional Inquiry</u>

On June 24, 2019, Central Hudson received a notification and initial information requests from FERC for a jurisdictional inquiry regarding its hydroelectric projects at Sturgeon Pool and Dashville. The FERC also issued a Notice of Pending Jurisdictional Inquiry with any comments, motions to intervene and protests to be filed by August 8, 2019. These projects were determined to be non-jurisdictional in previous investigations based on the conclusion that the Wallkill River is not navigable as defined within the Federal Power Act at the location of the projects. In response to a recent request by the US Department of the Interior's Fish and Wildlife Service, the FERC will investigate the jurisdictional status of these projects. Central Hudson submitted responses to the information requests on August 8,

2019. On October 30, 2020, Central Hudson submitted to FERC additional information on docket UL19-1 so that FERC may decide the jurisdictional question on the facts and the law. No other process has been scheduled by FERC at this time.

Community Choice Aggregation

On January 18, 2018 and March 16, 2018, the PSC approved Community Choice Aggregation ("CCA") programs filed by Good Energy and Joule Assets, Inc. respectively, subject to certain modifications to their implementation plans and filing of a final Data Protection Plan. CCA programs provide municipalities with the opportunity to aggregate electric and/or gas supply on behalf of their residents and small businesses on an opt-out basis. The CCA framework requires that one or more municipalities, or their designee in the role of a CCA administrator, file an Implementation Plan and Data Protection Plan for Commission approval. To date, twelve communities within the Central Hudson service territory have each exercised their Municipal Home Rule Law authority to initiate a CCA program. Additional communities may pass local laws in the future to join or establish a CCA. Central Hudson is working with Good Energy and Joule Assets as they work to develop programs for Central Hudson's customers.

Utility Energy Registry Proceeding

On April 19, 2018, the PSC issued an Order Adopting Utility Energy Registry under Case 17-M-0315. The Order requires Central Hudson and the other New York utilities to provide customer data for the Utility Energy Registry ("UER") subject to the privacy standards set forth in the UER. Datasets are to be submitted every six months January-June and July-December within 30 days of the close of each semi-annual period. The data portal was made available by NYSERDA for general use in September 2019. The purpose of the UER is to make community-based energy consumption data more readily available for local planning, market research and CCA development with a goal of promoting actions to adopt more efficient and cleaner energy use patterns and strategies. Central Hudson has provided Company data for 2016, 2017, 2018 and 2019. On December 30, 2019, NYSERDA filed a UER Status Report prepared by Climate Action Associates, LLC to report on the progress of UER's implementation and operation, including the demands for, uses of, and benefits of UER data, as well as the need for refinements. On January 10, 2020 the Commission issued a notice soliciting comments on the UER report. JU and party comments were filed March 23, 2020.

Pipeline and Hazardous Materials Safety Administration

As a result of rulemaking Case PHMSA-2011-0023, the PHMSA, which is an agency of the United States Department of Transportation, has issued the first of the three-part Safety of Gas Transmission Pipeline Regulation updates. This first part includes Maximum Allowable Operating Pressure ("MAOP") Reconfirmation, Expansion of Assessment Requirements (creation of Moderate Consequence Areas) and Other Related Amendments. The effective date is July 1, 2020 with a required plan in place by July 1, 2021 to ensure MAOP reconfirmation is 50% completed by 2028 and 100% completed by 2035. The second part is not final but is expected to address extensive updates to response and repair criteria for integrity assessment and to expand cathodic requirements. PHMSA is additionally introducing legislation changes to current regulations to mitigate ruptures and shorten pipeline segment isolation times on all newly constructed or fully replaced gas transmission lines. The third part of the Transmission Super Rule is not applicable to the Company since it deals only with gas gathering lines. Central Hudson currently estimates that the rule will impact up to 75 miles of its transmission pipeline. Because Central Hudson's transmission lines are intrastate, NYS PSC proceedings will also be required for Central Hudson regarding the implementation of this rule. Central Hudson continues to monitor this proceeding and expects that any associated compliance costs would be recovered in rates.

Central Hudson Management and Operations Audit

In a July 16, 2018 Order, the Commission approved Central Hudson's Revised Audit Implementation Plans filed on December 14, 2017 and June 26, 2018. The Company's implementation plans address the Overland Final Audit Report released October 24, 2017 that included 55 recommendations. Central

Hudson rejected eight recommendations in its implementation plan. The Order directs the Company to file updates on its progress with the recommendations no less frequently than every four months. Central Hudson's most recent update was filed on November 13, 2020 and reported that it considered 45 of the 47 audit recommendations complete and continues to work on implementation of the remaining two recommendations. To date, 44 recommendations have been accepted by Staff.

Uniform Statewide Customer Satisfaction Survey

On October 18, 2018 in Case 15-M-0566 the Commission issued an Order Authorizing Implementation of a Pilot Statewide Customer Satisfaction Survey. The pilot survey was implemented on January 1, 2019. However, Central Hudson also continued its existing customer satisfaction survey.

On June 15, 2020, Staff submitted its Report on the Uniform Statewide Customer Satisfaction Pilot Survey and recommended the Commission modify the Pilot Survey to make it more standardized and consistent across utilities and to continue emailing surveys on a permanent basis in order to collect sufficient data for benchmarking purposes in each utility's next rate case. In response to a July 8, 2020 notice for public comment on Staff's report, the JU submitted comments in support of the report recommendations on September 9, 2020.

Changes to the Retail Access Energy Market

On December 12, 2019, the Commission issued Order Adopting Changes to the Retail Access Energy Market and Establishing Further Process. The provisions of the Order strengthen protections for residential and small commercial (mass-market) customers in the retail energy market. The Order increases Energy Services Companies ("ESCO") accountability by enhancing eligibility criteria, improves transparency of ESCO product and pricing information and prohibits ESCO product offerings that lack energy service-based values by restricting the types of products and services ESCOs are allowed to offer mass-market customers.

Beginning in February 2020, any product marketed by an ESCO must meet one of the following criteria with limited exceptions: 1) it must guarantee savings compared to the utility; 2) it must be a fixed rate product with a price limit; or 3) it must be a renewably sourced product. The Order directs utilities to publish their 12-month trailing average utility supply rate within 15 days of the close of the quarter, starting with the quarter ended December 31, 2019. The Order also directs Staff and the utilities to develop individualized billing plans that set forth timely and cost-effective pathways towards maximizing the dissemination of useful price comparison information to customers. The Order requires ESCOs to submit a new application to serve customers within 90 days that provides information on marketing methods, categories of approved commodity products it will offer, complaint history, security breaches, history of bankruptcy, dissolution, merger or acquisition activities, proof of financial assurances and officer certification of compliance with applicable laws and regulations.

On September 18, 2020, the Commission issued an Order on Rehearing, Reconsideration and Providing Clarification in Case 98-M-1343. The Order establishes new enrollment guidelines for products offered to mass-market customers (guaranteed savings reconciled on an annual basis, "no more than" pricing relative to utility supply service and renewably sourced electric commodity product). The Order is effective February 15, 2021 for ESCOs enrolling customers. Utilities are required to update their Uniform Business Practices Manuals to conform to these changes and file revised tariffs, as necessary. On November 20, 2020, the DPS Staff issued Updated Guidance Regarding ESCO Eligibility Review to Reflect the directives and revised timelines of the Commission's Order on Rehearing, Reconsideration, and Providing Clarification issued on September 18, 2020. Several ESCOs are participating in this program and have filed applications with the Commission.

FORWARD-LOOKING STATEMENTS

Statements included in this Annual Financial Report, which are not historical in nature, are intended to be "forward-looking statements." Forward-looking statements may be identified by words such as "anticipates," "intends," "estimates," "believes," "projects," "expects," "plans," "assumes," "seeks," and other similar words and expressions. CH Energy Group is subject to risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements. The risks and uncertainties include, but are not limited to: deviations from normal seasonal temperatures and storm activity, changes in energy and commodity prices, availability of energy supplies, a cyber-attack, changes in interest rates, poor operating performance, legislative, tax and regulatory developments, the outcome of litigations, the COVID-19 pandemic, and the resolution of current and future environmental and economic issues. Additional information concerning risks and uncertainties may be found in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of CH Energy Group's Quarterly and Annual Financial Reports. These reports are available in the Financial Information section of the website of CH Energy Group, at www.CHEnergyGroup.com. CH Energy Group undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

ANNUAL FINANCIAL REPORT SUPPLEMENT

Holding Company Regulation

CH Energy Group is a "holding company" under Public Utility Holding Company Act of 2005 ("PUHCA 2005") because of its ownership interests in Central Hudson, CHEC, CHET, and CHGT. CH Energy Group, however, is exempt from regulation as a holding company under PUHCA 2005, because it derives substantially all of its public utility company revenues from business conducted within a single state, the State of New York. At the present time, CH Energy Group cannot predict whether and when its circumstances may change such that it no longer qualifies for exemption from PUHCA 2005.

Central Hudson

Central Hudson (the "Company") is a New York State corporation formed in 1926. Central Hudson purchases, sells at wholesale and retail, and distributes electricity and natural gas at retail in portions of New York State. Central Hudson also generates a small portion of its electricity requirements.

Central Hudson serves a territory comprising of approximately 2,600 square miles in the Hudson Valley. Electric service is available throughout the territory, and natural gas service is provided in and about the cities of Poughkeepsie, Beacon, Newburgh, and Kingston, New York, and in certain outlying and intervening territories. The number of full time and temporary Central Hudson employees at December 31, 2020 was 1,061.

Central Hudson's territory reflects a diversified economy, including manufacturing industries, governmental agencies, public and private institutions, wholesale and retail trade operations, research firms, farms and resorts.

Regulation

Central Hudson is subject to regulation as follows:

- <u>PSC</u> – services rendered (including the rates charged), major transmission facility siting, accounting treatment of certain items, and issuance of securities. See Note 4 – "Regulatory Matters" of the Company's 2020 Annual Financial Report.
- <u>FERC</u> (under the Federal Power Act) – accounting and the acquisition and disposition of certain property.
- <u>North American Electric Reliability Corporation</u> – ownership, operation and use of a bulk power system.
- <u>DEC</u> – ownership, operation and use of hydroelectric facilities and environmental site investigation and remediation activities.
- <u>Pipeline and Hazardous Materials Safety Administration</u> – ownership, operation and use of gas pipeline system.
- <u>NYISO</u> – Daily activities, such as purchases and sales of energy and energy-related products, are subject to compliance monitoring and enforcement by the NYISO in accordance with the Market Services Tariff.
- <u>United States Army Corps of Engineers</u> – Construction, repair, replacement of gas or electric lines or facilities that may cross or are located within a federally protected wetland or water body.

Environmental Quality Regulation

Central Hudson is subject to regulation by federal, state, and local authorities with respect to the environmental effects of their operations. Environmental matters may expose Central Hudson to potential liability, which, in certain instances, may be imposed without regard to fault or may be premised on historical activities that were lawful at the time they occurred.

Central Hudson monitors its activities in order to determine their impact on the environment and to comply with applicable environmental laws and regulations.

The principal environmental areas relevant to Central Hudson (air, water and industrial and hazardous wastes) are described below. Unless otherwise noted, all required permits and certifications have been obtained by the applicable company. Management believes that Central Hudson was in material compliance with these permits and certifications during 2020. For further discussions related to environmental matters see Note 14 – "Commitments and Contingencies".

Air Quality

The Clean Air Act Amendments of 1990 address attainment and maintenance of national air quality standards and impact Central Hudson electric generating facilities in South Cairo and Coxsackie, NY.

Water Quality

The Clean Water Act established the basic framework for federal and state regulation of water pollution control and requires facilities that discharge waste or storm water into the waters of the United States to obtain permits. Central Hudson has permits regulating pollutant discharges for relevant locations.

Industrial & Hazardous Substances and Wastes

Central Hudson is subject to federal, state and local laws and regulations relating to the use, handling, storage, treatment, transportation, and disposal of industrial, hazardous, and toxic wastes. See Note 14 − "Commitments and Contingencies" under the caption "Environmental Matters" for additional discussion regarding, among other things, Central Hudson's former MGP facilities, Eltings Corners and Little Britain Road.

Rates

PSC – Costs of service, both for electric and natural gas delivery service and supply costs, are recovered from customers through PSC approved tariffs, subject to a standard of prudency. For further information, see Note 1 – "Summary of Significant Accounting Policies" under the caption "Rates, Revenues, and Adjustment Mechanisms" and Note 4 – "Regulatory Matters" under the caption "2018 Rate Order and Related Proceedings" of the Company's 2020 Annual Report.

- Customer classes – Residential and non-residential.
- Retail electricity services – Various service classifications covering delivery service and full service (which includes electricity supply).
- Retail natural gas services – Various service classifications covering transport, retail access service, and full service (which includes natural gas supply).
- RDMs – Central Hudson's rates include RDMs which are intended to minimize the earnings impact resulting from reduced energy consumption as energy efficiency programs are implemented by breaking the link between energy sales and utility revenues and profits. Central Hudson's RDMs allow the Company to recognize electric delivery revenues and natural gas sales per customer at the levels approved in rates for most of Central Hudson's electric and natural gas customer classes.

- Commodity costs – Costs of electric and natural gas commodity purchases are recovered from customers, without earning a profit on these costs. Rates are reset monthly based on Central Hudson's actual costs to purchase the electricity and natural gas needed to serve its full service customers.

FERC – Transmission rates and rates for electricity sold for resale which involve interstate commerce.

During 2020, the average price of electricity for full service customers was 16.13 cents per kWh, which includes commodity and surcharges, as compared to an average of 15.67 cents per kWh in 2019. The average delivery only price in 2020 was 8.36 cents per kWh compared with 7.39 cents per kWh in 2019. The increase in delivery price was primarily due to an increase in base delivery revenue and collection of specified accumulated deferred balances, both pursuant to the 2018 Rate Order. This increase in delivery price was partially offset by lower commodity costs for full-service load.

During 2020, the average price of natural gas for full-service customers was $14.86 per Mcf, which includes commodity and surcharges, as compared to an average of $14.32 per Mcf in 2019. The average delivery only price for natural gas for retail and full service in 2020 was $8.90 per Mcf compared with $7.57 per Mcf in 2019. The increase in delivery price was primarily due to an increase in the base delivery revenue pursuant to the 2018 Rate Order, an increase in weather normalization adjustment collections resulting from warmer than normal weather conditions, and an increase in the collection of base delivery revenue resulting from a shortfall as compared to the regulatory target. This increase in delivery price was partially offset by lower commodity costs for full-service load.

Cost Adjustment Clauses and RDMs: For information regarding Central Hudson's purchased electric and natural gas cost adjustment mechanisms and RDMs, see Note 1 – "Summary of Significant Accounting Policies" under the caption "Rates, Revenues, and Adjustment Mechanisms."

Electric

Central Hudson owns hydroelectric and gas turbine generating facilities as described below.

Type of Electric Generating Plant	Year Placed in Service/Refurbished	MW(1) Net Capability
Hydroelectric (3 stations)	1920-2019	22.4
Gas turbine (2 stations)	1969-1996	42.5
Total		64.9

(1) Reflects the name plate rating of Central Hudson's electric generating plants and therefore does not include firm purchases or sales.

Central Hudson owns substations having an aggregate transformer capacity of 5.7 million kilovolt amperes. Central Hudson's electric transmission system consists of 580 pole miles of line. The electric distribution system consists of approximately 7,200 pole miles of overhead lines and 1,600 trench miles of underground lines, as well as customer service lines and meters.

Electric Load and Capacity

Central Hudson's maximum one-hour demand for electricity within its own territory for the year ended December 31, 2020, occurred on July 27, 2020, and amounted to 1,142 MW. Central Hudson's all-time highest peak electric demand reached 1,295 MW on August 2, 2006. Central Hudson's current maximum one-hour demand for electricity within its own territory for the 2020-2021 winter capability period occurred to date on December 16, 2020, and amounted to 843 MW.

Central Hudson owns minimal generating capacity and relies on purchased capacity and energy from third-party providers to meet the demands of its full service customers. For more information, see Note 14 – "Commitments and Contingencies."

Natural Gas

Central Hudson's natural gas system consists of 165 miles of transmission pipelines and 1,300 miles of distribution pipelines, as well as customer service lines and meters. For the year ended December 31, 2020, the total amount of natural gas purchased by Central Hudson from all sources was 10,352,132 Mcf.

The peak daily demand for natural gas of Central Hudson's customers for the year ended December 31, 2020, occurred on December 18, 2020 and was 111,074 Mcf. The all-time highest winter period daily peak for Central Hudson of 141,141 Mcf occurred on January 6, 2018. Current peak demand for the 2020-2021 heating season to date occurred on December 18, 2020 and was 111,074 Mcf. Central Hudson's firm peak day natural gas capability in 2020-2021 heating season is 155,312 Mcf.

Purchased Power and Generation Costs

For the year ended December 31, 2020, the sources and related costs of purchased electricity and electric generation for Central Hudson were as follows:

Sources of Energy	Aggregate Percentage of Energy Requirements		Costs in 2020 (In Thousands)
Purchased Electricity	97.6%	$	131,862
Hydroelectric and Other	2.4%		73
Deferred Electricity Cost			4,195
Total	100.0%	$	136,130

Other Central Hudson Matters

Labor Relations: Central Hudson has four agreements with Local 320 of the International Brotherhood of Electrical Workers for its 599 unionized employees. These agreements cover construction and maintenance employees, customer service representatives, service workers, clerical and system operation employees (excluding persons in managerial, professional, or supervisory positions). One agreement is in effect through March 31, 2021 covering approximately 4.3% of total unionized employees, while the other three agreements are in effect through April 30, 2022.

Property Additions: During the three-year period ended December 31, 2020, Central Hudson made gross property additions of $665.2 million and property retirements and adjustments of $82.3 million, resulting in a net increase (including construction work in progress) in gross utility plant of $582.9 million, or 26.6%.

Other Environmental Matters: Central Hudson is also subject to regulation with respect to other environmental matters, such as noise levels, protection of vegetation and wildlife, and limitations on land use, and is in compliance with regulations in these areas.

Regarding environmental matters, except as described in Note 14 - "Commitments and Contingencies" under the caption "Environmental Matters," neither CH Energy Group nor Central Hudson are involved as defendants in any material litigation, administrative proceeding, or investigation and, to the best of their knowledge, no such matters are threatened against any of them.

Environmental Expenditures

2020 actual and 2021 estimated expenditures attributable in whole or in substantial part to environmental considerations are detailed in the table below (In Millions):

	2020	2021
Central Hudson	$ 11.9	$ 21.7

The increase in 2021 estimated expenditures relates primarily to ongoing remediation activities at the North Water Street MGP remediation site. For further discussion of these activities, see Note 14 – "Commitments and Contingencies" under caption "Site Investigation and Remediation Program".