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

QUARTERLY FINANCIAL REPORT

for the period ended

MARCH 31, 2019

QUARTER ENDED MARCH 31, 2019

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FINANCIAL STATEMENTS (Unaudited)

CH ENERGY GROUP CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

(In Thousands)

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Operating Revenues		
Electric	$ 136,826	$ 147,167
Natural gas	71,959	70,568
Total Operating Revenues	208,785	217,735
Operating Expenses		
Operation:		
Purchased electricity and fuel used in electric generation	39,526	58,553
Purchased natural gas	30,080	35,100
Other expenses of operation - regulated activities	71,146	65,662
Other expenses of operation - non-regulated	(18)	50
Depreciation and amortization	14,673	13,733
Taxes, other than income tax	17,857	17,207
Total Operating Expenses	173,264	190,305
Operating Income	35,521	27,430
Other Income and Deductions		
Income from unconsolidated affiliates	278	291
Interest on regulatory assets and other interest income	761	1,059
Regulatory adjustments for interest costs	269	266
Other - net	1,974	(138)
Total Other Income	3,282	1,478
Interest Charges		
Interest on long-term debt	7,639	6,585
Interest on regulatory liabilities and other interest	849	1,610
Total Interest Charges	8,488	8,195
Income Before Income Taxes	30,315	20,713
Income Tax Expense	5,966	3,890
Net Income	24,349	16,823
Dividends declared on Common Stock	5,500	5,500
Change in Retained Earnings	$ 18,849	$ 11,323

CH ENERGY GROUP CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

(In Thousands)

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Net Income	$ 24,349	$ 16,823
Other Comprehensive Income:		
Employee future benefits - net of tax expense of $8 for 2019, and $0 for 2018	23	-
Total other comprehensive income	23	-
Comprehensive Income	$ 24,372	$ 16,823

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

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

	Three Months Ended March 31, 2019	2018
Operating Activities:		
Net income	$ 24,349	$ 16,823
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	12,792	12,056
Amortization	1,881	1,677
Deferred income taxes - net	4,821	1,891
Bad debt expense	1,454	923
Distributed (undistributed) equity in earnings of unconsolidated affiliates	(250)	21
Pension expense	3,417	4,761
Other post-employment benefits ("OPEB") expense	(2,409)	(772)
Regulatory liability - rate moderation	(2,956)	(1,135)
Revenue decoupling mechanism recorded	4,031	4,834
Changes in operating assets and liabilities - net:		
Accounts receivable, unbilled revenues and other receivables	(10,614)	(27,406)
Fuel, materials and supplies	3,149	2,333
Special deposits and prepayments	(3,988)	36
Income and other taxes	829	2,282
Accounts payable	921	9,238
Accrued interest	2,125	1,122
Customer advances	(2,570)	(6,849)
Other advances	304	2,847
Pension plan contribution	(262)	(11,406)
OPEB contribution	(1,001)	(1,302)
Revenue decoupling mechanism collected/(refunded) - net	(4,302)	585
Regulatory asset - major storm	(2,201)	(17,822)
Regulatory asset - site investigation and remediation ("SIR")	1,455	1,306
Regulatory liability - energy efficiency programs	(4,200)	5,998
Deferred natural gas and electric costs	(3,486)	8,252
Other - net	(758)	7,260
Net cash provided by operating activities	22,531	17,553
Investing Activities:		
Additions to utility plant	(48,548)	(37,925)
Other - net	(60)	(2,195)
Net cash used in investing activities	(48,608)	(40,120)
Financing Activities:		
Net change in short-term borrowings	-	10,000
Capital contribution	6,000	8,000
Dividends paid on Common Stock	(5,500)	(5,500)
Net cash provided by financing activities	500	12,500
Net Change in Cash, Cash Equivalents and Restricted Cash	(25,577)	(10,067)
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	43,801	17,140
Cash, Cash Equivalents and Restricted Cash at End of Period	$ 18,224	$ 7,073
Supplemental Disclosure of Cash Flow Information:		
Interest paid, net of amounts capitalized	$ 5,386	$ 5,627
Federal and state income taxes paid	$ 429	$ -
Non-Cash Investing Activities:		
Accrued capital expenditures	$ 9,043	$ 7,288

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

CH ENERGY GROUP CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

(In Thousands)

	March 31, 2019	December 31, 2018	March 31, 2018
ASSETS			
Utility Plant (Note 3)			
Electric	$ 1,453,959	$ 1,443,152	$ 1,372,473
Natural gas	571,779	566,197	508,046
Common	274,389	267,757	247,557
Gross Utility Plant	2,300,127	2,277,106	2,128,076
Less: Accumulated depreciation	562,003	552,505	532,536
Net	1,738,124	1,724,601	1,595,540
Construction work in progress	84,528	75,560	86,072
Net Utility Plant	1,822,652	1,800,161	1,681,612
Non-utility property & plant	524	524	524
Net Non-Utility Property & Plant	524	524	524
Current Assets			
Cash and cash equivalents	17,152	42,730	6,005
Accounts receivable from customers - net of allowance for doubtful accounts of $2.9 million, $2.7 million, and $2.8 million, respectively. (Note 2)	83,426	71,157	86,313
Accounts receivable - affiliates (Note 18)	774	862	-
Accrued unbilled utility revenues	20,304	23,994	18,950
Other receivables	27,015	26,346	22,587
Fuel, materials and supplies (Note 1)	22,831	25,980	21,409
Regulatory assets (Note 4)	43,148	36,285	29,700
Fair value of derivative instruments (Note 16)	-	882	8
Special deposits and prepayments	27,937	23,949	23,550
Total Current Assets	242,587	252,185	208,522
Deferred Charges and Other Assets			
Regulatory assets - deferred pension costs (Note 4)	26,839	29,320	20,032
Regulatory assets - other (Note 4)	103,146	111,664	149,609
Prefunded OPEB costs (Note 12)	1,740	858	4,188
Investments in unconsolidated affiliates (Note 6)	8,000	7,730	8,013
Other investments (Note 17)	39,750	39,326	39,496
Other	6,588	4,092	5,632
Total Deferred Charges and Other Assets	186,063	192,990	226,970
Total Assets	$ 2,251,826	$ 2,245,860	$ 2,117,628

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

CH ENERGY GROUP CONSOLIDATED BALANCE SHEET (CONT'D) (UNAUDITED)

(In Thousands, except share amounts)

	March 31, 2019	December 31, 2018	March 31, 2018
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	$ 160
Paid-in capital	386,036	380,036	351,036
Retained earnings	334,228	315,379	291,159
Accumulated other comprehensive loss	(407)	(430)	-
Total Equity	720,017	695,145	642,355
Long-term debt (Note 11)			
Principal amount	659,215	659,215	582,822
Unamortized debt issuance costs	(4,194)	(4,296)	(3,904)
Long-term debt less unamortized debt issuance costs	655,021	654,919	578,918
Total Capitalization	1,375,038	1,350,064	1,221,273
Current Liabilities			
Current maturities of long-term debt (Note 11)	28,607	28,607	31,503
Short-term borrowings (Note 9)	-	-	10,000
Accounts payable	42,518	53,269	49,552
Accounts payable - affiliates	-	-	105
Accrued interest	8,956	6,831	7,576
Accrued vacation and payroll	10,807	9,955	10,309
Customer advances	7,573	10,143	7,073
Customer deposits	7,550	7,563	7,449
Regulatory liabilities (Note 4)	92,401	99,320	6,116
Fair value of derivative instruments (Note 16)	3,296	2,135	4,267
Accrued environmental remediation costs (Note 14)	22,167	23,309	16,261
Accrued income and other taxes	5,540	5,661	368
Other current liabilities	33,764	36,429	25,575
Total Current Liabilities	263,179	283,222	176,154
Deferred Credits and Other Liabilities			
Regulatory liabilities - deferred OPEB costs (Note 4)	20,960	23,183	35,579
Regulatory liabilities - other (Note 4)	293,058	293,346	408,907
Operating reserves	4,916	5,171	4,858
Fair value of derivative instruments (Note 16)	-	-	3,735
Accrued environmental remediation costs (Note 14)	23,312	23,664	39,006
Accrued pension costs (Note 12)	34,319	32,765	9,782
Tax reserve (Note 5)	7,892	7,675	7,186
Other liabilities	24,196	23,278	24,117
Total Deferred Credits and Other Liabilities	408,653	409,082	533,170
Accumulated Deferred Income Tax (Note 5)	204,956	203,492	187,031
Commitments and Contingencies			
Total Capitalization and Liabilities	$ 2,251,826	$ 2,245,860	$ 2,117,628

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

CH ENERGY GROUP CONDENSED CONSOLIDATED STATEMENT OF EQUITY (UNAUDITED)

(In Thousands, except share amounts)

	CH Energy Group Common Shareholders					
	Common Stock					
	Shares Issued	Amount	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
Balance at December 31, 2017	15,961,400	$ 160	$ 343,036	$ 279,836	$ -	$ 623,032
Net income				16,823		16,823
Capital contributions			8,000			8,000
Dividends declared on common stock				(5,500)		(5,500)
Balance at March 31, 2018	15,961,400	$ 160	$ 351,036	$ 291,159	$ -	$ 642,355
Balance at December 31, 2018	15,961,400	$ 160	$ 380,036	$ 315,379	$ (430)	$ 695,145
Net income				24,349		24,349
Capital contribution			6,000			6,000
Dividends declared on common stock				(5,500)		(5,500)
Employee future benefits					23	23
Balance at March 31, 2019	15,961,400	$ 160	$ 386,036	$ 334,228	$ (407)	$ 720,017

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

CENTRAL HUDSON CONDENSED STATEMENT OF INCOME (UNAUDITED)

(In Thousands)

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Operating Revenues		
Electric	$ 136,826	$ 147,167
Natural gas	71,959	70,568
Total Operating Revenues	208,785	217,735
Operating Expenses		
Operation:		
Purchased electricity and fuel used in electric generation	39,526	58,553
Purchased natural gas	30,080	35,100
Other expenses of operation	71,146	65,662
Depreciation and amortization	14,673	13,733
Taxes, other than income tax	17,852	17,199
Total Operating Expenses	173,277	190,247
Operating Income	35,508	27,488
Other Income and Deductions		
Interest on regulatory assets and other interest income	758	1,054
Regulatory adjustments for interest costs	269	266
Other - net	1,993	(142)
Total Other Income	3,020	1,178
Interest Charges		
Interest on long-term debt	7,402	6,324
Interest on regulatory liabilities and other interest	849	1,610
Total Interest Charges	8,251	7,934
Income Before Income Taxes	30,277	20,732
Income Tax Expense	5,940	3,896
Net Income	$ 24,337	$ 16,836

CENTRAL HUDSON CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

(In Thousands)

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Net Income	$ 24,337	$ 16,836
Other Comprehensive Income:		
Employee future benefits, net of tax expense of $8 for 2019, and $0 for 2018	23	-
Total other comprehensive income:	23	-
Comprehensive Income	$ 24,360	$ 16,836

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

CENTRAL HUDSON CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)

(In Thousands)

	Three Months Ended March 31, 2019	2018
Operating Activities:		
Net income	$ 24,337	$ 16,836
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	12,792	12,056
Amortization	1,881	1,677
Deferred income taxes - net	4,689	13
Bad debt expense	1,454	923
Pension expense	3,417	4,761
OPEB expense	(2,409)	(772)
Regulatory liability - rate moderation	(2,956)	(1,135)
Revenue decoupling mechanism recorded	4,031	4,834
Changes in operating assets and liabilities - net:		
Accounts receivable, unbilled revenues and other receivables	(12,312)	(28,752)
Fuel, materials and supplies	3,149	2,333
Special deposits and prepayments	(3,988)	36
Income and other taxes	1,362	5,278
Accounts payable	1,303	9,771
Accrued interest	1,890	860
Customer advances	(2,570)	(6,849)
Other advances	304	2,847
Pension plan contribution	(262)	(11,406)
OPEB contribution	(1,001)	(1,302)
Revenue decoupling mechanism collected/(refunded) - net	(4,302)	585
Regulatory asset - major storm	(2,201)	(17,822)
Regulatory asset - SIR	1,455	1,306
Regulatory liability - energy efficiency programs	(4,200)	5,998
Deferred natural gas and electric costs	(3,486)	8,252
Other - net	131	8,206
Net cash provided by operating activities	22,508	18,534
Investing Activities:		
Additions to utility plant	(48,548)	(37,925)
Other - net	(24)	(2,321)
Net cash used in investing activities	(48,572)	(40,246)
Financing Activities:		
Net change in short-term borrowings	-	10,000
Net cash provided by financing activities	-	10,000
Net Change in Cash, Cash Equivalents and Restricted Cash	(26,064)	(11,712)
Cash, Cash Equivalents and Restricted Cash - Beginning of Period	40,346	14,607
Cash, Cash Equivalents and Restricted Cash - End of Period	$ 14,282	$ 2,895
Supplemental Disclosure of Cash Flow Information:		
Interest paid, net of amounts capitalized	$ 5,386	$ 5,627
Non-Cash Investing Activities:		
Accrued capital expenditures	$ 9,043	$ 7,288

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

CENTRAL HUDSON CONDENSED BALANCE SHEET (UNAUDITED)

(In Thousands)

	March 31, 2019	December 31, 2018	March 31, 2018
ASSETS			
Utility Plant (Note 3)			
Electric	$ 1,453,959	$ 1,443,152	$ 1,372,473
Natural gas	571,779	566,197	508,046
Common	274,389	267,757	247,557
Gross Utility Plant	2,300,127	2,277,106	2,128,076
Less: Accumulated depreciation	562,003	552,505	532,536
Net	1,738,124	1,724,601	1,595,540
Construction work in progress	84,528	75,560	86,072
Net Utility Plant	1,822,652	1,800,161	1,681,612
Non-Utility Property and Plant	524	524	524
Net Non-Utility Property and Plant	524	524	524
Current Assets			
Cash and cash equivalents	13,210	39,275	1,827
Accounts receivable from customers - net of allowance for doubtful accounts of $2.9 million, $2.7 million, and $2.8 million, respectively. (Note 2)	83,426	71,157	86,313
Accrued unbilled utility revenues	20,304	23,994	18,950
Other receivables	28,729	26,450	23,177
Fuel, materials and supplies (Note 1)	22,831	25,980	21,409
Regulatory assets (Note 4)	43,148	36,285	29,700
Fair value of derivative instruments (Note 16)	-	882	8
Special deposits and prepayments	27,899	23,911	23,512
Total Current Assets	239,547	247,934	204,896
Deferred Charges and Other Assets			
Regulatory assets - deferred pension costs (Note 4)	26,839	29,320	20,032
Regulatory assets - other (Note 4)	103,146	111,664	149,609
Prefunded OPEB costs (Note 12)	1,740	858	4,188
Other investments (Note 17)	38,976	38,567	38,721
Other	6,574	4,070	5,582
Total Deferred Charges and Other Assets	177,275	184,479	218,132
Total Assets	$ 2,239,998	$ 2,233,098	$ 2,105,164

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

CENTRAL HUDSON BALANCE SHEET (CONT'D) (UNAUDITED)

(In Thousands, except share amounts)

	March 31, 2019	December 31, 2018	March 31, 2018
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	$ 84,311
Paid-in capital	251,452	251,452	239,952
Accumulated other comprehensive loss	(407)	(430)	-
Retained earnings	389,932	365,595	324,250
Capital stock expense	(4,633)	(4,633)	(4,633)
Total Equity	720,655	696,295	643,880
Long-term debt (Note 11)			
Principal amount	646,950	646,950	568,950
Unamortized debt issuance costs	(4,131)	(4,231)	(3,831)
Long-term debt less unamortized debt issuance costs	642,819	642,719	565,119
Total Capitalization	1,363,474	1,339,014	1,208,999
Current Liabilities			
Current maturities of long-term debt (Note 11)	27,000	27,000	30,000
Short-term borrowings (Note 9)	-	-	10,000
Accounts payable	43,360	53,730	50,687
Accrued interest	8,681	6,791	7,271
Accrued vacation and payroll	10,807	9,955	10,309
Customer advances	7,573	10,143	7,073
Customer deposits	7,550	7,563	7,449
Regulatory liabilities (Note 4)	92,401	99,320	6,116
Fair value of derivative instruments (Note 16)	3,296	2,135	4,267
Accrued environmental remediation costs (Note 14)	22,167	23,309	16,261
Accrued income and other taxes	9,197	8,786	3,049
Other current liabilities	32,701	35,015	24,631
Total Current Liabilities	264,733	283,747	177,113
Deferred Credits and Other Liabilities			
Regulatory liabilities - deferred OPEB costs (Note 4)	20,960	23,183	35,579
Regulatory liabilities - other (Note 4)	293,058	293,346	408,907
Operating reserves	4,916	5,171	4,858
Fair value of derivative instruments (Note 16)	-	-	3,735
Accrued environmental remediation costs (Note 14)	23,312	23,664	39,006
Accrued pension costs (Note 12)	34,087	32,533	9,550
Tax reserve (Note 5)	7,892	7,675	7,186
Other liabilities	22,786	21,316	22,683
Total Deferred Credits and Other Liabilities	407,011	406,888	531,504
Accumulated Deferred Income Tax (Note 5)	204,780	203,449	187,548
Commitments and Contingencies			
Total Capitalization and Liabilities	$ 2,239,998	$ 2,233,098	$ 2,105,164

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

CENTRAL HUDSON CONDENSED STATEMENT OF EQUITY (UNAUDITED)

	Central Hudson Common Shareholders						
	Common Stock						
	Shares Issued	Amount	Paid-In Capital	Capital Stock Expense	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
Balance at December 31, 2017	16,862,087	$ 84,311	$ 239,952	$ (4,633)	$ 307,414	$ -	$ 627,044
Net income					16,836		16,836
Balance at March 31, 2018	16,862,087	$ 84,311	$ 239,952	$ (4,633)	$ 324,250	$ -	$ 643,880
Balance at December 31, 2018	16,862,087	$ 84,311	$ 251,452	$ (4,633)	$ 365,595	$ (430)	$ 696,295
Net income					24,337		24,337
Employee future benefits, net of tax						23	23
Balance at March 31, 2019	16,862,087	$ 84,311	$ 251,452	$ (4,633)	$ 389,932	$ (407)	$ 720,655

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

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. CHET was formed to engage in Federal Energy Regulatory Commission (“FERC”) electric transmission projects and has a 6.1% ownership interest in New York Transco LLC (“Transco”). 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. In the first quarter of 2016, CHGT was formed to hold CH Energy Group’s ownership stake in possible gas transmission pipeline opportunities in New York State. As of March 31, 2019 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 Quarterly Financial Report is a combined report of CH Energy Group and Central Hudson. The Notes to the Condensed 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 (“Partnerships”) and limited liability companies and CHET’s investment in Transco are accounted for under the equity method. CHEC’s proportionate share of the change in fair value of available-for-sale securities held by the Partnerships is recorded in CH Energy Group’s Condensed Consolidated Statement of Comprehensive Income.

The Quarterly Condensed 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.

Regulatory Accounting Policies

Regulated companies, such as Central Hudson, defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that those costs and credits will be recoverable 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 Condensed Consolidated Statement of Income in the period in which the amounts are recovered through a surcharge or are reflected in rates. 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.

Unaudited Quarterly Condensed Financial Statements

The accompanying Condensed Consolidated Financial Statements of CH Energy Group and Condensed Financial Statements of Central Hudson are unaudited but, in the opinion of management, reflect all adjustments, which include normal recurring adjustments, necessary for a fair statement of the results for the interim periods presented. These unaudited Quarterly Condensed Financial Statements do not contain all footnote disclosures concerning accounting policies and other matters, which are included in the December 31, 2018 audited Financial Statements and, accordingly, should be read in conjunction with the Notes thereto. The balance sheets of CH Energy Group and Central Hudson as of March 31, 2018 are included for supplemental information.

Seasonality

Central Hudson's operations are seasonal in nature and weather-sensitive and, as a result, financial results for interim periods are not necessarily indicative of trends for a twelve-month period. Demand for electricity typically peaks during the summer, while demand for natural gas typically peaks during the winter.

Rates, Revenues, and Cost Adjustment Mechanisms

Central Hudson's electric and natural gas retail rates are regulated by the PSC. Transmission rates, facilities charges, and rates for electricity sold for resale in interstate commerce are regulated by the FERC.

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 adjusted 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 costs that have been deferred and incentives earned related to Earnings Adjustment Mechanisms ("EAMs") and Non-Wire Alternatives ("NWA"), and other specified accumulated deferred balances as defined in the 2018 Rate Order.

Central Hudson's delivery rate structure includes Revenue Decoupling Mechanisms ("RDMs"), which generally provide the ability to record revenues equal to those authorized by the PSC and used for the development of rates for most of Central Hudson's customers.

Use of Estimates

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. As with all estimates, actual results may differ from those estimated.

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".

Revenue Recognition

Revenue from Contracts with Customers

Central Hudson delivers electric and gas energy services to residential and non-residential customers based on approved tariff rates. Central Hudson records revenue as electric and natural gas is delivered based on either the customers' meter read or estimated usage for the month, an output measure of progress based on kWh or Ccf delivered. 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, non-residential electric service customers pay a per KW demand charge which is also fixed at the time of delivery. Customers within Central Hudson's service territory can elect to purchase the commodity from Central Hudson or a retail marketer. 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. All performance obligations are satisfied for tariff sales.

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.

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 associated with the mechanism and 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.

Customer Assistance Programs

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 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.

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 potential System Deliverability Upgrade project pursuant to terms and conditions of the New York Independent System Operator's ("NYISO") Open Access Transmission Tariff. As of March 31, 2019, December 31, 2018 and March 31, 2018 restricted cash was approximately $1.1 million and was included in the CH Energy Group and Central Hudson's Balance Sheets in "Other – long-term assets".

The following tables provide a reconciliation of cash, cash equivalents and restricted cash reported as of March 31, 2019 and 2018 within the Statements of Financial Position 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)

	March 31, 2019	March 31, 2018
Cash and cash equivalents	$ 17,152	$ 6,005
Restricted cash included in other long-term assets	1,072	1,068
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	$ 18,224	$ 7,073

Central Hudson
(In Thousands)

	March 31, 2019	March 31, 2018
Cash and cash equivalents	$ 13,210	$ 1,827
Restricted cash included in other long-term assets	1,072	1,068
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	$ 14,282	$ 2,895

Accounts Receivable

Receivables are carried at net realizable value. The allowance for doubtful accounts reflects management's best estimate of uncollectible accounts receivable balances. 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. Interest can be charged on accounts receivable balances that have been outstanding for more than 20 days.

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):

	March 31, 2019	December 31, 2018	March 31, 2018
Natural gas	$ 1,834	$ 5,369	$ 1,862
Fuel used in electric generation	455	462	488
Materials and supplies	20,542	20,149	19,059
Total	$ 22,831	$ 25,980	$ 21,409

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 Condensed Consolidated Balance Sheet and Central Hudson's Condensed 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, 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 Condensed 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 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. These depreciation rates include a charge for the cost of future removal and retirement of fixed assets. 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.

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.

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. These costs are amortized over the remaining life of the original life of the debt issue 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 tax reform.

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. Central Hudson also provides Other Post-Employment Benefits plans, which include certain health care and life insurance benefits for retirees hired within the same time periods as stated above. Additionally, Central Hudson maintains a Supplemental Executive Retirement Plan ("SERP") for certain members of management.

Central Hudson recognizes any underfunded status of the Retirement Plan and SERP (collectively "Pension") and OPEB defined benefit plans as a liability on its balance sheet. The underfunded status is measured as the difference between the fair value of qualified plans' assets and the projected benefit obligation ("PBO") for the plans. 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. The Pension status includes the SERP PBO although it does not take into consideration the SERP trust assets. Central Hudson recognizes a regulatory asset for the portion of the underfunded amount that is probable of 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 Retirement Plan and SERP. 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 at least 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.

Realized gains and losses on Central Hudson’s derivative instruments are conveyed 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, 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. 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. Central Hudson currently does not enter into generation sales contracts. See Note 14 – "Commitments and Contingencies" for further details.

Recently Adopted Accounting Policies

Leases –
Effective January 1, 2019, CH Energy Group and Central Hudson adopted ASC 842 that requires lessees to recognize a lease liability, initially measured at the present value of future lease payments, and a right-of-use asset for all leases with a lease term greater than 12 months. The new lease standard also requires additional quantitative and qualitative disclosures for both lessees and lessors. CH Energy Group and Central Hudson selected the optional transition method with practical expedient options which allows entities to continue to apply the current lease guidance in the comparative periods presented in the year of adoption and apply the transition provisions of the new guidance on the effective date of the new guidance, January 1, 2019. In addition, CH Energy Group and Central Hudson elected a package of practical expedients that allowed it to not reassess whether any existing contracts are a lease or contain a lease, the lease classification of any existing leases and the initial direct costs for any existing leases. CH Energy Group and Central Hudson also elected an additional practical expedient that permitted entities to not evaluate existing land easements that were not previously accounted for as leases. The new lease guidance will be applied on a prospective basis to all new or modified land easements after January 1, 2019. CH Energy Group and Central Hudson utilized the hindsight practical expedient in transition to determine the lease term. Central Hudson has elected the practical expedient to combine lease and other components 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. Central Hudson recognizes lease expense straight-line over the lease term.

Adoption of the new standard resulted in the recording of additional lease assets and lease liabilities of approximately $1.9 million as right-of-use assets and lease obligations and ASC 842 will continue to be applied going forward. CH Energy Group and Central Hudson did not identify or record an adjustment to the opening balance of retained earnings on adoption. Adoption of the standard had no impact on net income or cash flows. CH Energy Group and Central Hudson did not identify any lessor arrangements. See Note 8 - "Leases" for additional disclosures related to CH Energy Group and Central Hudson's leasing arrangements.

Derivatives and Hedging –
Effective January 1, 2019, CH Energy Group and Central Hudson adopted ASU No. 2017-12 and 2018-16 *Derivatives and Hedging,* which amended hedge accounting recognition and presentation requirements in ASC 815. The update is intended to improve the transparency and understandability of the entity's risk management activities, as well as reduce and simplify the application of hedge accounting by preparers. The update was applied on a modified retrospective basis and did not have an impact on CH Energy Group and Central Hudson's financial statements and related disclosures.

Intangibles—Goodwill and Other—Internal Use Software
Effective October 1, 2018, CH Energy Group and Central Hudson adopted prospectively ASU No. 2018-15, *Intangibles—Goodwill and Other—Internal Use Software* which allows companies to "capitalize" costs incurred to implement a hosting arrangement, which is classified as a service contract, to prepaid assets based on the guidance for capitalizing implementation costs incurred to develop or obtain internal-use software (ASC 350-40). A hosting arrangement exists when a company pays a fee to access and use software that it does not have physical possession of. These arrangements are classified as service contracts under the accounting guidance if the company does not have a software license and does not have the legal and physical ability to take possession and run the software. The annual service arrangement fees are recorded to operating expense based on the term of the arrangement. The implementation costs, recorded as prepaid assets, are amortized to operating expense over the useful life of the software service, which takes into consideration items other than the term of the arrangement. In accordance with this update, and as authorized in Case 17-E-0459 and 17-G-0460, the Company applies deferral accounting for costs related to software purchases that must be accounted for as a service agreement recorded to prepaid assets and operating expense rather than plant in service and amortization expense, including an adjustment to net plant targets. For the period ended March 31, 2019, the Company has one hosting arrangement that is considered a service contract, which is still in its application development phase and implementation costs capitalized are not material.

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 Contract 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, Gas Merchant Function Charge lost revenue, Empire-Zone lost revenue and revenue requirement effect for incremental leak prone pipe miles replaced above the PSC targets and Reforming Energy Vision ("REV") Orders. In addition, Central Hudson records alternative revenues related to positive revenue adjustments and EAMs related to NY State environmental policies, 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 as follows (In Thousands):

	Three Months Ended March 31,	
Electric	2019	2018
Revenues from Contract with Customers (ASC 606)	$ 130,636	$
Alternative Revenues (Non ASC 606)	(2,956)	(3,392)
Other Revenue Adjustments (Non ASC 606)	9,146	(2,180)
Total Operating Revenues Electric	$ 136,826	$
Natural Gas		
Revenues from Contract with Customers (ASC 606)	$ 73,418	$ 74,905
Alternative Revenues (Non ASC 606)	(27)	(375)
Other Revenue Adjustments (Non ASC 606)	(1,432)	(3,962)
Total Operating Revenues Natural Gas	$ 71,959	$ 70,568

The decrease in electric revenues from contract with customers is primarily due to the decrease in recovery of commodity costs and slightly lower sales partially offset by the increase in customer delivery rates as prescribed in the 2018 Rate Order. Other revenues increased due to the absence during 2019, of deferrals related to Tax Cuts and Jobs Act, bonus depreciation and estimated shared earnings. In addition, the increase in other revenues for 2019 is a result of the refund to customers of the 2018 RDM over collection balance, as well as higher electric bill credits and electric sales for resale.

The decrease in gas revenues from contract with customers is primarily due to lower commodity costs partially offset by an increase in customer delivery rates as prescribed in the 2018 Rate Order. Other revenues increased due to the absence during 2019, of deferrals related to Tax Cuts and Jobs Act, bonus depreciation as well as higher gas bill credits. Partially offsetting these increases is the deferral of Danskammer revenues and the collection of 2018 RDM under-collection balance.

Accounts Receivables

The following is a summary of activity related to accounts receivable balances for CH Energy Group and Central Hudson as follows (In Thousands):

	March 31, 2019	December 31, 2018	March 31, 2018
Balance at Beginning Period - Net of Allowance	$ 71,157	$ 63,949	$ 63,949
Billed to Customers/Adjustments	226,203	812,755	247,540
Customer Payments	(212,480)	(800,748)	(223,552)
Bad Debt Write-Offs - Net	(1,254)	(5,099)	(1,824)
Change in Allowance for Doubtful Accounts	(200)	300	200
Balance at End of Period - Net of Allowance	$ 83,426	$ 71,157	$ 86,313

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 March 31, 2019	Utility Plant December 31, 2018	Utility Plant March 31, 2018
Electric:				
Production	25-85	$ 39,676	$ 39,691	$ 39,597
Transmission	30-90 [(1)]	390,981	388,609	352,080
Distribution	7-80	1,017,545	1,009,086	975,148
Other	40	5,757	5,766	5,648
Total		$ 1,453,959	$ 1,443,152	$ 1,372,473
Natural Gas:				
Transmission	19-85 [(1)]	$ 58,955	$ 58,720	$ 57,414
Distribution	28-95	512,382	507,035	450,189
Other	N/A	442	442	443
Total		$ 571,779	$ 566,197	$ 508,046
Common:				
Land and Structures	50	$ 80,218	$ 79,232	$ 76,182
Office and Other Equipment, Radios and Tools	8-35	63,637	61,279	54,662
Transportation Equipment	10-12	68,311	67,069	63,406
Other	3-10	62,223	60,177	53,307
Total		$ 274,389	$ 267,757	$ 247,557
Gross Utility Plant		$ 2,300,127	$ 2,277,106	$ 2,128,076

(1) Effective July 1, 2018, the PSC approved 2018 Rate Order included an extension of the useful lives of certain utility plant assets, therefore depreciable lives reported prior to July 1, 2018 will not correspond to the depreciable life stated.

For the three months ended March 31, 2019 and 2018, the borrowed component of funds used during construction and recorded as a reduction of interest expense was $0.3 million for both periods, and the equity component reported as other income was $0.5 million and $0.3 million, respectively.

Included in the Net Utility Plant balance of $1.8 billion at March 31, 2019 and December 31, 2018, and $1.7 billion at March 31, 2018, is $94.5 million, $91.8 million and $82.2 million of intangible utility plant assets, comprised primarily of computer software costs, land, transmission and water rights and the related accumulated amortization of $46.0 million, $44.1 million and $38.7 million, respectively.

As of March 31, 2019, December 31, 2018, and March 31, 2018, Central Hudson has reclassified from utility plant assets $44.0 million, $44.1 million and $45.7 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 March 31, 2019, December 31, 2018, and March 31, 2018, AROs for Central Hudson were approximately $0.7 million, $0.8 million and $1.1 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):

	March 31, 2019		December 2018		March 31, 2018	
Regulatory Assets:						
Deferred purchased electric costs (Note 1)	$ 8,224		$ 1,637		$ 5,412	
Deferred purchased natural gas costs (Note 1)	-		3,057		4,673	
Deferred unrealized losses on derivatives - Electric (Note 16)	3,262		2,135		4,260	
Deferred unrealized losses on derivatives - Natural Gas (Note 16)	34		-		7	
Regulatory Adjustment Mechanism ("RAM") - Electric	6,752		4,436		-	
RDM and carrying charges - Natural gas	-		2,445		-	
Reforming the Energy Vision and carrying charges	2,590		2,113	(4)	-	
Deferred debt expense on re-acquired debt (Note 1)	521		521		522	
Deferred and accrued costs - SIR (Note 14)	8,538		8,471		1,523	
Deferred storm costs and carrying charges	1,560		1,558	(2)(4)	166	
Deferred vacation pay accrual	9,165		7,981		8,684	
Other	2,502		1,931	(2)(4)	4,453	
Total current regulatory assets	$ 43,148		$ 36,285		$ 29,700	
Deferred pension costs (Note 12)	$ 26,839		$ 29,320	(2)	$ 20,032	
Carrying charges - pension reserve	-	(5)	-	(5)	4,405	
Deferred unrealized losses on derivatives - Electric (Note 16)	-		-		3,735	
Deferred and accrued costs - SIR and carrying charges (Note 14)	42,167		45,092	(2)(4)	57,765	
Regulatory Adjustment Mechanism - Electric	2,048		4,364		-	
Deferred debt expense on re-acquired debt (Note 1)	2,246		2,377		2,766	
Income taxes recoverable through future rates	13,005		18,168		13,132	
Tax reform - unprotected impacts (Note 5)	13,688		13,688		17,607	
Reforming the Energy Vision and carrying charges	6,853		7,379	(2)(4)	9,566	
Deferred storm costs and carrying charges	18,770		16,039	(2)(4)	26,533	
Other	5,031		4,917	(2)	19,400	
Carrying charges balancing	(662)	(6)	(360)	(3)	(5,300)	(1)
Total long-term regulatory assets	$ 129,985		$ 140,984		$ 169,641	
Total Regulatory Assets	$ 173,133		$ 177,269		$ 199,341	
Regulatory Liabilities:						
Rate moderator - Electric and carrying charges	$ 8,408		$ 7,563	(2)(4)	$ 456	
Rate moderator - Natural Gas and carrying charges	3,912		3,661	(2)(4)	967	
RDM and carrying charges - Electric	10,940		13,690		3,569	
RDM and carrying charges - Natural Gas	104		-		1,116	
Deferred purchased natural gas costs (Note 1)	44		-		-	
Deferred unrealized gains on derivatives - Electric (Note 16)	-		711		-	
Deferred unrealized gains on derivatives - Natural Gas (Note 16)	-		171		8	
Energy efficiency programs	62,776		66,976		-	
Tax reform - protected deferred tax liability (Note 5)	6,216		6,548		-	
Total current regulatory liabilities	$ 92,400		$ 99,320		$ 6,116	
Rate moderator - Electric	$ 24,764		$ 26,853	(2)	$ 36,812	
Rate moderator - Natural Gas	4,332		5,680	(2)	7,807	
Customer benefit fund	2,602		2,602		2,852	
Deferred cost of removal (Note 3)	43,985		44,119		45,715	
Income taxes refundable through future rates	6,440		5,865		9,472	
Deferred OPEB costs (Note 12)	20,960		23,183		35,579	
Carrying charges - OPEB reserve	-	(5)	-	(5)	6,893	
Deferred property taxes and carrying charges	1,895		-		8,195	
Deferred unbilled electric and natural gas revenues	5,082		5,082		5,082	
Energy efficiency programs and carrying charges	7,866		7,358	(4)	71,190	
Tax reform - protected deferred tax liability (Note 5)	186,685		187,965		197,418	
Other	10,069		8,182	(2)(4)	22,771	
Carrying charges balancing	(662)	(6)	(360)	(3)	(5,300)	(1)

Total long-term regulatory liabilities	$ 314,018	$ 316,529	$ 444,486
Total Regulatory Liabilities	$ 406,418	$ 415,849	$ 450,602
Net Regulatory Liabilities	$ (233,285)	$ (238,580)	$ (251,261)

(1) This amount represents March 31, 2018 estimated netting on the balance sheet of carrying charges to be collected through offset against regulatory liabilities in the 2018 Rate Order.
(2) Central Hudson offset all or a portion of certain regulatory assets and liabilities as of June 30, 2018 in accordance with the PSC prescribed 2018 Rate Order issued on June 14, 2018.
(3) This amount represents the December 31, 2018 estimated netting on the balance sheet of carrying charges to be offset against regulatory liabilities and collected through a regulatory mechanism beginning July 1, 2019.
(4) These amounts exclude carrying charges as of December 31, 2018 as these were offset and are reported in the RAM line as prescribed in the 2018 Rate Order.
(5) In accordance with the 2018 Rate Order, carrying charges related to the Pension and OPEB reserves are included in rates and no longer accrued separately.
(6) This amount represents the March 31, 2019 estimated netting on the balance sheet of carrying charges to be offset against regulatory liabilities and collected through a regulatory mechanism beginning July 1, 2020.

2015 Rate Order/2018 Rate Order

On June 17, 2015, the PSC issued Order Approving Rate Plan in cases 14-E-0318 and 14-G-0319 (the “2015 Rate Order”), adopting the terms set forth in the April 22, 2015 Joint Proposal with minor modifications. From July 1, 2015 through June 30, 2018, Central Hudson operated under the terms of the 2015 Rate Order, with Rate Year (“RY”)1, RY2 and RY3 defined as the twelve months ending June 30, 2016, June 30, 2017 and June 30, 2018, respectively. 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”). 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 RY1, 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 2015 and 2018 Rate Orders are as follows:

	2015 Rate Order (dollars in millions)			2018 Rate Order (dollars in millions)		
Description	RY1	RY2	RY3	RY1	RY2	RY3
Electric delivery rate increases	$15.3	$16.0	$14.1	$19.7	$18.6	$25.1
Natural gas delivery rate increases	$1.8	$4.6	$4.4	$6.7	$6.7	$8.2
Return on Equity	9.00%	9.00%	9.00%	8.80%	8.80%	8.80%
Earnings sharing	Yes(1)	Yes(1)	Yes(1)	Yes(3)	Yes(3)	Yes(3)
Capital structure – common equity	48%	48%	48%	48%	49%	50%
Bill Credits - Electric	$13.0	$12.0	$2.0	$6.0	$9.0	$11.0
Bill Credits - Natural Gas	$2.5	$1.7 (2)	$0(2)	$3.5	$4.0	$4.0
RDMs – electric and natural gas	Yes	Yes	Yes	Yes	Yes	Yes

(1) Return on equity ("ROE") > 9.5% and up to 10.0%, 50% to customers, > 10.0% and up to 10.5%, 80% to customers, > 10.5%, 90% to customers.
(2) In addition to natural gas bill credits, 50% of gas delivery revenues from the Danskammer Generating Station in RY1 will be refunded to customers via bill credit in RY2. In addition, 50% of revenues from RY2 will be refunded as a natural gas bill credit in RY3.
(3) ROE > 9.3% and up to 9.8%, 50% to customers, > 9.8% and up to 10.3%, 80% to customers, > 10.3%, 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 Rate Years 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). Deferred balances eligible for recovery through the RAM include major storm events (in excess of the three year rate allowance), property tax deferred balances, positive revenue adjustments, unencumbered negative revenue adjustments and the revenue requirement effect deferred on leak prone pipe replacement incremental to the annual target of 15 miles.

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 Leak Prone Pipe 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 ("ROW"), 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.

The 2018 Rate Order changed various performance mechanisms for electric, natural gas and customer service. For electric reliability, the System Average Interruption Frequency Index ("SAIFI") target was raised to 1.38 in 2018 and gradually reduced back to 1.30 by the end of the rate plan. 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 included more stringent Customer Satisfaction and PSC Complaint targets, new Call Answer Rate and Residential Termination/Uncollectible metrics with the net result of a reduction in the total potential NRAs.

On July 7, 2018, Central Hudson filed a petition for clarification and rehearing regarding the 2018 Rate Order. The petition sought clarification or correction to certain Energy Efficiency ("EE") EAM targets in which the Company believed the Commission erred when recalculating these targets from a net to a gross basis. The Company believed this error overstated the EE EAM targets by approximately 4%. In addition, the petition seeks to correct a statement in the 2018 Rate Order which inadvertently indicated a cap of $500,000 was allowed for distribution ROW maintenance rather than transmission ROW maintenance. On October 3, 2018, the Commission issued an Errata Notice correcting the reference to the ROW Transmission Cap. On November 19, 2018, the Commission issued Order Concerning Petition for Clarification and Rehearing and denied Central Hudson's request to modify the Rate Order's EE EAM targets on the basis that the rate order properly reflected the decisions made in a March 2018 Utility Energy Efficiency Programs order in Case 15-M-0252 to convert portfolio-level EE targets from net to gross.

Other PSC Proceedings

Governmental Mandates

Deferral of incremental costs exceeding 2% of net income related to governmental mandates was authorized in the 2010 Rate Order and extended for two additional years through June 30, 2015 in Case 12-M-0192. There were two instances where the Company deferred incremental costs under this provision:

- On October 14, 2015, Central Hudson filed a deferral petition seeking approval and recovery of $2.2 million of incremental expense associated with compliance and reporting requirements resulting from multiple Commission Orders stemming from a natural gas incident in Horseheads, New York. These expenses represented 35% of Central Hudson's gas net income for the rate year ended June 30, 2015. On February 5, 2016, Central Hudson received a letter from the PSC's Office of Accounting, Audits and Finance indicating that the PSC had reviewed and audited the deferred balances and agreed with the amount deferred at December 31, 2015.

- On September 1, 2015, Central Hudson filed a deferral petition with the PSC seeking approval and recovery of $1.0 million of incremental expense associated with compliance requirements resulting from the North American Reliability Corporation's change to the definition of the Bulk Electric System, as approved by FERC. These expenses represented 4% of Central Hudson's electric net income for the rate year ended June 30, 2015. On February 5, 2016, Central Hudson received a letter from the PSC's Office of Accounting, Audits and Finance indicating that the PSC had reviewed and audited the deferred balances and agreed with the amount deferred at December 31, 2015.

These balances were recovered through balance sheet offset against certain regulatory liability balances per the 2018 Rate Order.

Impact of Changes in Federal Tax Law

On December 29, 2017 the Commission issued an Order initiating a proceeding, Case 17-M-0815, to commence the process of addressing the potential effects of the enactment of the December 22, 2017 Tax Cuts and Jobs Act on the tax expenses and liabilities of New York State utilities, and the regulatory treatment of any windfalls in order to preserve the benefits for ratepayers. Among items of most significance that were addressed in the proceeding were the impacts of the reduction in the corporate federal income tax rate from 35% to 21% (not reflected in the Company's rates for the period January 1 through June 30, 2018) and the elimination of bonus depreciation for regulated utilities. On August 9, 2018, the Commission issued an Order Determining Rate Treatment of Tax Changes to address the impact of the December 22, 2017 Tax Cuts and Jobs Act and regulatory treatment to preserve the benefits for rate payers. Central Hudson deferred the impact of the change in the federal tax rate from 35% to 21% on delivery rates and deferred tax balances in accordance with the Order. In addition, the Order confirmed that Central Hudson's 2018 Rate Order fully addressed the accounting and ratemaking effects of the Tax Cuts and Jobs Act changes in determining electric and gas revenue requirements.

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. Central Hudson submitted its unconditional acceptance of the Order to the Commission on September 20, 2018.

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 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.

Other than the uncertain tax position related to Central Hudson's accounting method change for gas transmission and distribution repairs, there are no other uncertain tax positions. Included in the balance for the three months ended March 31, 2019 and 2018 are $0.02 million and $2.7 million, respectively, of uncertain tax position previously reclassified to 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.* At March 31, 2018, the tax reserve ending balances included no offset for tax benefits. 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):

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Tax reserve balance at the beginning of the period	$ 7,675	$ 4,301
Change in natural gas transmission and distribution repair deduction	239	229
Change in tax benefit offset	(22)	2,656
Tax reserve balance at the end of the period	$ 7,892	$ 7,186

Income Tax Examinations

Jurisdiction	Tax Years Open for Audit
Federal	2015 – 2017
New York State	2015 – 2017

Tax Reform

On December 22, 2017, President Trump signed the Tax Cuts and Jobs Act into legislation, which enacted significant changes to the Internal Revenue Code including a reduction in the U.S. federal corporate income tax rate from 35% to 21% effective for tax years beginning after 2017. The Company was required to revalue its deferred tax assets and liabilities at the new federal corporate income tax rates as of the date of the enactment. On December 29, 2017 the Commission issued an order initiating a proceeding, Case 17-M-0851, to study the Tax Cuts and Jobs Act legislation in order to preserve the benefits for ratepayers. On August 9, 2018, the Commission issued an Order to preserve the benefits for rate payers. As a result, Central Hudson recorded a regulatory liability of $198.6 million due to the revaluation of plant related deferred tax liabilities which are protected under tax normalization rules. The Company's deferred taxes are subject to a normalization method of accounting for the excess tax reserves resulting from the change in the federal statutory tax rate which involves the use of the average rate assumption method for the determination of the timing of the return of the excess deferred taxes to customers. This regulatory liability is included within deferred taxes associated with accelerated deductions of capitalized utility plant assets for rate-making purposes when determining rate base. The regulatory liability is adjusted monthly to reflect the amortization of the balance under the normalization rules. The Company also recorded a regulatory asset of $23.3 million due to the revaluation of non-plant related deferred taxes, which is not subject to the normalization rules. This balance was being adjusted monthly to account for the difference between the current federal tax rate of 21% and the 35% federal rate that was in effect when customer rates were set for the period of January 1, 2018 through June 30, 2018. Beginning July 1, 2018, rates were reset fully addressing the accounting and ratemaking effects of the Tax Cuts and Jobs Act.

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

	March 31, 2019	December 31, 2018	March 31, 2018
Protected Regulatory Liability at the beginning of the period	$ 194,513	$ 198,576	$ 198,576
Change in Protected Tax Liability	(1,612)	(4,063)	(1,158)
Protected Regulatory Liability at the end of the period	$ 192,901	$ 194,513	$ 197,418

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

	March 31, 2019	December 31, 2018	March 31, 2018
Unprotected Regulatory Asset at the beginning of the period	$ 13,688	$ 23,267	$ 23,267
Change in Unprotected Tax Asset	-	(9,579)	(5,659)
Unprotected Regulatory Asset at the end of the period	$ 13,688	$ 13,688	$ 17,608

Components of Income Tax Expense - CH Energy Group

The following is a summary of the components of federal and state income tax expense for CH Energy Group as reported in its Condensed Consolidated Statement of Income (In Thousands):

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Current federal income tax	$ 1,075	$ 992
Current state income tax	70	1,008
Deferred federal income tax	2,932	1,855
Deferred state income tax	1,889	35
Total income tax expense	$ 5,966	$ 3,890

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 Condensed Consolidated Statement of Income (In Thousands):

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Net income	$ 24,349	$ 16,823
Current federal income tax	1,075	992
Current state income tax	70	1,008
Deferred federal income tax	2,932	1,855
Deferred state income tax	1,889	35
Income before income taxes	$ 30,315	$ 20,713
Computed federal tax at 21%	$ 6,366	$ 4,350
State income tax net of federal tax benefit	1,548	824
Amortization of protected deferred tax liability(1)	(1,269)	(896)
Depreciation flow-through	535	448
Cost of removal	(437)	(403)
Other	(777)	(433)
Total income tax expense	$ 5,966	$ 3,890
Effective tax rate - federal	13.2%	13.8%
Effective tax rate - state	6.5%	5.0%
Effective tax rate - combined	19.7%	18.8%

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

For the three months ended March 31, 2019, the higher combined effective tax rate was driven by higher income before taxes which is subject to the statutory rate. The increase in the federal effective rate was partially offset by the increased amortization of the protected deferred tax liability. See Tax Reform section above for more information.

Components of Income Tax Expense - Central Hudson

The following is a summary of the components of federal and state income tax expense for Central Hudson as reported in its Condensed Statement of Income (In Thousands):

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Current federal income tax	$ 1,206	$ 2,868
Current state income tax	45	1,014
Deferred federal income tax	2,802	13
Deferred state income tax	1,887	1
Total income tax expense	$ 5,940	$ 3,896

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 Condensed Statement of Income (In Thousands):

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Net income	$ 24,337	$ 16,836
Current federal income tax	1,206	2,868
Current state income tax	45	1,014
Deferred federal income tax	2,802	13
Deferred state income tax	1,887	1
Income before income taxes	$ 30,277	$ 20,732
Computed federal tax at 21%	$ 6,358	$ 4,354
State income tax net of federal tax benefit	1,526	802
Amortization of protected deferred tax liability[1]	(1,269)	(896)
Depreciation flow-through	535	448
Cost of removal	(437)	(403)
Other	(773)	(409)
Total income tax expense	$ 5,940	$ 3,896
Effective tax rate - federal	13.2%	13.9%
Effective tax rate - state	6.4%	4.9%
Effective tax rate - combined	19.6%	18.8%

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

For the three months ended March 31, 2019, the higher combined effective tax rate was driven by higher income before taxes which is subject to the statutory rate. The federal effective rate was partially offset by the increased amortization of the protected deferred tax liability. See Tax Reform section above for more information.

NOTE 6 – Investments in Unconsolidated Affiliates

CH Energy Group formed CHET to engage in electric transmission projects. CHET's ownership interest in Transco is 6.1%. FERC approved rates for Transco in March 2016 and three projects costing approximately $209.0 million were placed in service on June 1, 2016 after receiving the remaining regulatory approvals in May 2016. CHET made capital contributions to Transco of $6.8 million to fund these projects. In April 2016, National Grid and Transco jointly filed proposals related to the AC Transmission Order with the NYISO. In April 2019, National Grid and Transco were awarded the Segment B portion of one of its proposals for a transmission project. The project has an estimated cost of $600 million. See Note 20 – "Subsequent Events" for additional information.

In November 2018, the Transco Amendment allowed Transco to pursue additional projects that might come out of future NYISO 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 the three months ended March 31, 2019, CHET made no capital contributions to Transco. At March 31, 2019, December 31, 2018 and March 31, 2018, CHET's investment in Transco was approximately $7.1 million, $6.9 million and $7.3 million, respectively.

CHEC has equity investments in Partnerships, one of which holds investments in energy sector start-up companies. The value of CHEC's equity investments at March 31, 2019, December 31, 2018 and March 31, 2018 was $0.9 million, $0.8 million and $0.7 million, respectively. These investments are not considered to be a part of the core business; however, management intends to retain these investments at this time.

NOTE 7 – Research and Development

Central Hudson's R&D expenditures for the three months ended March 31, 2019 and March 31, 2018 were $1.1 million and $0.7 million, respectively. These expenditures were for internal research programs and for contributions to research administered by New York State Energy Research and Development Authority ("NYSERDA"), the Electric Power Research Institute and other industry organizations.

NOTE 8 – Leases

At March 31, 2019, CH Energy Group does not have any leases other than from Central Hudson. Central Hudson's leasing activities accounted for as operating leases include office facilities with remaining terms of approximately 20 to 66 months including an option to renew an existing lease for an additional five years and communication tower space with remaining terms of approximately 2 years to 18 years including options to renew existing leases for an additional five to 15 years. Most leases include one or more options to renew, with renewal terms that may extend the lease term from six months 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.

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.

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

Leases	Classification	March 31, 2019
Operating Lease Assets	Other Assets	$ 1,791
Current Operating Lease Liabilities	Other Current Liabilities	$ 411
Noncurrent Operating Lease Liabilities	Other Liabilities	1,382
Total Lease Liabilities		$ 1,793

Operating lease cost for the three months ended March 31, 2019 was approximately $0.1 million. Short-term lease cost in the period was not material to CH Energy Group or Central Hudson's results of operations. Variable lease cost for the three months ended March 31, 2019 approximated $0.2 million.

As of March 31, 2019, CH Energy Group and Central Hudson had the following future minimum lease payments (In Thousands):

Year Ending December 31,	Operating Leases
2019 (excluding three months ended 3/31/2019)	$ 355
2020	383
2021	164
2022	159
2023	156
Thereafter	1,001
Total Lease Payments	2,218
Less: Imputed Interest	425
Present Value of Lease Liabilities	1,793
Less: Current Portion	411
Total Non-Current Lease Liabilities	$ 1,382

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

	March 31, 2019
Lease Term and Discount Rate	
Weighted-Average Remaining Lease Term (years)	10.1
Weighted-Average Discount Rate	3.94%

(In Thousands)		Three Months Ended March 31, 2019
Supplemental Cash Flow Information		
Cash Paid for Amounts Included in the Measurement of Lease Liabilities		
Operating Cash Flows used in Operating Leases	$	117
Non-Cash Operating Activities		
Right-of-Use Assets Obtained in Exchange for New Operating Lease Liabilities	$	1,892

DISCLOSURES RELATED TO PERIODS PRIOR TO ADOPTION OF THE NEW LEASE STANDARD

As of December 31, 2018, future minimum lease payments were as follows (In Thousands):

Year Ending December 31,		Operating Leases
2019	$	1,118
2020		477
2021		237
2022		221
2023		201
Thereafter		1,153
Total Lease Payments	$	3,407

Operating lease cost for the three months ended March 31, 2018 was not material to CH Energy Group and Central Hudson's results of operations.

NOTE 9 – Short-Term Borrowing Arrangements

CH Energy Group and Central Hudson's committed and uncommitted short-term borrowing arrangements are as follows:

Description	CH Energy Group		Central Hudson
Revolving Credit Facilities:[1]			
Limit	$50 million[2] / $200 million[3]		$200 million[3]
Expiration	July 10, 2020 / October 15, 2020		October 15, 2020
Use of proceeds	For general corporate purposes	For capital expenditures and for general corporate purposes	For capital expenditures and for general corporate purposes
Letters of Credit:	Available up to $25 million[2]	Available up to $15 million[3]	Available up to $15 million[3]
Uncommitted Credit Facilities	Available up to $40 million[4]		Available up to $40 million[4]

	CH Energy Group			Central Hudson		
	March 31, 2019	December 31, 2018	March 31, 2018	March 31, 2019	December 31, 2018	March 31, 2018
Outstanding (In Thousands):						
Committed Credit[1]	$ -	$ -	$ -	$ -	$ -	$ -
Uncommitted Credit[4]	-	-	10,000	-	-	10,000
Total	$ -	$ -	$ 10,000	$ -	$ -	$ 10,000
Weighted Average Interest Rate	0.00%	0.00%	2.43%	0.00%	0.00%	2.43%

(1) Providing committed credit. The credit facilities include a covenant that the total consolidated funded debt to total capital of CH Energy Group and total funded debt to total capital of Central Hudson, respectively, shall not exceed 0.65 to 1.00. The credit facilities are all subject to certain restrictions and conditions, including there will be no event of default, and subject to certain exceptions, CH Energy Group and Central Hudson will not sell, lien, or otherwise encumber its assets and enter into certain transactions including those with affiliates. CH Energy Group and Central Hudson are 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. CH Energy Group and Central Hudson are in compliance with all debt covenants.

(2) Participating banks in the credit facility for CH Energy Group are JPMorgan Chase Bank, N.A., Bank of America, N.A., Wells Fargo Bank, N.A. and KeyBank National Association. Included as part of the $50 million revolving credit facility is a $10 million Swingline Facility, whereby loans are available up to $10 million with a maturity of 14 days or less. If these lenders are unable to fulfill their commitments under these facilities, funding may not be available as needed.

(3) Participating banks in the credit facility for Central Hudson are JPMorgan Chase Bank, N.A., Bank of America, N.A., Wells Fargo Bank, N.A., KeyBank National Association, Bank of Nova Scotia, N.A. and Citizens Bank, N.A. If these lenders are unable to fulfill their commitments under these facilities, funding may not be available as needed.

(4) Central Hudson has $40 million of uncommitted credit available through arrangements with Bank of America, N.A., Citizens Bank, N.A and the Bank of Nova Scotia, N.A. Proceeds from these credit arrangements will be used to diversify cash sources and provide competitive options to minimize Central Hudson's cost of short-term debt.

NOTE 10 – Capitalization – Common and Preferred Stock

Capitalization

During the first quarter of 2019 and 2018, CH Energy Group received a capital contribution of $6.0 million and $8.0 million, respectively, from its parent FortisUS. The contributions were recorded as paid in capital, see CH Energy Group's Condensed Consolidated Statement 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 $60.1 million and $53.5 million in dividends to CH Energy Group for the periods ended March 31, 2019 and 2018, 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 (currently 48%). CH Energy Group's other subsidiaries do not have express restrictions on their ability to pay dividends.

During both the three months ended March 31, 2019 and 2018, the Board of Directors of CH Energy Group declared and paid dividends of $5.5 million to FortisUS, the sole shareholder of CH Energy Group.

Preferred Stock

Other than the one share of Junior Preferred Stock, Central Hudson has no outstanding preferred stock as of March 31, 2019, December 31, 2018 and March 31, 2018.

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):

	March 31, 2019	December 31, 2018	March 31, 2018
CH Energy Group:			
Promissory notes	$ 687,822	$ 687,822	$ 614,325
Less: current portion	(28,607)	(28,607)	(31,503)
Principal portion of long-term-debt	659,215	659,215	582,822
Less: unamortized debt issuance costs	(4,194)	(4,296)	(3,904)
Net long-term debt - CH Energy Group	$ 655,021	$ 654,919	$ 578,918
Central Hudson:			
Promissory notes	$ 673,950	$ 673,950	$ 598,950
Less: current portion	(27,000)	(27,000)	(30,000)
Principal portion of long-term-debt	646,950	646,950	568,950
Less: unamortized debt issuance costs	(4,131)	(4,231)	(3,831)
Net long-term debt - Central Hudson	$ 642,819	$ 642,719	$ 565,119

At March 31, 2019, 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 3-year interest rate cap on March 21, 2017 that will expire on March 26, 2020. 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. There have been no payouts on this interest rate cap for the three months ended March 31, 2019 and 2018.

The principal amount of Central Hudson's outstanding 1999 Series B NYSERDA Bonds totaled $33.7 million at March 31, 2019. 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. There were no payouts on these interest rate caps during the periods presented.

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 has 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.

Debt Covenants

CH Energy Group's $13.9 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 March 31, 2019, 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.

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. Central Hudson also provides certain health care and life insurance benefits for certain retired employees hired before January 1, 2008 or May 1, 2008, as applicable, through its post-retirement benefit plans.

Central Hudson's net periodic benefit costs for its Pension and OPEB plans are as follows (In Thousands):

	Pension Benefits		OPEB	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2019	2018	2019	2018
Service cost	$ 2,811	$ 3,265	$ 382	$ 466
Interest cost	6,780	6,260	1,265	1,182
Expected return on plan assets	(7,775)	(8,508)	(1,694)	(1,893)
Amortization of prior service cost (credit)	166	257	(673)	(1,267)
Amortization of recognized actuarial net (gain)/loss	1,098	4,561	(784)	(231)
Net Periodic (Benefit) Cost	$ 3,080	$ 5,835	$ (1,504)	$ (1,743)

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

	March 31, 2019(1)(2)	December 31, 2018(1)(2)	March 31, 2018(1)(2)
Accrued pension costs	$ (35,369)	$ (33,815)	$ (10,832)

(1) Includes approximately $232K at March 31, 2019, December 31, 2018 and March 31, 2018, respectively 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 $1.0M at March 31, 2019, December 31, 2018 and March 31, 2018, respectively, that is reflected in the Balance Sheet under other current liabilities for pension costs due over the next twelve months.

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 $27.1 million, $26.9 million and $26.8 million of SERP trust assets at March 31, 2019, December 31, 2018 and March 31, 2018.

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):

	March 31, 2019(1)(2)	December 31, 2018(1)(2)	March 31, 2018(1)(2)
(Accrued) prefunded pension costs prior to funding status adjustment	$ (14,383)	$ (11,565)	$ 5,151
Additional liability required	(20,986)	(22,250)	(15,983)
Accrued pension costs	$ (35,369)	$ (33,815)	$ (10,832)
Offset to additional liability - regulatory assets - pension plan	$ 20,448	$ 21,667	$ 15,983
Offset to additional liability - accumulated OCI, net of tax of $8, $153, and $0, respectively	$ 407	$ 430	$ -

(1) Includes approximately $232K at March 31, 2019, December 31, 2018 and March 31, 2018, respectively 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 $1.0M at March 31, 2019, December 31, 2018 and March 31, 2018, respectively, that is reflected in the Balance Sheet under other current liabilities for pension costs due over the next twelve months.

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 OCI, net of tax. However, Central Hudson has PSC approval to record regulatory assets rather than adjusting comprehensive income to offset the additional liability for amounts recoverable from customers in future rates. The amounts reported above as accumulated OCI, net of tax, relate to a former Central Hudson officer who transferred to an affiliated company but who continues to accrue benefits in Central Hudson’s Retirement Plan and SERP. These amounts are charged to and reimbursed by the affiliated company.

Contribution levels for the Retirement and OPEB Plans are determined by various factors including the funded status, expected return on plan assets, benefit changes, changes in mortality assumptions and corporate resources. In addition, OPEB plan contribution levels are also impacted by medical claims.

Contributions to the Central Hudson Retirement and OPEB Plans are as follows (In Thousands):

Retirement Plan		OPEB	
Three Months Ended March 31,		Three Months Ended March 31,	
2019	2018	2019	2018
$ -	$ 11,144	$ 1,001	$ 1,302

During the first quarter of 2019, Central Hudson did not make a contribution to the SERP. There was a contribution of $3.3 million made to the SERP during the first quarter of 2018.

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 March 31, 2019, as well as actual asset allocations as of March 31, 2019, December 31, 2018, and March 31, 2018 expressed as a percentage of the market value of Retirement Plan assets, are summarized in the table below:

Asset Class	Minimum	Target Average	Maximum	March 31, 2019	December 31, 2018	March 31, 2018
Equity Securities	45%	50%	55%	49.6%	47.5%	51.4%
Debt Securities	45%	50%	55%	49.4%	51.0%	48.4%
Other[(1)]	0%	0%	10%	1.0%	1.5%	0.2%

(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.

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	March 31, 2019	December 31, 2018
Equity Securities	55%	65%	75%	65.9%	64.4%
Debt Securities	25%	35%	45%	33.2%	34.8%
Other[1]	0%	0%	0%	0.9%	0.8%

[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.

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.

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 three months ended March 31, 2019 and 2018 were $1.3 million and $1.2 million. Central Hudson also provides an additional contribution of 4% 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 2019, officers of Central Hudson were granted 47,074 Units under the Central Hudson 2019 Share Unit Plan ("2019 SUP"), representing the officers' long-term incentives. Two-thirds of the issued 2019 SUP Units granted are performance based and vest at the end of the three-year performance period upon achievement of specified cumulative performance goals. The remaining 2019 SUP Units that were granted are time-based and vest at the end of the three-year period without regard to performance. Each 2019 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 that 2019 SUP Unit grant. Each 2019 SUP Unit accrues notional dividend equivalents equal to the dividends declared by the Fortis Board of Directors on Fortis common shares.

In January 2019, CH Energy Group granted 35,352 Units to an officer of CH Energy Group under a 2019 Share Unit Plan ("2019 PSUP"). Of the issued 2019 PSUP Units granted 26,514 Units are performance based and vest upon achievement of specified performance goals over the applicable three-year performance period. The remaining 8,838 Units granted under the 2019 PSUP are time-based and vest at the end of the three-year period without regard to performance. Each 2019 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 2019 PSUP Unit grant. Each 2019 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 ("2018 PSUP") in 2018, the ("2017 PSUP") in 2017 and in 2016 the ("2016 PSUP"), (collectively "PSUP"). The PSUP Units granted under these plans are performance based and vest upon achievement of specified performance goals over the applicable three-year performance period. 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 2018 ("2018 SUP") and 2017 ("2017 SUP") Share Unit Plans, and Officers of CH Energy Group and Central Hudson were granted Units under the Central Hudson 2016 ("2016 SUP") Share Unit Plan, 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 2016 PSUP and 2016 SUP Plans vested and were paid out during the first quarter of 2019.

CH Energy Group:	Grant Date		Grant Date Fair Value	Time Based Granted	Time Based Outstanding[4]	Performance Based Granted	Performance Based Outstanding[4]
2019 PSUP	January 1, 2019	$	33.10	8,838	8,922	26,514	26,767
2018 PSUP	January 1, 2018	$	36.59	-	-	29,514	31,010
2017 PSUP	January 1, 2017	$	30.85	-	-	30,085	32,767
2016 PSUP[1]	April 1, 2016	$	31.00	-	-	18,806	-

Central Hudson:	Grant Date		Grant Date Fair Value	Time Based Granted	Time Based Outstanding[4]	Performance Based Granted	Performance Based Outstanding[4]
2019 SUP	January 1, 2019	$	33.10	15,691	15,841	31,383	31,683
2018 SUP	January 1, 2018	$	36.59	16,337	17,048	32,675	34,096
2017 SUP	January 1, 2017	$	30.85	18,359	19,863	36,717	39,727
2016 SUP[1][2][3]	January 1, 2016	$	27.26	23,352	-	46,704	-

[1] Upon establishing the CH Energy Group 2016 PSUP on April 1, 2016, Central Hudson rescinded 16,356 Performance Units issued under Central Hudson's 2016 SUP, resulting in a reduction in the total number of units outstanding under the Central Hudson 2016 SUP from 70,056 to 53,700 Units.
[2] In the third quarter of 2016, per the 2016 SUP agreement, 1,231 time based units were paid out related to an Officer who retired, at $27.47 per unit.
[3] In the first quarter of 2019, 58,788 units under the 2016 SUP and 21,066 units under the 2016 PSUP vested and were paid out at $32.62 per unit for a total of approximately $2.6 million.
[4] Includes notional dividends accrued as of March 31, 2019.

Compensation Expense

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

	Three Months Ended March 31, 2019		Three Months Ended March 31, 2018	
CH Energy Group	$	1,525	$	1,270
Central Hudson	$	1,519	$	1,268

The liabilities associated with the 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 are 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 SUP and PSUP agreements, 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 SUP 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 SUP agreement 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 March 31, 2019, December 31, 2018, and March 31, 2018 employee loans due to the Company related to the ESPP were approximately $0.1 million.

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. The cost of Central Hudson's contribution for the three months ended March 31, 2019 and 2018 was approximately $0.01 million.

NOTE 14 – Commitments and Contingencies

There were no material changes in the nature and amounts of Central Hudson's commitments from those disclosed in the 2018 Annual Financial Report, except as noted below.

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, Load Serving Entities ("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. LSEs will purchase ZECs from NYSERDA at 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. The actual obligation will be determined and is contingent upon actual load served. At March 31, 2019, 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 $19.8 million and for RECs the purchase obligation through December 31, 2021 is estimated to be approximately $5.0 million. Central Hudson is also obligated to pay an additional $0.1 million related to its REC obligation for the 2018 compliance year based on actual load share. Central Hudson intends to fulfill its future REC obligation through NYSERDA and other value stack payments for renewable attributes that will be applied towards Central Hudson's REC requirement. The requirement to procure RECs and ZECs will continue based upon Central Hudson's future load served to its customers through 2029. These future costs are recoverable from customers through rates.

Other Commitments

Pension Benefit and Other Post Retirement Benefit Funding Contributions

Central Hudson is subject to certain contractual benefit payment obligations. Decisions about how to fund the Retirement Plan 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 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 at 80% or higher. In January 2019, Central Hudson made a contribution for 2018 of $1.0 million to the 401(h) Plan to fund the management OPEB liabilities, in accordance with Central Hudson's OPEB policy and strategy. Actual contributions for 2019 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.

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, the cost of and a return on five high voltage transmission projects totaling $1.7 billion. CHET's maximum commitment for these five projects is $182 million, which is the maximum budgeted amount for these projects at 100% equity. As of March 31, 2019, CHET's investment in Transco was approximately $7.1 million.

CH Energy Group issued a parental guarantee to Transco to assure the payment of CHET's maximum commitment of $182 million. As of March 31, 2019, CH Energy Group is 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 under a Consent Order, Voluntary Cleanup Agreement ("VCA") (no longer available after March 31, 2018) or Brownfield Cleanup Agreement ("BCA"). The DEC has placed seven sites on the New York State Environmental Site Remediation Database. In addition, Central Hudson is also performing environmental SIR at two other non-MGP sites within its service territory. The first site, Little Britain Road, originally operated under a VCA, still requires additional necessary SIR-related work. Central Hudson has executed a BCA with the DEC superseding the former VCA. At the second site, Eltings Corners, the SIR related work as stipulated within the facility's' current Resource Conservation and Recovery Act Hazardous Waste Storage Permit is virtually complete. The DEC has approved the Remedial Action Work Plan for this site.

Central Hudson accrues for remediation costs based on the amounts that can be reasonably estimated at a point in time. As of March 31, 2019, Central Hudson has accrued $45.5 million with respect to all SIR activities, including operation, maintenance and monitoring costs ("OM&M"), of which $22.2 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. These stages, the types of costs accrued during various stages and the sites currently in each stage 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.

    - **Site #9 – Little Britain Road** - RI in Progress
        - Per DEC recommendation, Central Hudson completed a survey of the site monitoring wells, developed remaining wells and collected groundwater samples for laboratory analysis in May 2017. The results of the sampling event were submitted to the DEC for review with a recommendation on the next course of action in August 2017. Based on the results, the DEC has required a supplemental investigation. As such, Central Hudson submitted a work plan to the DEC and received approval in February 2018.
        - An Environmental Easement was executed with the DEC in December 2017 and subsequently the proof of recording was submitted to the DEC in January 2018.
        - Investigation activities were completed in November 2018 and the investigation summary report was approved in March 2019.
        - A revised Brownfield Cleanup Program Application was submitted to the DEC in August 2018. The DEC issued a letter of Completeness on August 24, 2018, and a BCA was fully executed with the DEC in March 2019.
        - A draft Sub-slab Depressurization System Evaluation Work Plan to evaluate the existing system was submitted to the DEC for review and approval in March 2019.

2. *Remedial Alternatives Analysis ("RAA")* – Engineering analysis of alternatives for remediation based on the RI is compiled into a RAA Report. Upon completion of the RAA and the filing with the DEC, 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 ("RAWP") 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 ("CCR"), Final Engineering Report ("FER"), or other reports required by the DEC based on the work performed.

- **Site #5 – North Water Street** – Remediation in Progress
  - The DEC issued a Decision Document in March 2016 and approved the RAA Report in April 2016.
  - Central Hudson executed a "Design-Build" contract with an environmental engineering firm in March 2017. Pre-Design Investigation ("PDI") and RD activities commenced in May 2017.
  - On May 29, 2018 the DEC approved the commencement of upland remedial activities, not including the pre-trenching along the barrier wall alignment.
  - A RD/RAWP detailing the upland (including bulkhead installation) and Hudson River remediation activities was approved by the DEC on August 21, 2018.
  - On November 16, 2018 the United States Army Corps of Engineers, having received concurrence from the National Oceanic and Atmospheric Administration, issued the Nationwide Permit No. 38.
  - The 401 Water Quality Certification was issued on October 12, 2018.
  - Site mobilization and upland remedial activities commenced in June 2018, and the equipment demobilization was completed in January 2019. Remedial dredging is anticipated to commence in late summer 2019 in accordance with permit requirements.
  - Bulkhead/barrier wall installation commenced in November 2018, however, work was halted as a result of river icing and will resume in late summer 2019.
  - Periodic off-season site inspections will continue to be conducted until remedial activities recommence with summaries of observations being forwarded to the DEC. To date, no concerns associated with the site were noted during the inspections. However, as a precautionary measure, the weathered absorbent boom located behind the bulkhead/barrier wall was removed and replaced in March 2019. A summary documenting these activities was submitted electronically to the DEC on March 22, 2019.

- In preparation for the second season of remedial activities, a draft agenda and a request to schedule a discussion meeting during the last two weeks of April 2019 was submitted to the DEC (including representatives from Division of Environmental Remediation and Fish & Wildlife) on March 25, 2019.
- Central Hudson is working cooperatively with the DEC to resolve an alleged instance of non-compliance with the work plan and applicable law involving a sheening event that occurred at the site on December 5, 2018; such resolution could include the imposition of a fine in an amount not material to the Company.
- Approximately $40.6 million has been accrued as of March 31, 2019, based on the scope of work and cost estimate developed for remediation and OM&M activities, of which approximately $21.6 million is expected to be spent in the next twelve months.

➢ **Site # 8 - Eltings Corners** – Remediation and Complete/Final Restoration in Progress

- PDI activities were completed during the second quarter of 2017 and the results were submitted as an appendix to the RAWP to the DEC in September 2017.
- A contract to complete the remedial activities was executed in January 2018. Upon receipt of regulatory approvals, remedial activities commenced in May 2018 and were completed in the fourth quarter of 2018. Final restoration of the site has been accomplished with the exception of some plantings within the wetland that will take place in 2019. A FER is anticipated to be submitted to the DEC in the second quarter of 2019.
- Approximately $0.1 million has been accrued as of March 31, 2019, based on the scope of work and cost estimate developed for remediation and OM&M activities, which is expected to be spent in the next twelve months.

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 ("SMP"), 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.

➢ **Site #2 – Newburgh Area A** – Post-Remediation In Progress

- In 2012, Central Hudson retired and removed propane air facilities located on Area A. The RAWP for this site was approved by the DEC in June 2015 and remedial activities were completed between October 2015 and January 2016.
- An Environmental Easement for Area A was executed with the DEC and filed with the Orange County Clerk in March 2017.
- The CCR for Area A was approved by the DEC in August 2017.
- A SMP was submitted to the DEC in December 2017 and approved in February 2018.
- The DEC approved the FER summary letter in February 2018 and issued a Satisfactory Completion letter changing the site classification from active to closed on February 28, 2018.

- **Site #2 – Newburgh Area B and C** – Post-Remediation In Progress
  - A CCR associated with the remedial activities completed in Areas B & C was approved in July 2017 and a SMP related to Area B was approved in February 2018. The DEC issued a Satisfactory Completion letter, regarding the Consent Order, changing the site classification from active to closed on February 28, 2018. However, on-going site inspections (site cover and barrier wall), weekly groundwater monitoring (coal tar recovery), and maintenance activities required by the SMP will continue as necessary.
  - Approximately $1.5 million has been accrued as of March 31, 2019, based on the scope of work and cost estimate developed for remediation and OM&M activities, of which $0.1 million is expected to be spent in the next twelve months.

- **Site #3 – Laurel Street** – Post-Remediation In Progress
  - In October 2017, an updated SMP was approved.
  - All required remedial work was completed and a Release and Covenant Not to Sue Letter was issued on March 27, 2018 by the DEC. However, on-going annual site inspections (site cover) along with semi-annual groundwater monitoring both at the former site and previously established off-site locations will continue.
  - An annual site inspection documenting the status of the Engineering Controls ("ECs") and the Institutional Controls ("ICs") was performed in March 2019. No actionable findings were noted and the required Periodic Review Report ("PRR"), summarizing the status of the ECs and ICs, will be submitted to the DEC for review in March 2019. The DEC responded requesting that a certification form, not previously available/required for the site, be completed and appended to the PRR submittal. It is anticipated that this certification form will be appended and resubmitted in April 2019.
  - Approximately $0.4 million has been accrued as of March 31, 2019, based on the scope of work and cost estimate developed for remediation and OM&M activities, of which $0.1 million is expected to be spent in the next twelve months.

- **Site #4 – Catskill** – Post-Remediation In Progress
  - In a September 2018 letter the DEC reduced the groundwater sampling frequency of the monitoring well network from semi-annually to annually. However, on-going annual site inspections (site cover) and the monitoring wells will continue to be gauged on a semi-annual basis.
  - An annual site inspection documenting the status of the ECs and ICs was performed in March 2019. No actionable findings were noted and the required PRR summarizing the results will be submitted to the DEC for review in April 2019.
  - Approximately $0.2 million has been accrued as of March 31, 2019, based on the scope of work and cost estimate developed for remediation and OM&M activities, of which $0.1 million is expected to be spent in the next twelve months.

- **Site #6 – Kingston** – Post-Remediation In Progress
  - The RD Report was approved by the DEC in January 2016. A remedial construction "Design-Build" contract was executed with an EEF in February 2016. A revised Remedial Work Plan and required permit packages were approved in June 2016.
  - Site preparation and remedial activities commenced in March and May 2016, respectively. Remedial restoration activities were completed in June 2017.
  - An Environmental Easement was executed with the DEC and filed with the Ulster County Clerk in the third quarter of 2017.
  - The final SMP was submitted and approved by the DEC in November 2017.
  - The DEC approved the FER and issued a Certificate of Completion ("COC") in December 2017 and the COC was subsequently filed with the Ulster County Clerk.
  - An inspection of the transition zone, located on the Landing property was conducted in May 2018 in accordance with the approved SMP and a summary of findings was submitted to the DEC on May 31, 2018. The results of the inspection were positive and there should be no further actions nor inspections of the transition zone required in the future. However, on-going site inspections (site cover and bathymetric surveys), bi-annual groundwater monitoring (coal tar recovery), and maintenance activities (utility cap) required by the SMP will continue as necessary.
  - In accordance with the November 2017 SMP, an annual site inspection documenting the status of the ECs and ICs was performed in March 2019. As discussed in the March 2019 PRR submittal, areas of settlement were identified along the bulkhead at the southern portion of the site, though the requisite that a minimum of 48 inches of clean soil remains over the in situ solidification monolith (approved remedy) in these areas. As a result, fill material (stone) will be placed in the settlement areas in an effort to reduce the risk of a tripping hazard for personnel working on the site and also to maintain the minimum 48 inches of cover over the monolith in the event of additional settling. It is anticipated the work will be completed in April 2019.
  - Approximately $2.4 million has been accrued as of March 31, 2019, based on the scope of work and estimated costs for OM&M activities, of which $0.1 million is expected to be spent over the next twelve months.

– *No Action Required*

- **Site #1 – Beacon** – No further costs are expected and no amounts are accrued related to this site. If the building at this site were to be removed, further investigation and testing would be required related to the soil under the building, which may require additional remediation. Management cannot currently estimate the likelihood of the building being removed or the costs that may be incurred related to this.

- **Site #7 – Bayeaux Street** – No further investigation or remedial action is currently required. However, per the DEC, this site still remains on the list for potential future investigation.

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 $6.5 million recovered through March 31, 2019.
- The total spent in the three months ended March 31, 2019 and 2018 related to site investigation and remediation was approximately $1.0 million and $0.5 million, respectively.
- The regulatory asset balance including carrying charges as of March 31, 2019, December 31, 2018 and March 31, 2018 was $50.7 million, $53.6 million and $59.3 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, plus carrying charges accrued on deferred balances.

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 three months ended March 31, 2019 and 2018. We do not expect insurance recoveries to offset a meaningful portion of total costs.

Other Environmental Matters

On April 17, 2017, Central Hudson received a Request for Information from the United States Environmental Protection Agency ("EPA") pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act, regarding the Wappingers Creek Superfund Site in Wappinger Falls, NY. In July 2017, Central Hudson responded to the Request for Information by submitting information and documents to the EPA. Since that submittal, the Company has received no further communication from the EPA regarding this matter. The Company cannot predict the outcome of, or assess the extent of liability, if any, relating to this matter.

Litigation

Asbestos Litigation

Central Hudson is involved in various asbestos lawsuits.

As of March 31, 2019, of the 3,376 asbestos cases brought against Central Hudson, 1,173 remain pending. Of the cases no longer pending against Central Hudson, 2,042 have been dismissed or discontinued without payment by Central Hudson and Central Hudson has settled 161 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 remaining energy investments, 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."

Central Hudson's operations are seasonal in nature and weather-sensitive and, as a result, financial results for interim periods are not necessarily indicative of trends for a twelve-month period. Demand for electricity typically peaks during the summer, while demand for natural gas typically peaks during the winter.

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 2015 and 2018 Rate Orders is 80% for electric and 20% for natural gas.

CH Energy Group Segment Disclosure

(In Thousands)

	Three Months Ended March 31, 2019				
	Segments		Other		
	Central Hudson		Businesses		
		Natural	and		
	Electric	Gas	Investments	Eliminations	Total
Revenues from external customers	$ 136,826	$ 71,959	$ -	$ -	$ 208,785
Intersegment revenues	15	138	-	(153)	-
Total operating revenues	136,841	72,097	-	(153)	208,785
Energy supply costs	39,541	30,218	-	(153)	69,606
Operating expenses	69,298	19,700	(13)	-	88,985
Depreciation and amortization	11,162	3,511	-	-	14,673
Operating income	16,840	18,668	13	-	35,521
Other income, net	2,232	788	262	-	3,282
Finance charges	6,186	2,065	237	-	8,488
Income before income taxes	12,886	17,391	38	-	30,315
Income tax expense	1,528	4,412	26	-	5,966
Net Income Attributable to CH Energy Group	$ 11,358	$ 12,979	$ 12	$ -	$ 24,349
Segment Assets at March 31, 2019	$ 1,656,031	$ 583,967	$ 14,622	$ (2,794)	$ 2,251,826

CH Energy Group Segment Disclosure

(In Thousands)

	Three Months Ended March 31, 2018				
	Segments		Other		
	Central Hudson		Businesses		
		Natural	and		
	Electric	Gas	Investments	Eliminations	Total
Revenues from external customers	$ 147,167	$ 70,568	$ -	$ -	$ 217,735
Intersegment revenues	9	146	-	(155)	-
Total operating revenues	147,176	70,714	-	(155)	217,735
Energy supply costs	58,562	35,246	-	(155)	93,653
Operating expenses	64,512	18,349	58	-	82,919
Depreciation and amortization	10,549	3,184	-	-	13,733
Operating income (loss)	13,553	13,935	(58)	-	27,430
Other income, net	876	302	300	-	1,478
Finance charges	5,965	1,969	261	-	8,195
Income (loss) before income taxes	8,464	12,268	(19)	-	20,713
Income tax expense (benefit)	752	3,144	(6)	-	3,890
Net Income (Loss) Attributable to CH Energy Group	$ 7,712	$ 9,124	$ (13)	$ -	$ 16,823
Segment Assets at March 31, 2018	$ 1,663,080	$ 442,084	$ 14,259	$ (1,795)	$ 2,117,628

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 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.

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 charge 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 March 31, 2019 are as follows:

Central Hudson	% of Requirement Hedged (1)
Electric Derivative Contracts:	0.4 million MWh
April 2019 – December 2019	15.1%
Natural Gas Derivative Contracts:	0.4 million Dth
November 2019 – December 2019	6.3%
January 2020 – March 2020	6.8%

(1) Projected coverage as of March 31, 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 contain credit-risk related contingent features. As of March 31, 2019, four agreements with credit risk contingent features were in a liability position and, if the contingent features were triggered, $2.0 million would be required to settle these instruments.

Derivative Contracts

CH Energy Group and Central Hudson have elected gross presentation for their derivative contracts under master netting agreements and collateral positions. On March 31, 2019, December 31, 2018, and March 31, 2018, 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 as of March 31, 2019, December 31, 2018 and March 31, 2018 are as follows (In Thousands):

				Gross Amounts Not Offset in the Statement of Financial Position		
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	Financial Instruments	Cash Collateral Received	Net Amount
As of March 31, 2019						
Derivative Contracts:						
Central Hudson - electric	$ -	$ -	$ -	$ -	$ -	$ -
Central Hudson - natural gas	-	-	-	-	-	-
Total CH Energy Group and Central Hudson Assets	$ -	$ -	$ -	$ -	$ -	$ -
As of December 31, 2018						
Derivative Contracts:						
Central Hudson - electric	$ 711	$ -	$ 711	$ 711	$ -	$ -
Central Hudson - natural gas	171	-	171	-	-	171
Total CH Energy Group and Central Hudson Assets	$ 882	$ -	$ 882	$ 711	$ -	$ 171
As of March 31, 2018						
Derivative Contracts:						
Central Hudson - natural gas	$ 8	$ -	$ 8	$ -	$ -	$ 8
Total CH Energy Group and Central Hudson Assets	$ 8	$ -	$ 8	$ -	$ -	$ 8

(1) Interest rate cap agreements are not shown in the above chart. As of March 31, 2019, December 31, 2018 and March 31, 2018 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 March 31, 2019						
Derivative Contracts:						
Central Hudson - electric	$ 3,262	$ -	$ 3,262	$ -	$ -	$ 3,262
Central Hudson - natural gas	34	-	34	-	-	34
Total CH Energy Group and Central Hudson Liabilities	$ 3,296	$ -	$ 3,296	$ -	$ -	$ 3,296
As of December 31, 2018						
Derivative Contracts:						
Central Hudson - electric	$ 2,135	$ -	$ 2,135	$ 711	$ -	$ 1,424
Total CH Energy Group and Central Hudson Liabilities	$ 2,135	$ -	$ 2,135	$ 711	$ -	$ 1,424
As of March 31, 2018						
Derivative Contracts:						
Central Hudson - electric	$ 7,995	$ -	$ 7,995	$ -	$ -	$ 7,995
Central Hudson - natural gas	7	-	7	-	-	7
Total CH Energy Group and Central Hudson Liabilities	$ 8,002	$ -	$ 8,002	$ -	$ -	$ 8,002

(1) Interest rate cap agreements are not shown in the above chart. As of March 31, 2019, December 31, 2018 and March 31, 2018 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 March 31, 2019, December 31, 2018 and March 31, 2018, 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 March 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	$ 3,262	$ -	$ 3,262	$ -
Central Hudson - natural gas	34	34	-	-
Total CH Energy Group and Central Hudson Liabilities	$ 3,296	$ 34	$ 3,262	$ -
As of December 31, 2018[1]				
Assets:				
Derivative Contracts:				
Central Hudson - electric	$ 711	$ -	$ 711	$ -
Central Hudson - natural gas	171	171	-	-
Total CH Energy Group and Central Hudson Assets	$ 882	$ 171	$ 711	$ -
Liabilities:				
Derivative Contracts:				
Central Hudson - electric	$ 2,135	$ -	$ 2,135	$ -
Total CH Energy Group and Central Hudson Liabilities	$ 2,135	$ -	$ 2,135	$ -
As of March 31, 2018[1]				
Assets:				
Derivative Contracts:				
Central Hudson - natural gas	$ 8	$ 8	$ -	$ -
Total CH Energy Group and Central Hudson Assets	$ 8	$ 8	$ -	$ -
Liabilities:				
Derivative Contracts:				
Central Hudson - electric	$ 7,995	$ -	$ 7,995	$ -
Central Hudson - natural gas	7	7	-	-
Total CH Energy Group and Central Hudson Liabilities	$ 8,002	$ 7	$ 7,995	$ -

(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 March 31, 2019, December 31, 2018 and March 31, 2018 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 quarter ended March 31, 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		
	Three Months Ended March 31,		
	2019	2018	Location of Gain (Loss)
Central Hudson:			
Electricity swap contracts	$ (1,808)	$ 1,767	Deferred purchased electric costs[1]
Natural gas swap contracts	175	(369)	Deferred purchased natural gas costs[1]
Total CH Energy Group and Central Hudson	$ (1,633)	$ 1,398	

(1) Realized gains and losses on Central Hudson's derivative instruments are conveyed to or recovered from customers through PSC authorized deferral accounting mechanisms, with an offset in revenue and on the balance sheet, and no impact on results of operations.

Other Hedging Activities

Central Hudson – Electric

In October 2018, Central Hudson entered into a weather option for the period December 1, 2018 through March 31, 2019, to hedge the effect of significant variances in weather conditions on electricity costs. For Central Hudson, this transaction impacted purchased electric expense and revenue, but did 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 was $5 million. This contract was accounted for in accordance with guidance specific to accounting for weather derivatives. The $1.5 million premium paid was amortized to purchased electricity over the term of the contract. The $0.7 million payout earned was recorded as a reduction to purchased electricity in the Statement of Income in the first quarter of 2019.

In 2017, Central Hudson entered into a similar weather option for the period December 1, 2017 through March 31, 2018. The aggregate limit on the contract was $5 million. The premium paid was amortized to purchased electricity over the term of the agreement and the payout earned of $2.2 million was recorded as a reduction to purchased electricity in the Statement of Income, with $1.3 million recognized in the first quarter of 2018.

Central Hudson – Natural Gas

In October 2018, Central Hudson entered into a weather option for the period December 1, 2018 through March 31, 2019, to hedge the effect of significant variances in weather conditions and price on natural gas costs. For Central Hudson, this transaction impacted purchased natural gas expense and revenue, but did 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 was $5 million. The terms of this contract included both a weather and natural gas price trigger. However, management believed 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 $2.3 million premium paid was amortized to purchased natural gas over the term of the contract. The $0.5 million payout earned was recorded as a reduction to purchased natural gas in the Statement of Income during the first quarter of 2019.

In 2017, Central Hudson entered into a similar weather option for the period December 1, 2017 through March 31, 2018. The aggregate limit of the contract was $5 million. The premium paid was amortized to purchased natural gas over the term of the related agreement. The $3.8 million payout earned for the 2017 contract was recorded as a reduction to purchased natural gas in the Statement of Income, with $2.9 million recognized in the first quarter of 2018.

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 March 31, 2019:				
Other Investments	$ 9,527	$ 9,527	$ -	$ -
As of December 31, 2018:				
Other Investments	$ 9,479	$ 9,479	$ -	$ -
As of March 31, 2018:				
Other Investments	$ 10,849	$ 10,849	$ -	$ -

As of March 31, 2019, December 31, 2018 and March 31, 2018, a portion of the trust assets for the funding 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 March 31, 2019, December 31, 2018 and March 31, 2018 the total cash surrender value of trust-owned life insurance held by these trusts was approximately $30.4 million, $29.3 million and $28.6 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 table discloses the estimated fair value of both CH Energy Group and Central Hudson's long-term debt, including the current portion (In Thousands):

CH Energy Group

	March 31, 2019		December 31, 2018		March 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed rate debt	$ 624,122	$ 679,680	$ 624,122	$ 665,815	$ 550,625	$ 592,783
Variable rate debt	63,700	63,700	63,700	63,700	63,700	63,700
Total	$ 687,822	$ 743,380	$ 687,822	$ 729,515	$ 614,325	$ 656,483
Estimated effective interest rate		4.48%		4.48%		4.35%

Central Hudson

	March 31, 2019		December 31, 2018		March 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed rate debt	$ 610,250	$ 665,080	$ 610,250	$ 651,215	$ 535,250	$ 576,178
Variable rate debt	63,700	63,700	63,700	63,700	63,700	63,700
Total	$ 673,950	$ 728,780	$ 673,950	$ 714,915	$ 598,950	$ 639,878
Estimated effective interest rate		4.43%		4.43%		4.29%

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):

	Three Months Ended March 31,	
	2019	2018
CH Energy Group (Thompson Hine LLP)	$ 532	$ 459
Central Hudson (Thompson Hine LLP)	$ 514	$ 445
Central Hudson (The Chazen Companies)	$ 217	$ 116

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):

	March 31, 2019	December 31, 2018	March 31, 2018
CH Energy Group[(1)]	Fortis	Fortis	Fortis [(2)]
Accounts Receivable	$ 774	$ 862	$ 244
Accounts Payable	$ -	$ -	$ 349

Central Hudson[1]	March 31, 2019 CHEG	March 31, 2019 Fortis	March 31, 2019 Other Affiliates	December 31, 2018 CHEG	December 31, 2018 Fortis	December 31, 2018 Other Affiliates	March 31, 2018 CHEG	March 31, 2018 Fortis [2]	March 31, 2018 Other Affiliates
Accounts Receivable	$ 1,644	$ 63	$ 7	$ 92	$ 5	$ 7	$ 545	$ 40	6
Accounts Payable	$ 1,104	$ -	$ -	$ 810	$ -	$ -	$ 976	$ 343	$ -

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

(2) During Q1 2018, Central Hudson received mutual aid from UNS an affiliate company of Central Hudson. These amounts are not charged to operating expense. As of March 31, 2018, the balance included in the Accounts Payable amounts for CH Energy Group and Central Hudson was approximately $0.3 million.

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

	Three Months Ended March 31, 2019 CHEG	Three Months Ended March 31, 2019 Fortis[1]	Three Months Ended March 31, 2018 CHEG	Three Months Ended March 31, 2018 Fortis[1]
CH Energy Group	$ -	$ 970	$ -	$ 821
Central Hudson	$ 1,082	$ -	$ 912	$ -

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

NOTE 19 – Future Accounting Pronouncements To Be Adopted

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

Financial Instruments

ASU No. 2016-13 *Measurement of Credit Losses on Financial Instruments* requires entities to use an expected credit loss methodology (“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 FASB believes will result in more timely recognition of such losses. This standard also decreases the number of credit impairment models that entities use to account for debt instruments. This update is effective for calendar years beginning January 2020 and is to be applied using a modified retrospective approach. Prospective approach is required for certain financial instruments. Early adoption is permitted for periods beginning January 2018. CH Energy Group and its subsidiaries are currently evaluating the impact, if any, that the adoption of this standard will have on its financial condition, results of operations and cash flows.

Fair Value Measurement

ASU No. 2018-13 *Fair Value Measurement* amends the disclosure requirements for fair value measurement. Entities are no longer required to estimate and disclose the timing of liquidity events for investments measured at fair value. Instead, the requirement to disclose such events applies only when they have been communicated to the reporting entities by the investees or announced publicly. If the timing is unknown, the entities are required to disclose that fact. This update is effective for all entities for fiscal years beginning after December 15, 2019, including interim periods therein, early adoption is permitted for any eliminated or modified disclosures upon issuance of this ASU. The amendment requires prospective application to any modifications to disclosures made because of the change to the requirements for the narrative description of measurement uncertainty. The effects of all other amendments must be applied retrospectively to all periods presented. CH Energy Group and its subsidiaries are currently evaluating the impact, if any, that the adoption of this standard will have on financial statements disclosures.

Compensation—Retirement Benefits
ASU No. 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans* amends the FASB Codification to modify the disclosure requirements for defined benefit pension and other postretirement plans. The amendment requires disclosure of (1) PBO and fair value of plan assets for pension plans with PBOs in excess of plan assets and (2) the accumulated benefit obligation ("ABO") and fair value of plan assets for pension plans with ABOs in excess of plan assets. This update is effective for fiscal years ending after December 15, 2020, and is to be applied retrospectively to all periods presented, early adoption is permitted. CH Energy Group and its subsidiaries are currently evaluating the impact, if any, that the adoption of this standard will have on financial statements disclosures.

NOTE 20 – Subsequent Events

An evaluation of subsequent events through April 25, 2019, the date these Condensed Consolidated Financial Statements were approved by the Audit and Risk Committee of the Board of Directors, was completed to determine whether circumstances warranted recognition and disclosure of events or transactions in the Condensed Consolidated Financial Statements as of March 31, 2019.

On April 15, 2019, CH Energy Group's Board of Directors approved a $5.5 million dividend payment to its parent FortisUS.

On April 15, 2019, CH Energy Group's Board of Directors approved the acceptance of a capital contribution in the amount of $8.0 million from its parent FortisUS to be received in the second quarter of 2019.

On April 15, 2019, Central Hudson's Board of Directors approved the acceptance of a capital contribution in the amount of $2.0 million from its parent CH Energy Group to be received in the second quarter of 2019.

On April 8, 2019 pursuant to NYISO's PPTP Process, National Grid and Transco were awarded a transmission project for Segment B ("the Albany region through the Hudson Valley region") 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 and CHET's equity funding requirement as a 6.1% owner of Transco is expected to be approximately $19.4 million.

MANAGEMENT'S DISCUSSION and ANALYSIS of FINANCIAL CONDITION and RESULTS of OPERATIONS

For the Three Months Ended March 31, 2019

This information should be read in conjunction with the Quarterly Condensed Financial Statements and the notes contained herein, and the audited 2018 Annual Financial Report's financial statements and notes, and Management's Discussion and Analysis of Financial Condition and Results of Operations.

Company: 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. In 2014, CH Energy Group formed CHET to engage in electric transmission projects. CHET currently has a 6.1% ownership interest in New York Transco LLC ("Transco"), a partnership with affiliates of the other investor owned utilities in New York State which was created to develop, own and operate electric transmission projects in New York State. In the first quarter of 2016, 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 leader in the North American regulated electric and gas utility business, with fiscal 2018 revenue of CAD$8.4 billion and total assets of approximately CAD$53 billion. Fortis and its subsidiaries' 8,800 employees serve 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").

Mission and Strategy

Mission

CH Energy Group and Central Hudson's mission is to deliver electricity and natural gas to an expanding customer base in a safe, reliable, courteous and affordable manner; to produce growing financial returns for shareholders; to foster a culture that encourages employees to reach their full potential and to be a good corporate citizen.

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.

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's five year forecast includes an average of approximately $217 million of capital expenditures per year. The long-term capital program provides for continued strengthening of existing electric and gas infrastructure, expansion of gas distribution systems, new common facilities, and investments in information and distribution system technologies that will improve reliability and customer satisfaction. Central Hudson has effectively managed its operational challenges, including significant weather events, in the past few years.

As part of CH Energy Group's overall strategy to invest in electric transmission and distribution, CHET made an investment in Transco. In March 2016, the Federal Energy Regulatory Commission approved rates for Transco and three projects were placed in service during the second quarter of 2016. To date, CHET has made capital contributions to Transco of $6.8 million to fund these projects. In April 2016, National Grid and Transco filed joint proposals related to the AC Transmission Order with the New York Independent System Operator ("NYISO"). 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 and CHET's equity funding requirement as a 6.1% owner of Transco is expected to be approximately $19.4 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 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 primarily 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 and efficient 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.

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

	Year to Date		
	2019	**2018**	**Change**
Electricity Sales (GWh)	1,289	1,295	(6)
Natural Gas Sales (PJ)	9.5	9.4	0.1
(In millions)			
Revenues	$ 208.8	$ 217.7	$ (8.9)
Energy Supply Costs - Matched to Revenues	69.6	93.7	(24.1)
Operating Expenses - Matched to Revenues	21.0	20.5	0.5
Operating Expenses - Other	68.0	62.3	5.7
Depreciation and Amortization	14.7	13.7	1.0
Other Income, net	3.0	1.1	1.9
Interest Charges	8.3	7.9	0.4
Income Taxes	5.9	3.9	2.0
Net income	$ 24.3	$ 16.8	$ 7.5

Earnings: During the first quarter of 2019, Central Hudson achieved earnings growth of $7.5 million over the comparable prior year period. The PSC-approved increase in delivery rates, effective July 1, 2018, which includes a return on the additional capital invested in the business and the recovery of higher operating and financing expenses. Central Hudson also incurred expenses above the amounts provided in rates in 2018 due to weather-related service restoration costs and danger tree trimming, which favorably impacting earnings on a year-over-year basis. Additionally, in 2019 the number of billed gas residential and commercial customers increased, which generated revenues above the amount provided for in delivery rates, and was not deferred under the current Revenue Decoupling Mechanism (“RDM”) structure. Additionally, effective July 1, 2018, the RDM targets in the 2018 Rate Order reflect the approved change in gas rate design to lower the monthly flat customer charge, increase the volumetric charges and incorporate an updated sales forecast, which resulted in an increase in revenue billed in the first quarter during the winter season as compared to the prior year. Earnings in 2018 also were adversely affected by a regulatory deferral related to estimated shared earnings that was not required in 2019.

Energy supply costs reflect overall lower electric and natural gas commodity prices coupled with lower purchased volumes for 2019 as compared to 2018. 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. These year over year variations were not material.

Electricity Sales

Electric sales for the first quarter of 2019 were slightly lower than electric sales for the first quarter of 2018 primarily due to warmer than normal weather during the first quarter of 2019, while electricity prices were significantly below the prior year.

Natural Gas Sales

Despite warmer weather, natural gas sales for the first quarter of 2019 were 0.6% higher than the comparable period in 2018 due to higher firm and interruptible sales to electric generators coupled with higher billed sales per customer.

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

Other Income, net: Other income, net, increased compared to 2018 primarily due to a decrease in the non-service cost component of pension expense resulting from the expiration of actuarial losses related to investment losses incurred in 2008 which the company was authorized to amortize over a 10-year period, coupled with higher storm related carrying charges. Effective July 1, 2018 per the 2018 Rate Order, the unprotected regulatory asset associated with the Tax Cuts and Jobs Act and the pension reserve are now included in rate base and the return on the balance is billed in current delivery revenues rather than recorded as carrying charges in Other Income and Deductions.

Interest Charges: Interest charges were relatively unchanged overall, with higher interest on long-term-debt partially offset by Other Post-Employment Benefits ("OPEB") reserves which are now included in rate base, with the return on these balances now recognized in revenues through current delivery rates rather than recorded as carrying charges in Interest Charges.

Income Taxes: The increase in the combined effective tax rate from 18.8% in 2018 to 19.6% in 2019 was driven by the higher income before taxes partially offset by the amortization of the protected deferred tax liability, resulting from the Tax Cuts and Jobs Act.

Central Hudson Revenues - Electric
Period Ended March 31

(In millions)

	Year to Date		
	2019	2018	Change
Revenues with Matching Expense Offsets:[1]			
Recovery of commodity purchases	$ 37.1	$ 56.6	$ (19.5)
Sales to others for resale	2.5	2.0	0.5
Impact of Tax Cuts and Jobs Act	-	(3.9)	3.9
Other revenues with matching offsets	16.0	17.6	(1.6)
Subtotal	55.6	72.3	(16.7)
Revenues Impacting Earnings:			
Customer sales	81.7	78.1	3.6
RDM and other regulatory mechanisms	(2.8)	(3.3)	0.5
Revenue requirement of bonus depreciation	-	(0.5)	0.5
Shared earnings mechanisms	-	(1.0) [2]	1.0
Net plant & depreciation targets	(0.9)	(1.3) [2]	0.4
Other revenues	3.2	2.9 [2]	0.3
Subtotal	81.2	74.9	6.3
Total Electric Revenues	$ 136.8	$ 147.2	$ (10.4)

(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 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.

Central Hudson Revenues - Natural Gas
Period Ended March 31

(In millions)

	Year to Date		
	2019	2018	Change
Revenues with Matching Expense Offsets:[1]			
Recovery of commodity purchases	$ 24.6	$ 27.5	$ (2.9)
Sales to others for resale	5.4	7.6	(2.2)
Impact of Tax Cuts and Jobs Act	-	(1.8)	1.8
Other revenues with matching offsets	3.2	3.3	(0.1)
Subtotal	33.2	36.6	(3.4)
Revenues Impacting Earnings:			
Customer sales	38.2	34.6	3.6
RDM and other regulatory mechanisms	(1.6)	(1.2)	(0.4)
Revenue requirement of bonus depreciation	-	(0.3)	0.3
Net plant & depreciation targets	(0.4)	(0.5) [2]	0.1
Other revenues	2.6	1.4 [2]	1.2
Subtotal	38.8	34.0	4.8
Total Natural Gas Revenues	$ 72.0	$ 70.6	$ 1.4

(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 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 three months ended March 31, 2018 have been restated 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 OPEBs 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 Statement of Income. Additionally, in the first three months of 2018, matched revenues also included revenues deferred for future pass back to customers related to the benefits of the Tax Cuts and Jobs Act. These benefits are incorporated in delivery rates effective July 1, 2018.

Electric Revenues:

Electric revenues decreased primarily due to lower recovery of purchased commodity costs driven by both a decrease in price and sales due to warmer weather when compared to 2018, which was partially offset by the increase in customer delivery rates effective July 1, 2018. Partially offsetting these decreases were lower regulatory deferrals for the benefit of customers in the current year related to estimated shared earnings, net plant and depreciation below the defined targets per the 2018 Rate Order, and the benefits of bonus depreciation and the Tax Cuts and Jobs Act recorded during the first quarter of 2018.

Natural Gas Revenues:

Natural gas revenues increased primarily as a result of the increase in customer delivery rates effective July 1, 2018, as approved in the respective 2018 Rate Order, as well as billed revenues above the amount provided for in delivery rates to customers in 2019, which were not subject to the RDM deferral, partially offset by lower purchased commodity costs. Further contributing to the increase in revenue is the absence of regulatory deferrals for the benefit of customers in the current year related to estimated shared earnings the benefits of bonus depreciation and the Tax Cuts and Jobs Act recorded during first quarter 2018.

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.

Central Hudson Operating Expenses
Period Ended March 31

(In millions)

	2019	2018	Change
Expenses Currently Matched to Revenues:[1]			
Purchased electricity	$ 39.6	$ 58.6	$ (19.0)
Purchased natural gas	30.1	35.1	(5.0)
Pension & OPEB	2.6	3.6	(1.0)
New York State energy programs	10.3	11.4	(1.1)
Major storm reserve	0.4	0.2	0.2
Regulatory Commission Expense	-	0.6	(0.6)
Low Income Programs	1.2	0.5	0.7
Other matched expenses	6.4	4.2	2.2
Subtotal	90.6	114.2	(23.6)
Other Operating Expense Variations:			
Tree trimming	7.0	4.4[3]	2.6
Property and school taxes[2]	15.2	15.0	0.2
Weather related service restoration	1.2	3.7	(2.5)
Distribution maintenance	0.8	0.6[3]	0.2
Uncollectible accounts and reserve	1.5	0.9	0.6
Information Technology	3.3	2.4[3]	0.9
Labor	19.2	17.2[3]	2.0
Regulatory Commission Expense	0.6	-	0.6
Depreciation and amortization	14.7	13.7	1.0
Other expenses	19.2	18.1[3]	1.1
Subtotal	82.7	76.0	6.7
Total Operating Expenses	$ 173.3	$ 190.2	$ (16.9)

(1) Includes expenses that, in accordance with the 2015 and 2018 Rate Orders, 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 2015 Rate Order and continued in the 2018 Rate Order, Central Hudson is authorized 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%, with a maximum of approximately $0.5 million, pre-tax per Rate Year.
(3) Other expenses reported for the three months ended March 31, 2018 have been reclassified to conform to the current period presentation.

Operating Expenses:

The decrease in operating expenses is primarily attributed to lower purchased commodity cost for both electric and natural gas, driven by lower prices and sales volumes coupled with a decrease in storm restoration costs as a result of fewer weather events impacting service during 2019. Partially offsetting these decreases, were increases in certain expenses as provided for in delivery rates including tree trimming costs to mitigate the impact of danger trees in our service territory, labor expense and annual information technology expense resulting from capital upgrades and improvements.

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 March 31, 2019

(In millions)

Balance Sheet Account	**Increase (Decrease)**	**Explanation**
Accounts receivable	12.3	Increase is primarily due to the seasonality of the business.
Regulatory assets - current	6.9	Increase is primarily due to actual electric commodity costs incurred in the first quarter of 2019 in excess of amounts collected in revenues.
Regulatory assets - long term	(8.5)	Decreases include lower deferred taxes recoverable through future rates attributable to plant-related timing differences, as well as the collection of environmental site remediation costs through rates in excess of amounts spent in the first quarter of 2019. Partially offsetting these decreases was an increase in deferred storm costs and related carrying charges as a result of a wind storm in February 2019.
Accounts payable	(10.4)	Decrease is primarily due to the timing of expenditures related to environmental site restoration efforts and leak prone pipe replacement.
Regulatory liabilities - current	(6.9)	Decrease is primarily due to remittances to New York State Energy Research and Development Authority ("NYSERDA") for energy efficiency programs in accordance with the Clean Energy Fund Order in excess of collections, as well as the return of previously deferred revenues to customers through the Revenue Decoupling Mechanism in the first quarter of 2019.

Liquidity And Capital Resources

The following table outlines the summary of cash flow:

CH Energy Group - Regulated, Non-regulated and Holding Company Summary of Cash Flow
Period Ended March 31,
(In millions)

	Year to Date	
	2019	**2018**
Cash, cash equivalents and restricted cash - beginning of period	$ 43.8	$ 17.1
Cash from operations pre-working capital	43.0	24.9
Working capital	(20.5)	(7.3)
Operating Activities	22.5	17.6
Investing Activities	(48.6)	(40.1)
Financing Activities	0.5	12.5
Cash, cash equivalents and restricted cash - end of period	$ 18.2	$ 7.1
Dividends paid on Common Stock - CH Energy Group	$ (5.5)	$ (5.5)

Operating Activities: The increase in cash from operations pre-working capital in 2019 as compared to 2018 was primarily due to higher revenues providing return on rate base growth, lower expenditures for storm restoration in 2019 and lower contributions required for retirement plans. These positive variations were partially offset by lower advances collected for future engineering studies or interconnection work to be performed primarily from developers of community distributed solar generation projects. The decrease in working capital was primarily due to higher remittances of Clean Energy Fund collections to NYSERDA and actual electric and gas commodity costs in excess of amounts collected in revenues in 2019, partially offset by unreimbursed mutual aid efforts in 2018.

Investing Activities: The increase in cash used in investing activities resulted from an increase of 28% in capital spending over the prior year primarily due to the ability to accelerate capital spend based on favorable weather conditions in the first quarter of 2019 as compared to the significant number of weather events experienced in the first quarter of 2018. Central Hudson’s approved capital spend is estimated to be approximately $224 million for the year ended December 31, 2019, which includes continued investments in delivery infrastructure, IT systems and supporting facilities.

Financing Activities: The decrease in additional financing needs in 2019 resulted from improved cash provided from operations in the first quarter of 2019 and the use of funds collected in excess of remittances related to the Clean Energy Fund and advances from solar project developers. Dividend payments were consistent in both periods at $5.5 million.

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 provides 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.

CH Energy Group and Central Hudson's secondary sources of funds are its cash reserves and its credit facilities. CH Energy Group and Central Hudson's ability to use its credit facilities is contingent upon maintaining compliance with certain financial covenants. CH Energy Group and Central Hudson do not anticipate that those covenants will restrict its access to funds in 2019 or the foreseeable future.

CH Energy Group believes cash generated from operations and funds obtained from its financing program will be sufficient in 2019 and the foreseeable future to meet working capital needs, pay dividends on its Common Stock, and fund investments to fulfill CHET's investment in Transco and Central Hudson's public service obligations and growth objectives.

Committed Credit Facilities

By Order issued and effective September 18, 2015, the PSC authorized an increase in Central Hudson's committed available credit facilities to $200 million. On October 15, 2015, Central Hudson entered into a five-year revolving credit agreement with six commercial banks. Effective September 13, 2018, the PSC issued a 2018 Financing Order 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 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 is $50 million with a maturity date of July 10, 2020. Consolidated CH Energy Group's committed credit as of March 31, 2019 and December 31, 2018 was $250 million.

There were no outstanding amounts under either credit facility as of March 31, 2019 and December 31, 2018.

Uncommitted Credit

At March 31, 2019 and December 31, 2018, Central Hudson had uncommitted short-term credit arrangements with three commercial banks totaling $40 million. There were no outstanding borrowings under the uncommitted credit facilities at March 31, 2019 and December 31, 2018.

Central Hudson's Bond Ratings

	March 31, 2019		December 31, 2018	
	Rating[1]	**Outlook**	**Rating[1]**	**Outlook**
S&P	A-	Stable	A-	Stable
Moody's	A2	Negative	A2	Negative
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.

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.

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

	March 31, 2019		December 31, 2018	
		%		%
Long-term Debt[1]	$ 687.8	48.9	$ 687.8	49.7
Common Equity	720.0	51.1	695.1	50.3
Total	$ 1,407.8	100.0	$ 1,382.9	100.0

(1) Includes current maturities of long term debt.

Central Hudson

	March 31, 2019		December 31, 2018	
		%		%
Long-term Debt[(1)]	$ 674.0	48.3	$ 674.0	49.2
Common Equity	720.7	51.7	696.3	50.8
Total	$ 1,394.7	100.0	$ 1,370.3	100.0

(1) Includes current maturities of long term debt.

In accordance with the 2015 Rate Order, Central Hudson's customer rates reflected a capital structure, excluding short-term debt, with 48% common equity. Under the 2018 Rate Order, rates will be premised on a common equity ratio of 49% beginning July 1, 2019 and 50% beginning July 1, 2020. Central Hudson is currently managing its financing to maintain its common equity 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%.

Summary of Changes in Accounting Policies since December 31, 2018

Regulation: There were no material changes to Central Hudson’s regulatory accounting policies during the three months ended March 31, 2019.

Critical Accounting Estimates: There were no material changes to CH Energy Group’s or Central Hudson’s critical accounting estimates during the three months ended March 31, 2019.

GAAP: There were no material changes to CH Energy Group’s or Central Hudson’s accounting policies during the months ended March 31, 2019, except as noted below:

Leases
Effective January 1, 2019, CH Energy Group and Central Hudson adopted Accounting Standard Codification (“ASC”) 842 that requires lessees to recognize a lease liability, initially measured at the present value of future lease payments, and a right-of-use asset for all leases with a lease term greater than 12 months. Adoption of the new standard resulted in the recording of additional lease assets and lease liabilities of approximately $1.9 million as right of use assets and lease obligations and ASC 842 will continue to be applied going forward.

Business Outlook and Summary of Significant Business Risks

Outlook

There were no material changes to the Company’s mission and strategy since its 2018 Annual Financial Report.

Risk Factors

The were no material changes to the Company's risk factors, as set forth in its 2018 Annual Financial Report, during the first three months of 2019.

Regulatory Proceedings

2018 Rate Order

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"). The 2018 Rate Order adopted the terms set forth in the April 18, 2018 Joint Proposal. 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 Rate Year 3.

The Company's electric and gas revenue requirements reflect a common equity ratio of 48% for Rate Year 1, 49% for Rate Year 2 and 50% for Rate Year 3 and a return on equity of 8.8%. Earnings above 9.3% and up to 9.8% will be shared 50% / 50% between the shareholder and ratepayers. Earnings above 9.8% and up to 10.3% will be shared 20% / 80% between the shareholder and ratepayers. Earnings above 10.3% will be shared 10% / 90% between the shareholder and ratepayers.

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 Rate Years 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 Regulatory Adjustment Mechanism 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 Leak Prone Pipe 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 ("ROW") Maintenance, increased low income discounts, funding to eliminate credit/debit card and walk-in center payment fees paid by customers and an increase in energy efficiency program funding which was moved into base delivery rates.

The 2018 Rate Order introduces five electric and one natural gas Earnings Adjustment Mechanisms (“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.

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 in 2018 and gradually reduced back to 1.30 by the end of the rate plan. 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 negative revenue adjustments and additional positive revenue adjustments for surpassing certain gas safety metrics.
The 2018 Rate Order includes more stringent Customer Satisfaction and PSC Complaint targets, new Call Answer Rate and Residential Termination/Uncollectible metrics with the net result of a reduction in the total potential negative revenue adjustments.

On July 7, 2018, Central Hudson filed a petition for clarification and rehearing regarding the 2018 Rate Order. The petition sought clarification or correction to certain Energy Efficiency (“EE”) EAM targets in which the Company believed the Commission erred when recalculating these targets from a net to a gross basis. The Company believed this error overstates the EE EAM targets by approximately 4%. In addition, the petition sought to correct a statement in the 2018 Rate Order which inadvertently indicated a cap of $500,000 was imposed for distribution ROW maintenance rather than transmission ROW maintenance. On October 3, 2018, the Commission issued an Errata Notice correcting the reference to the ROW Transmission Cap. On November 19, 2018, the Commission issued Order Concerning Petition for Clarification and Rehearing and denied Central Hudson’s request to modify the Rate Order’s EE EAM targets on the basis that the rate order properly reflected the decisions made in a March 2018 Utility Energy Efficiency Programs order in Case 15-M-0252 to convert portfolio-level EE targets from net to gross.

There were no material changes in Central Hudson’s regulatory proceedings from those disclosed in the 2018 Annual Financial Report. 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 a new proceeding, 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. In December 2018, the PSC Staff filed three whitepapers on Standby and Buyback Service Rate Design and Residential Voluntary Demand Rates. Comments in response to specific questions identified in the whitepapers as well as proposals set forth by Staff in each whitepaper were filed by the Joint Utilities ("'JU") February 25, 2019. The JU comments urged the Commission to retain its long standing principle of moving toward more accurate and granular DER compensation, to compensate DER based on experts that coincide with actual distribution system peaks and to set compensation rates based on up-to-date costs studies. Comments also supported retaining location price signals to encourage DER where most beneficial to the system and all customers and to reject the option to existing DERs to choose a revised DRV. Finally the JU urged the Commission to reject the proposed Community Credit Mechanism, including retroactive application, and retain the current plan to phase out the current Market Transition Charge. Reply comments were filed by the JU in response to statements and recommendations presented by other parties on March 13, 2019.

On April 18, 2019 the PSC issued an Order Regarding Value Stack Compensation, which is intended to improve the predictability, transparency, and accuracy of Distribution Relief Value ("DRV"), Locational System Relief Value ("LSRV"), and Capacity Value calculations and compensation. In addition, it authorizes a new rate component to encourage robust Community Distributed Generation ("CDG") development. The Order includes modifications to the DRV calculation to reflect performance during a larger set of hours, the LSRV to compensate projects for performance during at least 10 utility demand response-type calls per year, and the Capacity Values calculations to better align with wholesale prices, solar photovoltaic load curves, and DRV price signals. Additionally, the Order provides 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.

Hybrid Storage Energy Systems

On December 13, 2018 the Commission issued an Order Implementing a Hybrid Energy Storage System Tariff which requires owners of Hybrid Facilities to choose one of four metering options prior to operation. Owners are responsible for paying for necessary metering and/or controls consistent with the Standard Interconnection Requirement. The hybrid energy storage system tariffs went into effect January 1, 2019.

Utility Energy Registry Proceeding
On April 19, 2018, the PSC issued an Order Adopting Utility Energy Registry (“UER”) under Case 17-M-0315. The purpose of the UER is to make community-based energy consumption data more readily available for local planning, market research and CCA development. The Order requires Central Hudson and the other New York utilities to provide customer data for the UER subject to the privacy standards. The data portal was made available by NYSERDA for general use in September 2018. Datasets are to be submitted every six months January-June and July-December within 30 days of the close of each semi-annual period. Central Hudson July-December 2018 data was filed on January 30, 2019.

In the Matter of Utility Preparation & Response to Power Outages During the March 2018 Winter Storms
On March 14, 2018, following the 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. The investigation included an evaluation under the Commission’s Emergency Response Scorecard that was filed by Central Hudson with the Commission on April 11, 2018. As of March 31, 2019, Central Hudson has responded to over 104 Staff Data Requests related to numerous aspects of the Company’s storm preparedness and response.

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 also identified potential regulatory violations by several utilities. The Report cited Central Hudson’s alleged failure to comply with a section of its Emergency Response Plan (“ERP”) related to updates of its Interactive Voice Response 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. All utilities were also directed to show cause why they should not implement and incorporate the Staff Report recommendation into their ERPs. Central Hudson is reviewing the report and considering next steps. The show cause filings are due within 30 days of the Report issuance date.

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 expected. Data for 2015-2017 and for 2018 was provided in annual reports filed January 7 and 20, 2019 respectively. In a DPS 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. On March 13, 2019, the Commission issued a notice soliciting comments on the operator qualification white paper and comments are due by May 28, 2019.

Offshore Wind Proceeding

On July 12, 2018, the Commission issued an Order Establishing Offshore Wind Standard and Framework for Phase 1 Procurement under Case 18-E-0071. In its review of offshore wind, the Commission found that an Offshore Wind standard was necessary to comply with NYSERDA's New York State Offshore Wind Master Plan. The standard calls for Phase 1 Offshore Renewable Energy Credits ("ORECs") associated with approximately 800 MW of offshore wind to be procured over a two-year period, with the first solicitation issued in the fourth quarter of 2018. Load Serving Entities ("LSEs") are obligated to obtain, 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 NYCA. NYSERDA will be procuring ORECs for Phase 1. On March 18, 2019, in response to NYSERDA's request, the Commission granted a four-month extension to July 31, 2019 for load serving entities to provide executed contracts for the purchase of ORECs to NYSERDA. NYSERDA is currently reviewing proposed project bids and the additional time will allow the Commission to provide guidance on the methodology for calculating the LSE OREC obligation, as well as provide LSEs and NYSERDA the opportunity to more effectively develop the LSE contracts.

Cyber Security 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. This follows recent cyber events that impacted the energy services market. As part of the initiative Energy Service Companies were required to complete a Self-Attestation of Information Security Controls, and sign a Data Security Agreement ("DSA"). Following stakeholder meetings, on February 4, 2019 the JU filed a Petition for Approval of the Business-to Business Process Used to Formulate a 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 cyber security 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 February 20, 2019, the Commission issued a Notice Soliciting Comments on the JU petition and comments are due by April 29, 2019.

Energy Storage System Proceeding

In January 2018, Governor Cuomo announced a target to install 1,500 MW of Energy Storage System in New York State by 2025. In doing so, he directed State energy agencies and authorities to work together during 2018 to generate a pipeline of storage projects through a number of mechanisms including utility procurements; major regulatory changes in utility rate design and wholesale energy markets; incorporating storage into criteria for large-scale renewable procurements; and reducing regulatory barriers. On February 11, 2019, Central Hudson and other utilities filed their implementation plan detailing a competitive direct procurement process and the cost recovery accounting procedures to deploy 10 MW of qualified energy storage systems in compliance with the Order. Each electric Investor Owned Utility is 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. Utilities are required to compile an inventory of suitable, unused and undedicated utility land that may be used for NWAs by July 1, 2019 and establish a mechanism for the standardized valuation of unused utility land that would be included in utility Benefit Cost Analysis handbooks. The JU held a stakeholder conference on March 29, 2019 to provide stakeholders with information and to receive feedback regarding their respective filings for the upcoming solicitations for energy storage resources. Additionally, NYSERDA provided information regarding its March 11, 2019 Energy Storage Market Acceleration Bridge Incentive Implementation Plan and Program Manual.

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

On February 7, 2019, the Commission issued an Order Establishing Framework for a Direct Current Fast Charging ("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. The incentive program structure is only available to newly contracted chargers in order to increase the number of publicly accessible chargers and under the program developers and utilities will collaboratively site DCFC stations in areas of the distribution system that will benefit from their increased load. In order to be eligible, plugs must be capable of simultaneously dispensing at 50 kW or more to quality, with simultaneous charging capability defined as the nameplate rating of the chargers divided by the number of plugs. The per-plug incentive for each 50-74 kW DCF will be 60% of the total incentive, while each plug at 75 kW or greater will receive 100 % of the incentive payment. Stations must be separately metered with ancillary load limited to 10 kW. Central Hudson's program is capped at 100 plugs, with maximum incentive payments for the program capped at $4.4 million with the initial incentive based on the year in which the DCFC qualifies. Annual incentive payments will be made for a maximum of seven years. The incentives for plugs greater than 75 kW are set at $11,000 beginning in 2019 decreasing each year with a plug incentive of $1,571 in 2025. The incentives for plugs sized between 50kW and 74kW beginning in 2019 are set at $6,600 decreasing each year with a plug incentive of $943 in 2025. Unencumbered, uncommitted NYSERDA legacy funds (i.e. remaining System Benefit Charge ("SBC")) will be used to fund the DCFC per-plug incentives for those customer classes that have contributed to the SBC. Customer groups that did not contribute to the SBC will be assessed a surcharge. In compliance with the order, utilities were directed to add an EV charging station information page to their individual website. Annual reports must be filed by March 1st after the completion of each program year with information regarding participation, geographic plug location, installations costs, energy usage details and technologies used to manage demand. Staff is expected to continue to engage with stakeholders and issue a whitepaper that addresses a range of EV topics including utility roles, and potential ownership models, supporting EV supply equipment and infrastructure, as well as the needs of fleet vehicles and transportation network companies.

Energy Efficiency Proceeding

On December 13, 2018 the Commission issued an Order Adopting Accelerated Energy Efficiency Targets under Case 18-M-0084 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 are not increasing since the 2018 Rate Order already reflects increased targets. JU were directed to prepare a joint filing, in consultation with NYSERDA, detailing utility specific targets not less than the levels adopted in the Order and not more than the expenditures adopted in the Order from 2021-2025 no later than March 31, 2019. The JU conducted a technical conference on the terms of the prospective report with stakeholders prior to the March filing and will report in June 2019 the progress and state of readiness to implement the Order's benchmarking requirements. 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 gas, respectively. The increase in incremental budget would align Central Hudson with the $/kWh and $/MMBtu average of other NY utilities. The increase would be funded in part by unspent energy efficiency funds. In addition, in collaboration with other JU and NYSERDA, Central Hudson proposed a $30.2 million heat pump program for the period 2020-2025. In 2020, the utilities and NYSERDA are directed to begin implementation of a statewide ratepayer LMI plan. Finally, utilities are instructed to continue to file a System Energy Efficiency Plan ("SEEP"), including quarterly progress reports. Central Hudson filed its SEEP on March 19, 2019 and its Q4-2018 ETIP scorecard on March 1, 2019.

Low Income Community Distributed Generation Initiatives / VDER

On July 12, 2018, the Commission issued an Order Adopting Low-Income CDG Initiatives under Cases 15-E-0751 and 15-E-0082. The Order adopted a new Bill Discount Pledge ("BDP") program, under which low-income customers will be able to use a share of their monthly low income bill discount toward the purchase of CDG subscriptions. On December 10, 2018, the JU filed a BDP program implementation plan that includes procedures for making payments to CDG developers of funds pledged by low income customers to cover subscription fees as well as reporting plans on BDP program participation. The Order directs NYSERDA to extend its income verifications service to CDG developers seeking to verify eligibility of Low-Income subscribers. The Order also directs NYSERDA to create a loss reserve program for CDG projects serving low-income subscribers and report on its development by January 2019. On January 14, 2019, NYSERDA filed a report on the status of the loss reserve development that described its issuance of a Request for Information ("RFI") to CDG project developers, sponsors, financiers and other market participants who focus on the low and moderate income participants market segment seeking feedback on project data and performance history to evaluate the validity of perceived risk associated with serving LMI customers. The RFI also sought information on existing NYSERDA New York Green Bank ("NYGB") CDG financing approaches, market barriers and forms of NYGB credit enhancement that could facilitate third-party financing. Responses to the RFI were due December 31, 2018 and NYSERDA and NYGB are currently reviewing the responses for information on how to better service LMI communities through financing products and program initiatives, including the loss reserve. NYSERDA expects to brief DPS Staff and stakeholders on the proposed design on or before June 30, 2019.

Funding for the BDP program will be via the bill discounts included in Central Hudson's rate allowance for the Low Income Program.

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. The Order directs the Company to file updates on its progress with the recommendations no less frequently than every four months. Central Hudson has filed updates on November 16, 2018 and March 15, 2019. In the Company's March update, the Company reported implementation plans for 40 of the 47 recommendations. Staff has accepted 27 of the Company's audit recommendation plans. Central Hudson continues to work on implementation of the remaining 7 recommendations.

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 Order adopted a pilot survey for statewide use and directed Staff to report on the results of the pilot survey after one year, including a recommendation with respect to establishing the survey on a permanent basis. Central Hudson implemented the pilot survey on January 1, 2019 and will continue its existing customer satisfaction survey.

FORWARD-LOOKING STATEMENTS

Statements included in this Quarterly 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, changes in interest rates, poor operating performance, legislative, tax and regulatory developments, the outcome of litigations, and the resolution of current and future environmental 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.