



**CH ENERGY GROUP, INC.
&
CENTRAL HUDSON GAS & ELECTRIC CORP.
QUARTERLY FINANCIAL REPORT**

for the period ended
JUNE 30, 2019

QUARTER ENDED JUNE 30, 2019

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CH ENERGY GROUP CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

(In Thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Operating Revenues				
Electric	\$ 121,065	\$ 121,408	\$ 257,891	\$ 268,575
Natural gas	27,597	34,213	99,555	104,781
Total Operating Revenues	148,662	155,621	357,446	373,356
Operating Expenses				
Operation:				
Purchased electricity and fuel used in electric generation	34,456	35,179	73,982	93,732
Purchased natural gas	8,421	14,019	38,501	49,119
Other expenses of operation - regulated activities	65,357	60,322	136,502	125,985
Other expenses of operation - non-regulated	55	440	37	489
Depreciation and amortization	14,792	13,766	29,465	27,498
Taxes, other than income tax	14,432	14,265	32,290	31,472
Total Operating Expenses	137,513	137,991	310,777	328,295
Operating Income	11,149	17,630	46,669	45,061
Other Income and Deductions				
Income from unconsolidated affiliates	240	313	518	603
Interest on regulatory assets and other interest income	577	1,200	1,339	2,258
Regulatory adjustments for interest costs	281	346	550	612
Other - net	1,944	197	3,918	60
Total Other Income	3,042	2,056	6,325	3,533
Interest Charges				
Interest on long-term debt	7,652	6,715	15,290	13,301
Interest on regulatory liabilities and other interest	984	1,305	1,834	2,914
Total Interest Charges	8,636	8,020	17,124	16,215
Income Before Income Taxes	5,555	11,666	35,870	32,379
Income Tax Expense	699	2,223	6,665	6,113
Net Income	4,856	9,443	29,205	26,266
Dividends declared on Common Stock	5,500	5,500	11,000	11,000
Change in Retained Earnings	\$ (644)	\$ 3,943	\$ 18,205	\$ 15,266

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

(In Thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net Income	\$ 4,856	\$ 9,443	\$ 29,205	\$ 26,266
Other Comprehensive Income:				
Employee future benefits - net of tax expense of \$12 and \$20 for 2019 and \$0 for 2018	34	-	57	-
Comprehensive Income	\$ 4,890	\$ 9,443	29,262	26,266

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

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

(In Thousands)

	Six Months Ended June 30,	
	2019	2018
Operating Activities:		
Net income	\$ 29,205	\$ 26,266
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	25,619	24,005
Amortization	3,846	3,493
Deferred income taxes - net	6,176	2,615
Bad debt expense	2,641	1,568
Distributed (undistributed) equity in earnings of unconsolidated affiliates	(504)	218
Pension expense	5,830	8,331
Other post-employment benefits ("OPEB") expense	(4,155)	(1,348)
Regulatory liability - rate moderation	(4,441)	(1,845)
Revenue decoupling mechanism recorded	5,616	4,122
Changes in operating assets and liabilities - net:		
Accounts receivable, unbilled revenues and other receivables	17,775	(1,544)
Fuel, materials and supplies	3,248	(1,179)
Special deposits and prepayments	11,360	11,854
Income and other taxes	(5,010)	3,952
Accounts payable	(5,989)	(355)
Accrued interest	455	227
Customer advances	(292)	(6,574)
Other advances	1,012	8,229
Pension plan contribution	(525)	(11,669)
OPEB contribution	(1,001)	(1,302)
Revenue decoupling mechanism collected/(refunded) - net	(9,610)	639
Regulatory asset - major storm	(2,231)	(23,930)
Regulatory asset - site investigation and remediation ("SIR")	3,320	1,786
Regulatory liability - energy efficiency programs including clean energy fund	(5,746)	7,825
Deferred natural gas and electric costs	2,179	17,042
Other - net	8,150	9,413
Net cash provided by operating activities	86,928	81,839
Investing Activities:		
Additions to utility plant	(106,339)	(83,834)
Other - net	(945)	(1,772)
Net cash used in investing activities	(107,284)	(85,606)
Financing Activities:		
Repayment of long-term debt	(790)	(739)
Proceeds from issuance of long-term debt	-	25,000
Capital contribution	13,870	16,000
Dividends paid on Common Stock	(11,000)	(11,000)
Other - net	-	(186)
Net cash provided by financing activities	2,080	29,075
Net Change in Cash, Cash Equivalents and Restricted Cash	(18,276)	25,308
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	43,801	17,140
Cash, Cash Equivalents and Restricted Cash at End of Period	\$ 25,525	\$ 42,448
Supplemental Disclosure of Cash Flow Information:		
Interest paid, net of amounts capitalized	\$ 14,562	\$ 13,209
Federal and state income taxes paid	\$ 5,707	\$ -
Non-Cash Investing Activities:		
Accrued capital expenditures	\$ 15,563	\$ 14,984

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

CH ENERGY GROUP CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

(In Thousands)

	June 30, 2019	December 31, 2018	June 30, 2018
ASSETS			
Utility Plant (Note 3)			
Electric	\$ 1,474,317	\$ 1,443,152	\$ 1,388,776
Natural gas	582,054	566,197	525,214
Common	282,281	267,757	251,223
Gross Utility Plant	2,338,652	2,277,106	2,165,213
Less: Accumulated depreciation	569,224	552,505	542,034
Net	1,769,428	1,724,601	1,623,179
Construction work in progress	101,718	75,560	97,356
Net Utility Plant	1,871,146	1,800,161	1,720,535
Non-utility property & plant	524	524	524
Net Non-Utility Property & Plant	524	524	524
Current Assets			
Cash and cash equivalents	24,452	42,730	41,379
Accounts receivable from customers - net of allowance for doubtful accounts of \$3.0 million, \$2.7 million, and \$2.7 million, respectively. (Note 2)	60,273	71,157	68,592
Accounts receivable - affiliates (Note 18)	707	862	242
Accrued unbilled utility revenues	15,830	23,994	15,762
Other receivables	25,132	26,346	16,749
Fuel, materials and supplies (Note 1)	22,732	25,980	24,921
Regulatory assets (Note 4)	44,544	36,285	29,937
Fair value of derivative instruments (Note 16)	8	882	700
Special deposits and prepayments	12,589	23,949	11,614
Total Current Assets	206,267	252,185	209,896
Deferred Charges and Other Assets			
Regulatory assets - deferred pension costs (Note 4)	25,348	29,320	13,953
Regulatory assets - other (Note 4)	118,056	111,664	113,320
Prefunded OPEB costs (Note 12)	1,985	858	4,667
Investments in unconsolidated affiliates (Note 6)	9,335	7,730	7,885
Other investments (Note 17)	39,812	39,326	39,518
Other	5,801	4,092	4,383
Total Deferred Charges and Other Assets	200,337	192,990	183,726
Total Assets	\$ 2,278,274	\$ 2,245,860	\$ 2,114,681

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)

	June 30, 2019	December 31, 2018	June 30, 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	393,906	380,036	359,036
Retained earnings	333,584	315,379	295,102
Accumulated other comprehensive loss	(373)	(430)	-
Total Equity	<u>727,277</u>	<u>695,145</u>	<u>654,298</u>
Long-term debt (Note 11)			
Principal amount	658,370	659,215	607,032
Unamortized debt issuance costs	(4,092)	(4,296)	(3,993)
Long-term debt less unamortized debt issuance costs	654,278	654,919	603,039
Total Capitalization	<u>1,381,555</u>	<u>1,350,064</u>	<u>1,257,337</u>
Current Liabilities			
Current maturities of long-term debt (Note 11)	28,662	28,607	31,554
Accounts payable	42,334	53,269	48,438
Accrued interest	7,286	6,831	6,681
Accrued vacation and payroll	10,291	9,955	9,723
Customer advances	9,851	10,143	7,348
Customer deposits	7,495	7,563	7,287
Regulatory liabilities (Note 4)	91,533	99,320	41,177
Fair value of derivative instruments (Note 16)	5,826	2,135	2,436
Accrued environmental remediation costs (Note 14)	26,287	23,309	15,777
Accrued income and other taxes	552	5,661	2,037
Other current liabilities	36,034	36,429	29,609
Total Current Liabilities	<u>266,151</u>	<u>283,222</u>	<u>202,067</u>
Deferred Credits and Other Liabilities			
Regulatory liabilities - deferred OPEB costs (Note 4)	19,388	23,183	30,697
Regulatory liabilities - other (Note 4)	294,330	293,346	349,525
Operating reserves	4,916	5,171	4,814
Fair value of derivative instruments (Note 16)	-	-	1,986
Accrued environmental remediation costs (Note 14)	38,083	23,664	39,061
Accrued pension costs (Note 12)	35,873	32,765	10,537
Tax reserve (Note 5)	7,248	7,675	7,419
Other liabilities	24,782	23,278	23,731
Total Deferred Credits and Other Liabilities	<u>424,620</u>	<u>409,082</u>	<u>467,770</u>
Accumulated Deferred Income Tax (Note 5)	<u>205,948</u>	<u>203,492</u>	<u>187,507</u>
Commitments and Contingencies			
Total Capitalization and Liabilities	<u>\$ 2,278,274</u>	<u>\$ 2,245,860</u>	<u>\$ 2,114,681</u>

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

CH ENERGY GROUP CONDENSED CONSOLIDATED STATEMENT OF EQUITY

(In Thousands, except share amounts)

Six Months Ended June 30, 2019						
	Common Stock Shares Issued	Common Stock Amount	Paid-In Capital	Retained Earnings	AOCI*	Total Equity
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, net of tax					23	23
Balance at March 31, 2019	15,961,400	\$ 160	\$ 386,036	\$ 334,228	\$ (407)	\$ 720,017
Net income				4,856		4,856
Capital contribution			7,870			7,870
Dividends declared on common stock				(5,500)		(5,500)
Employee future benefits, net of tax					34	34
Balance at June 30, 2019	15,961,400	\$ 160	\$ 393,906	\$ 333,584	\$ (373)	\$ 727,277

Six Months Ended June 30, 2018						
	Common Stock Shares Issued	Common Stock Amount	Paid-In Capital	Retained Earnings	AOCI*	Total Equity
Balance at December 31, 2017	15,961,400	\$ 160	\$ 343,036	\$ 279,836	\$ -	\$ 623,032
Net income				16,823		16,823
Capital contribution			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
Net income				9,443		9,443
Capital contribution			8,000			8,000
Dividends declared on common stock				(5,500)		(5,500)
Balance at June 30, 2018	15,961,400	\$ 160	\$ 359,036	\$ 295,102	\$ -	\$ 654,298

*Accumulated other comprehensive income (loss)

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

CENTRAL HUDSON CONDENSED STATEMENT OF INCOME (UNAUDITED)

(In Thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Operating Revenues				
Electric	\$ 121,065	\$ 121,408	\$ 257,891	\$ 268,575
Natural gas	27,597	34,213	99,555	104,781
Total Operating Revenues	<u>148,662</u>	<u>155,621</u>	<u>357,446</u>	<u>373,356</u>
Operating Expenses				
Operation:				
Purchased electricity and fuel used in electric generation	34,456	35,179	73,982	93,732
Purchased natural gas	8,421	14,019	38,501	49,119
Other expenses of operation	65,357	60,322	136,502	125,985
Depreciation and amortization	14,792	13,766	29,465	27,498
Taxes, other than income tax	14,397	14,266	32,249	31,465
Total Operating Expenses	<u>137,423</u>	<u>137,552</u>	<u>310,699</u>	<u>327,799</u>
Operating Income	<u>11,239</u>	<u>18,069</u>	<u>46,747</u>	<u>45,557</u>
Other Income and Deductions				
Interest on regulatory assets and other interest income	554	1,193	1,312	2,247
Regulatory adjustments for interest costs	281	346	550	612
Other - net	1,955	215	3,949	72
Total Other Income	<u>2,790</u>	<u>1,754</u>	<u>5,811</u>	<u>2,931</u>
Interest Charges				
Interest on long-term debt	7,418	6,457	14,821	12,780
Interest on regulatory liabilities and other interest	984	1,304	1,834	2,915
Total Interest Charges	<u>8,402</u>	<u>7,761</u>	<u>16,655</u>	<u>15,695</u>
Income Before Income Taxes	<u>5,627</u>	<u>12,062</u>	<u>35,903</u>	<u>32,793</u>
Income Tax Expense	323	2,309	6,262	6,204
Net Income	<u>\$ 5,304</u>	<u>\$ 9,753</u>	<u>\$ 29,641</u>	<u>\$ 26,589</u>

CENTRAL HUDSON CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

(In Thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net Income	\$ 5,304	\$ 9,753	\$ 29,641	\$ 26,589
Other Comprehensive Income:				
Employee future benefits - net of tax expense of \$12 and \$20 for 2019 and \$0 for 2018	34	-	57	-
Comprehensive Income	<u>\$ 5,338</u>	<u>\$ 9,753</u>	<u>\$ 29,698</u>	<u>\$ 26,589</u>

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

CENTRAL HUDSON CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)

(In Thousands)

	Six Months Ended June 30,	
	2019	2018
Operating Activities:		
Net income	\$ 29,641	\$ 26,589
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	25,619	24,005
Amortization	3,846	3,493
Deferred income taxes - net	5,773	728
Bad debt expense	2,641	1,568
Pension expense	5,830	8,331
OPEB expense	(4,155)	(1,348)
Regulatory liability - rate moderation	(4,441)	(1,845)
Revenue decoupling mechanism recorded	5,616	4,122
Changes in operating assets and liabilities - net:		
Accounts receivable, unbilled revenues and other receivables	17,596	(2,121)
Fuel, materials and supplies	3,248	(1,179)
Special deposits and prepayments	11,360	11,854
Income and other taxes	(7,134)	6,840
Accounts payable	(5,688)	(298)
Accrued interest	458	228
Customer advances	(292)	(6,574)
Other advances	1,012	8,229
Pension plan contribution	(525)	(11,669)
OPEB contribution	(1,001)	(1,302)
Revenue decoupling mechanism collected/(refunded) - net	(9,610)	639
Regulatory asset - major storm	(2,231)	(23,930)
Regulatory asset - SIR	3,320	1,786
Regulatory liability - energy efficiency programs including clean energy fund	(5,746)	7,825
Deferred natural gas and electric costs	2,179	17,042
Other - net	8,467	10,102
Net cash provided by operating activities	<u>85,783</u>	<u>83,115</u>
Investing Activities:		
Additions to utility plant	(106,339)	(83,834)
Other - net	169	(1,831)
Net cash used in investing activities	<u>(106,170)</u>	<u>(85,665)</u>
Financing Activities:		
Proceeds from issuance of long-term debt	-	25,000
Capital contribution	2,000	2,500
Other - net	-	(186)
Net cash provided by financing activities	<u>2,000</u>	<u>27,314</u>
Net Change in Cash, Cash Equivalents and Restricted Cash	<u>(18,387)</u>	<u>24,764</u>
Cash, Cash Equivalents and Restricted Cash - Beginning of Period	40,346	14,607
Cash, Cash Equivalents and Restricted Cash - End of Period	<u>\$ 21,959</u>	<u>\$ 39,371</u>
Supplemental Disclosure of Cash Flow Information:		
Interest paid, net of amounts capitalized	\$ 14,090	\$ 12,686
Federal and state income taxes paid	\$ 7,682	\$ -
Non-Cash Investing Activities:		
Accrued capital expenditures	\$ 15,563	\$ 14,984

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

CENTRAL HUDSON CONDENSED BALANCE SHEET (UNAUDITED)

(In Thousands)

	June 30, 2019	December 31, 2018	June 30, 2018
ASSETS			
Utility Plant (Note 3)			
Electric	\$ 1,474,317	\$ 1,443,152	\$ 1,388,776
Natural gas	582,054	566,197	525,214
Common	282,281	267,757	251,223
Gross Utility Plant	2,338,652	2,277,106	2,165,213
Less: Accumulated depreciation	569,224	552,505	542,034
Net	1,769,428	1,724,601	1,623,179
Construction work in progress	101,718	75,560	97,356
Net Utility Plant	1,871,146	1,800,161	1,720,535
Non-Utility Property and Plant	524	524	524
Net Non-Utility Property and Plant	524	524	524
Current Assets			
Cash and cash equivalents	20,886	39,275	38,302
Accounts receivable from customers - net of allowance for doubtful accounts of \$3.0 million, \$2.7 million, and \$2.7 million, respectively. (Note 2)	60,273	71,157	68,592
Accrued unbilled utility revenues	15,830	23,994	15,762
Other receivables	25,260	26,450	16,811
Fuel, materials and supplies (Note 1)	22,732	25,980	24,921
Regulatory assets (Note 4)	44,544	36,285	29,937
Fair value of derivative instruments (Note 16)	8	882	700
Special deposits and prepayments	12,551	23,911	11,576
Total Current Assets	202,084	247,934	206,601
Deferred Charges and Other Assets			
Regulatory assets - deferred pension costs (Note 4)	25,348	29,320	13,953
Regulatory assets - other (Note 4)	118,056	111,664	113,320
Prefunded OPEB costs (Note 12)	1,985	858	4,667
Other investments (Note 17)	39,035	38,567	38,745
Other	5,797	4,070	4,341
Total Deferred Charges and Other Assets	190,221	184,479	175,026
Total Assets	<u>\$ 2,263,975</u>	<u>\$ 2,233,098</u>	<u>\$ 2,102,686</u>

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

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

(In Thousands, except share amounts)

	June 30, 2019	December 31, 2018	June 30, 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	253,452	251,452	242,452
Accumulated other comprehensive loss	(373)	(430)	-
Retained earnings	395,236	365,595	334,003
Capital stock expense	(4,633)	(4,633)	(4,633)
Total Equity	727,993	696,295	656,133
Long-term debt (Note 11)			
Principal amount	646,950	646,950	593,950
Unamortized debt issuance costs	(4,031)	(4,231)	(3,923)
Long-term debt less unamortized debt issuance costs	642,919	642,719	590,027
Total Capitalization	1,370,912	1,339,014	1,246,160
Current Liabilities			
Current maturities of long-term debt (Note 11)	27,000	27,000	30,000
Accounts payable	43,097	53,730	48,999
Accrued interest	7,249	6,791	6,639
Accrued vacation and payroll	10,291	9,955	9,723
Customer advances	9,851	10,143	7,348
Customer deposits	7,495	7,563	7,287
Regulatory liabilities (Note 4)	91,533	99,320	41,177
Fair value of derivative instruments (Note 16)	5,826	2,135	2,436
Accrued environmental remediation costs (Note 14)	26,287	23,309	15,777
Accrued income and other taxes	1,714	8,786	4,611
Other current liabilities	34,633	35,015	28,497
Total Current Liabilities	264,976	283,747	202,494
Deferred Credits and Other Liabilities			
Regulatory liabilities - deferred OPEB costs (Note 4)	19,388	23,183	30,697
Regulatory liabilities - other (Note 4)	294,330	293,346	349,525
Operating reserves	4,916	5,171	4,814
Fair value of derivative instruments (Note 16)	-	-	1,986
Accrued environmental remediation costs (Note 14)	38,083	23,664	39,061
Accrued pension costs (Note 12)	35,641	32,533	10,305
Tax reserve (Note 5)	7,248	7,675	7,419
Other liabilities	23,141	21,316	22,211
Total Deferred Credits and Other Liabilities	422,747	406,888	466,018
Accumulated Deferred Income Tax (Note 5)	205,340	203,449	188,014
Commitments and Contingencies			
Total Capitalization and Liabilities	\$ 2,263,975	\$ 2,233,098	\$ 2,102,686

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

CENTRAL HUDSON CONDENSED STATEMENT OF EQUITY

(In Thousands, except share amounts)

Six Months Ended June 30, 2019							
	Common Stock Shares Issued	Common Stock Amount	Paid-In Capital	Capital Stock Expense	Retained Earnings	AOCI*	Total Equity
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	<u>16,862,087</u>	<u>\$ 84,311</u>	<u>\$ 251,452</u>	<u>\$ (4,633)</u>	<u>\$ 389,932</u>	<u>\$ (407)</u>	<u>\$ 720,655</u>
Net income					5,304		5,304
Capital contribution			2,000				2,000
Employee future benefits, net of tax						34	34
Balance at June 30, 2019	<u>16,862,087</u>	<u>\$ 84,311</u>	<u>\$ 253,452</u>	<u>\$ (4,633)</u>	<u>\$ 395,236</u>	<u>\$ (373)</u>	<u>\$ 727,993</u>

Six Months Ended June 30, 2018							
	Common Stock Shares Issued	Common Stock Amount	Paid-In Capital	Capital Stock Expense	Retained Earnings	AOCI*	Total Equity
Balance at December 31, 2017	16,862,087	\$ 84,311	\$ 239,952	\$ (4,633)	\$ 307,414	\$ -	\$ 627,044
Net income					16,836		16,836
Balance at March 31, 2018	<u>16,862,087</u>	<u>\$ 84,311</u>	<u>\$ 239,952</u>	<u>\$ (4,633)</u>	<u>\$ 324,250</u>	<u>\$ -</u>	<u>\$ 643,880</u>
Net income					9,753		9,753
Capital contribution			2,500				2,500
Balance at June 30, 2018	<u>16,862,087</u>	<u>\$ 84,311</u>	<u>\$ 242,452</u>	<u>\$ (4,633)</u>	<u>\$ 334,003</u>	<u>\$ -</u>	<u>\$ 656,133</u>

*Accumulated other comprehensive income (loss)

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 New York Independent System Operator’s (“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 June 30, 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 June 30, 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 such as Revenue Decoupling Mechanisms (“RDMs”) and Rate Moderators, incentives earned related to Earnings Adjustment Mechanisms (“EAMs”) and Non-Wire Alternatives, and other specified accumulated deferred balances as defined in the 2018 Rate Order.

Central Hudson’s delivery rate structure includes 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 electricity and natural gas is delivered based on either the customers' meter read or estimated usage for the month, an output 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, certain 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 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.

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 Rate Order with a full deferral mechanism. Discounts available under these programs are determined at the time the performance obligation is satisfied and are recorded as an expense to match revenue collected in rates for the benefit of eligible customers.

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 NYISO Open Access Transmission Tariff. As of June 30, 2019, December 31, 2018 and June 30, 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 June 30, 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)

	June 30, 2019	June 30, 2018
Cash and cash equivalents	\$ 24,452	\$ 41,379
Restricted cash included in other long-term assets	1,073	1,069
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	<u>\$ 25,525</u>	<u>\$ 42,448</u>

Central Hudson

(In Thousands)

	June 30, 2019	June 30, 2018
Cash and cash equivalents	\$ 20,886	\$ 38,302
Restricted cash included in other long-term assets	1,073	1,069
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	<u>\$ 21,959</u>	<u>\$ 39,371</u>

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):

	June 30, 2019	December 31, 2018	June 30, 2018
Natural gas	\$ 3,409	\$ 5,369	\$ 3,057
Fuel used in electric generation	453	462	488
Materials and supplies	18,870	20,149	21,376
Total	<u>\$ 22,732</u>	<u>\$ 25,980</u>	<u>\$ 24,921</u>

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 returned to or recovered from customers through PSC-authorized deferral accounting mechanisms, with no material impact on cash flows, results of operations or liquidity. Realized gains and losses on Central Hudson's energy derivative instruments and all associated costs are reported as part of purchased natural gas, 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.

Reclassification

Certain amounts in the prior year's Note 4 – "Regulatory Matters" have been reclassified to conform to the 2019 presentation. These reclassifications had no effect on the reported results of operations.

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 June 30, 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 Contracts with Customers

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

Alternative Revenues

Central Hudson’s alternative revenue programs include: electric and natural gas RDMs, 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 New York 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 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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Electric				
Revenues from Contracts with Customers (ASC 606)	\$ 114,118	\$ 127,032	\$ 244,753	\$ 279,771
Alternative Revenues (Non ASC 606)	(242)	(253)	(3,198)	(3,645)
Other Revenue Adjustments (Non ASC 606)	7,189	(5,371)	16,336	(7,551)
Total Operating Revenues Electric	\$ 121,065	\$ 121,408	\$ 257,891	\$ 268,575
Natural Gas				
Revenues from Contracts with Customers (ASC 606)	\$ 29,419	\$ 34,033	\$ 102,837	\$ 108,937
Alternative Revenues (Non ASC 606)	(71)	2,451	(98)	2,076
Other Revenue Adjustments (Non ASC 606)	(1,751)	(2,271)	(3,184)	(6,232)
Total Operating Revenues Natural Gas	\$ 27,597	\$ 34,213	\$ 99,555	\$ 104,781

The decrease in electric revenues from contract with customers is primarily due to the decrease in recovery of commodity costs and lower sales partially offset by the increase in customer delivery rates as prescribed in the 2018 Rate Order. Revenue from contracts with customers also includes credits to customer bills for RDM refunds and rate moderation, which does not impact total revenues. The offset of these credits are reflected in other revenue. Other revenues in 2018 included deferrals related to the Tax Cuts and Jobs Act and bonus depreciation which have been incorporated in delivery rates effective July 1, 2018.

The decrease in gas revenues from contract with customers is primarily due to lower commodity costs and the impacts of the approved change in rate design and updated sales forecast on customer delivery revenues billed in the second quarter of 2019 as prescribed in the 2018 Rate Order. The decrease in Alternative Revenue Programs is due to the deferral of revenues billed above 2018 Rate Order targets during 2019 compared to revenues billed below 2018 Rate Order targets in 2018. Other revenues in 2018 included deferrals related to the Tax Cuts and Jobs Act and bonus depreciation. Partially offsetting these increases to other revenues compared to 2018 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):

	June 30, 2019	December 31, 2018	June 30, 2018
Balance at Beginning Period - Net of Allowance	\$ 71,157	\$ 63,949	\$ 63,949
Billed to Customers/Adjustments	337,797	812,755	428,799
Customer Payments	(346,040)	(800,748)	(422,588)
Bad Debt Write-Offs - Net	(2,341)	(5,099)	(1,868)
Change in Allowance for Doubtful Accounts	(300)	300	300
Balance at End of Period - Net of Allowance	<u>\$ 60,273</u>	<u>\$ 71,157</u>	<u>\$ 68,592</u>

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		
		June 30, 2019	December 31, 2018	June 30, 2018
Electric:				
Production	25-85	\$ 39,676	\$ 39,691	\$ 39,618
Transmission	30-90 ⁽¹⁾	394,288	388,609	358,093
Distribution	7-80	1,034,017	1,009,086	985,429
Other	40	6,336	5,766	5,636
Total		<u>\$ 1,474,317</u>	<u>\$ 1,443,152</u>	<u>\$ 1,388,776</u>
Natural Gas:				
Transmission	19-85 ⁽¹⁾	\$ 58,956	\$ 58,720	\$ 57,690
Distribution	28-95	522,656	507,035	467,082
Other	N/A	442	442	442
Total		<u>\$ 582,054</u>	<u>\$ 566,197</u>	<u>\$ 525,214</u>
Common:				
Land and Structures	50	\$ 80,925	\$ 79,232	\$ 76,396
Office and Other Equipment, Radios and Tools	8-35	67,951	61,279	56,108
Transportation Equipment	10-12	70,000	67,069	64,476
Other	3-10	63,405	60,177	54,243
Total		<u>\$ 282,281</u>	<u>\$ 267,757</u>	<u>\$ 251,223</u>
Gross Utility Plant		<u>\$ 2,338,652</u>	<u>\$ 2,277,106</u>	<u>\$ 2,165,213</u>

⁽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 both the three months ended June 30, 2019 and 2018, the borrowed component of funds used during construction and recorded as a reduction of interest expense was \$0.2 million and the equity component reported as other income for the three months ended June 30, 2019 and 2018 was \$0.4 million and \$0.7 million, respectively. For the six months ended June 30, 2019 and 2018, the borrowed component of funds used during construction and recorded as a

reduction of interest expense was \$0.5 million for both periods and the equity component reported as other income was \$0.9 million and \$1.0 million, respectively.

Included in the Net Utility Plant balance of \$1.9 billion at June 30, 2019, \$1.8 billion at December 31, 2018, and \$1.7 billion at June 30, 2018 was \$98.0 million, \$91.8 million and \$84.1 million of intangible utility plant assets, comprised primarily of computer software costs, land, transmission and water rights and the related accumulated amortization of \$47.9 million, \$44.1 million and \$40.5 million, respectively.

As of June 30, 2019, December 31, 2018 and June 30, 2018, Central Hudson has reclassified from utility plant assets \$43.9 million, \$44.1 million and \$45.5 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 June 30, 2019, December 31, 2018 and June 30, 2018, ARO's 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):

	June 30, 2019	December 2018	June 30, 2018
Regulatory Assets:			
Deferred purchased electric costs (Note 1)	\$ 5,401	\$ 1,637	\$ 3,998
Deferred purchased natural gas costs (Note 1)	-	3,057	-
Deferred unrealized losses on derivatives - Electric and Gas (Note 16)	5,826	2,135	2,436
Regulatory adjustment mechanism - Electric	8,800	4,436	-
RDM and carrying charges - Natural gas	-	2,445	916
Demand management programs	2,505	1,611 ⁽⁴⁾⁽⁵⁾	1,921 ⁽⁵⁾
Deferred and accrued costs - SIR (Note 14)	8,569	8,471	8,393
Deferred storm costs	1,558	1,558 ⁽⁴⁾	1,558 ⁽²⁾
Deferred vacation pay accrual	8,565	7,981	7,992
Other	3,320	2,954 ⁽⁴⁾⁽⁵⁾	2,723 ⁽²⁾⁽⁵⁾
Total current regulatory assets	<u>\$ 44,544</u>	<u>\$ 36,285</u>	<u>\$ 29,937</u>
Deferred pension costs (Note 12)	\$ 25,348	\$ 29,320	\$ 13,953 ⁽²⁾
Deferred unrealized losses on derivatives - Electric and Gas (Note 16)	-	-	1,986
Deferred and accrued costs - SIR and carrying charges (Note 14)	59,222	45,092 ⁽⁴⁾	49,790 ⁽²⁾
Regulatory adjustment mechanism - Electric	-	4,364	-
Income taxes recoverable through future rates	12,131	18,168	10,442
Tax reform - unprotected impacts (Note 5)	13,464	13,688	12,998
Demand management programs	7,177	7,204 ⁽⁵⁾	4,698 ⁽²⁾⁽⁵⁾
Deferred storm costs and carrying charges	18,801	16,039 ⁽⁴⁾	26,037 ⁽²⁾
Other	8,259	7,469 ⁽⁵⁾	7,369 ⁽²⁾
Carrying charges balancing	(998) ⁽¹⁾	(360) ⁽³⁾	- ⁽²⁾
Total long-term regulatory assets	<u>\$ 143,404</u>	<u>\$ 140,984</u>	<u>\$ 127,273</u>
Total Regulatory Assets	<u>\$ 187,948</u>	<u>\$ 177,269</u>	<u>\$ 157,210</u>
Regulatory Liabilities:			
Rate moderator - Electric and carrying charges	\$ 9,105	\$ 7,563 ⁽⁴⁾	\$ 6,042 ⁽²⁾
Rate moderator - Natural Gas and carrying charges	4,000	3,661 ⁽⁴⁾	3,500 ⁽²⁾
RDM and carrying charges - Electric	5,914	13,690	4,939
RDM and carrying charges - Natural Gas	1,452	-	-
Deferred purchased natural gas costs (Note 1)	2,886	-	2,703
Deferred unrealized gains on derivatives - Electric and Gas (Note 16)	8	882	700
Clean energy fund	62,283	66,976	23,293
Tax reform - protected deferred tax liability (Note 5)	5,885	6,548	-
Total current regulatory liabilities	<u>\$ 91,533</u>	<u>\$ 99,320</u>	<u>\$ 41,177</u>
Rate moderator - Electric	\$ 23,157	\$ 26,853	\$ 31,748 ⁽²⁾
Rate moderator - Natural Gas	4,254	5,680	6,095 ⁽²⁾
Deferred cost of removal (Note 3)	43,916	44,119	45,473
Income taxes refundable through future rates	7,393	5,865	6,569
Deferred OPEB costs (Note 12)	19,388	23,183	30,697
Net plant and depreciation targets	4,681	2,399	-
Fast charging infrastructure program	4,454	-	-
Energy efficiency programs and carrying charges	4,523	5,493 ⁽⁴⁾	5,438
Clean energy fund and carrying charges	2,771	1,865	44,580
Tax reform - protected deferred tax liability (Note 5)	185,403	187,965	196,277
Other	14,776	13,467 ⁽⁴⁾	13,345 ⁽²⁾
Carrying charges balancing	(998) ⁽¹⁾	(360) ⁽³⁾	- ⁽²⁾
Total long-term regulatory liabilities	<u>\$ 313,718</u>	<u>\$ 316,529</u>	<u>\$ 380,222</u>
Total Regulatory Liabilities	<u>\$ 405,251</u>	<u>\$ 415,849</u>	<u>\$ 421,399</u>
Net Regulatory Liabilities	<u>\$ (217,303)</u>	<u>\$ (238,580)</u>	<u>\$ (264,189)</u>

Notes to Quarterly Condensed Financial Statements (UNAUDITED)

- (1) This amount represents the June 30, 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.
- (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) REV balances of \$2,113 and \$3,014 reported as current regulatory assets at December 31, 2018 and June 30, 2018 have been reclassified to conform to the June 30, 2019 presentation, with \$1,611 and \$1,921 reported in the Demand Management Programs line item and the remaining \$502 and \$1,093 included in other current regulatory assets. In addition, the REV balances of \$7,379 and \$4,698 reported as long-term regulatory assets at December 31, 2018 and June 30, 2018 have been reclassified as Demand Management Programs with \$175 in Other long-term regulatory assets for December 31, 2018.

Certain regulatory assets and liabilities have been reclassified to conform to the 2019 presentation and are described below.

Demand Management Programs: This regulatory asset represents the deferrals related to Central Hudson's Non-Wires Alternative and Dynamic Load Management initiatives.

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

Energy Efficiency Programs: This regulatory liability represents amounts collected in rates in excess of amounts used for Central Hudson's internally administered programs.

Fast Charging Station Infrastructure Program: This regulatory liability represents the amount to fund the fast charging stations annual incentive payments as prescribed in the related Order.

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

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:

Description	2015 Rate Order (dollars in millions)			2018 Rate Order (dollars in millions)		
	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.

Other PSC Proceedings

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. 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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Tax reserve balance at the beginning of the period	\$ 7,892	\$ 7,186	\$ 7,675	\$ 4,301
Change in natural gas transmission and distribution repair deduction	238	233	477	462
Change in tax benefit offset ⁽¹⁾	(882)	-	(904)	2,656
Tax reserve balance at the end of the period	<u>\$ 7,248</u>	<u>\$ 7,419</u>	<u>\$ 7,248</u>	<u>\$ 7,419</u>

(1) Amounts were 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*.

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):

	June 30, 2019	December 31, 2018	June 30, 2018
Protected Regulatory Liability at the beginning of the period	\$ 194,513	\$ 198,576	\$ 198,576
Change in Protected Tax Liability	(3,225)	(4,063)	(2,299)
Protected Regulatory Liability at the end of the period	<u>\$ 191,288</u>	<u>\$ 194,513</u>	<u>\$ 196,277</u>

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):

	June 30, 2019	December 31, 2018	June 30, 2018
Unprotected Regulatory Asset at the beginning of the period	\$ 13,688	\$ 23,267	\$ 23,267
Change in Unprotected Tax Asset	(224)	(9,579)	(10,269)
Unprotected Regulatory Asset at the end of the period	<u>\$ 13,464</u>	<u>\$ 13,688</u>	<u>\$ 12,998</u>

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		Six Months Ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Current federal income tax	\$ (357)	\$ 1,739	\$ 718	\$ 2,731
Current state income tax	(299)	(241)	(229)	767
Deferred federal income tax	944	(112)	3,876	1,743
Deferred state income tax	411	837	2,300	872
Total income tax expense	<u>\$ 699</u>	<u>\$ 2,223</u>	<u>\$ 6,665</u>	<u>\$ 6,113</u>

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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net income	\$ 4,856	\$ 9,443	\$ 29,205	\$ 26,266
Current federal income tax	(357)	1,739	718	2,731
Current state income tax	(299)	(241)	(229)	767
Deferred federal income tax	944	(112)	3,876	1,743
Deferred state income tax	411	837	2,300	872
Income before income taxes	<u>\$ 5,555</u>	<u>\$ 11,666</u>	<u>\$ 35,870</u>	<u>\$ 32,379</u>
Computed federal tax at 21%	\$ 1,167	\$ 2,450	\$ 7,533	\$ 6,800
State income tax net of federal tax benefit	88	471	1,636	1,295
Amortization of protected deferred tax liability ⁽¹⁾	(1,268)	(895)	(2,537)	(1,791)
Depreciation flow-through	403	446	938	894
Cost of removal	(438)	(408)	(875)	(811)
Other	747	159	(30)	(274)
Total income tax expense	<u>\$ 699</u>	<u>\$ 2,223</u>	<u>\$ 6,665</u>	<u>\$ 6,113</u>
Effective tax rate - federal	10.6%	13.9%	12.8%	13.9%
Effective tax rate - state	2.0%	5.1%	5.8%	5.1%
Effective tax rate - combined	<u>12.6%</u>	<u>19.0%</u>	<u>18.6%</u>	<u>19.0%</u>

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

For the three and six months ended June 30, 2019, the lower combined effective tax rate was driven by an increase in the amortization of protected deferred tax liability coupled with lower operating income subject to taxes at the statutory rate.

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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Current federal income tax	\$ (437)	\$ 1,822	\$ 769	\$ 4,689
Current state income tax	(324)	(228)	(279)	786
Deferred federal income tax	547	(114)	3,349	(101)
Deferred state income tax	537	829	2,423	830
Total income tax expense	<u>\$ 323</u>	<u>\$ 2,309</u>	<u>\$ 6,262</u>	<u>\$ 6,204</u>

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		Six Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Net income	\$ 5,304	\$ 9,753	\$ 29,641	\$ 26,589
Current federal income tax	(437)	1,822	769	4,689
Current state income tax	(324)	(228)	(279)	786
Deferred federal income tax	547	(114)	3,349	(101)
Deferred state income tax	537	829	2,423	830
Income before income taxes	<u>\$ 5,627</u>	<u>\$ 12,062</u>	<u>\$ 35,903</u>	<u>\$ 32,793</u>
Computed federal tax at 21%	\$ 1,182	\$ 2,533	\$ 7,540	\$ 6,887
State income tax net of federal tax benefit	168	475	1,694	1,276
Amortization of protected deferred tax liability ⁽¹⁾	(1,268)	(895)	(2,537)	(1,791)
Depreciation flow-through	403	446	938	894
Cost of removal	(438)	(408)	(875)	(811)
Other	276	158	(498)	(251)
Total income tax expense	<u>\$ 323</u>	<u>\$ 2,309</u>	<u>\$ 6,262</u>	<u>\$ 6,204</u>
Effective tax rate - federal	2.0%	14.2%	11.5%	14.0%
Effective tax rate - state	3.8%	5.0%	6.0%	4.9%
Effective tax rate - combined	<u>5.8%</u>	<u>19.2%</u>	<u>17.5%</u>	<u>18.9%</u>

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

For the three and six months ended June 30, 2019, the lower combined effective tax rate was driven by an increase in the amortization of protected deferred tax liability coupled with lower operating income subject to taxes at the statutory rate.

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 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 \$19.4 million. In June 2019, CHET made a capital contribution of \$1.1 million to Transco to fund a portion of the Segment B project costs. At June 30, 2019, December 31, 2018 and June 30, 2018, CHET's investment in Transco was approximately \$8.4 million, \$6.9 million and \$7.1 million, respectively.

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.

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 June 30, 2019, December 31, 2018 and June 30, 2018 was \$0.9 million, \$0.8 million and \$0.8 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 June 30, 2019 and 2018 were \$0.6 million and \$0.9 million, respectively. For the six months ended June 30, 2019 and 2018, Central Hudson's R&D expenditures were \$1.7 million and \$1.6 million, respectively. These expenditures were for internal research programs and for contributions to research administered by NYSERDA, the Electric Power Research Institute and other industry organizations.

NOTE 8 – Leases

At June 30, 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 and equipment with remaining terms of approximately 14 to 60 months and communication tower space with remaining terms of approximately 20 months 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	June 30, 2019
Operating Lease Assets	Other Assets	\$ 1,781
Current Operating Lease Liabilities	Other Current Liabilities	\$ 434
Noncurrent Operating Lease Liabilities	Other Liabilities	1,350
Total Lease Liabilities		\$ 1,784

Operating lease cost for the three and six months ended June 30, 2019 was approximately \$0.1 million and \$0.2 million. Short-term lease cost in the periods was not material to CH Energy Group or Central Hudson's results of operations. Variable lease cost for the three and six months ended June 30, 2019 approximated \$0.2 million and \$0.4 million, respectively.

As of June 30, 2019, CH Energy Group and Central Hudson had the following future minimum lease payments (In Thousands):

Year Ending December 31,	Operating Leases
2019 (excluding six months ended 6/30/2019)	\$ 246
2020	402
2021	184
2022	179
2023	176
Thereafter	1,011
Total Lease Payments	2,198
Less: Imputed Interest	414
Present Value of Lease Liabilities	1,784
Less: Current Portion	434
Total Non-Current Lease Liabilities	\$ 1,350

Lease commitment

In May 2019, Central Hudson entered into a 10-year lease commitment for commercial office space with an estimated cost of \$2.9 million over the lease term. The lease will be recognized on Central Hudson's balance sheet at the commencement date, which will occur once construction to modernize the leased premises is completed, likely in the third quarter of 2019. The improvement allowance used for the modernization will be accounted for as lessor assets, since the improvements will remain with the building at the conclusion of the lease. Central Hudson will recognize a lease liability and related right-of-use asset on the commencement date and will recognize a single lease cost periodically during the lease term.

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

	June 30, 2019
Lease Term and Discount Rate	
Weighted-Average Remaining Lease Term (years)	9.8
Weighted-Average Discount Rate	3.90%

	Six Months Ended June 30, 2019
(In Thousands)	
Supplemental Cash Flow Information	
Cash Paid for Amounts Included in the Measurement of Lease Liabilities	
Operating Cash Flows used in Operating Leases	\$ 235
Non-Cash Operating Activities	
Right-of-Use Assets Obtained in Exchange for New Operating Lease Liabilities	\$ 1,984

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	<u>\$ 3,407</u>

Operating lease cost for the three and six months ended June 30, 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⁾

- (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.

At June 30, 2019, December 31, 2018 and June 30, 2018 there were no amounts outstanding under the various credit facilities for CH Energy Group or Central Hudson.

NOTE 10 – Capitalization – Common and Preferred Stock**Capitalization**

During the first half of 2019 and 2018, CH Energy Group received capital contributions of \$14.0 million and \$16.0 million, respectively, from its parent FortisUS.

During the second quarter of 2019 and 2018, Central Hudson received capital contributions of \$2.0 million and \$2.5 million, respectively, from its parent CH Energy Group.

During the second quarter of 2019, CHET received a \$1.1 million capital contribution from its parent CH Energy Group.

The contributions were recorded as paid in capital, see CH Energy Group and Central Hudson'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 \$59.2 million and \$53.6 million in dividends to CH Energy Group for the periods ended June 30, 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 and six months ended June 30, 2019 and 2018, the Board of Directors of CH Energy Group declared and paid dividends of \$5.5 million and \$11 million, respectively, to FortisUS, the sole shareholder of CH Energy Group.

CHEC and CHET did not pay any dividends to its parent CH Energy Group during the first half of 2019. During the three and six months ended June 30, 2018, CHEC paid dividends to its parent CH Energy Group of \$0.3 million, and CHET paid dividends to its parent CH Energy Group of \$0.5 million.

Preferred Stock

Other than the one share of Junior Preferred Stock, Central Hudson has no outstanding preferred stock as of June 30, 2019, December 31, 2018 and June 30, 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):

	June 30, 2019	December 31, 2018	June 30, 2018
CH Energy Group:			
Promissory notes	\$ 687,032	\$ 687,822	\$ 638,586
Less: current portion	(28,662)	(28,607)	(31,554)
Principal portion of long-term-debt	658,370	659,215	607,032
Less: unamortized debt issuance costs	(4,092)	(4,296)	(3,993)
Net long-term debt - CH Energy Group	\$ 654,278	\$ 654,919	\$ 603,039

Central Hudson:

Promissory notes	\$ 673,950	\$ 673,950	\$ 623,950
Less: current portion	(27,000)	(27,000)	(30,000)
Principal portion of long-term-debt	646,950	646,950	593,950
Less: unamortized debt issuance costs	(4,031)	(4,231)	(3,923)
Net long-term debt - Central Hudson	<u>\$ 642,919</u>	<u>\$ 642,719</u>	<u>\$ 590,027</u>

At June 30, 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 and six months ended June 30, 2019 and 2018.

The principal amount of Central Hudson's outstanding 1999 Series B NYSERDA Bonds totaled \$33.7 million at June 30, 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 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 \$13.1 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 June 30, 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		Three Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Service cost	\$ 2,810	\$ 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)	167	257	(672)	(1,267)
Amortization of recognized actuarial net (gain)/loss	1,099	4,561	(784)	(231)
Net Periodic (Benefit) Cost	<u>\$ 3,081</u>	<u>\$ 5,835</u>	<u>\$ (1,503)</u>	<u>\$ (1,743)</u>

	Pension Benefits		OPEB	
	Six Months Ended		Six Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Service cost	\$ 5,621	\$ 6,530	\$ 764	\$ 932
Interest cost	13,560	12,520	2,530	2,364
Expected return on plan assets	(15,550)	(17,016)	(3,388)	(3,786)
Amortization of prior service cost (credit)	333	514	(1,345)	(2,534)
Amortization of recognized actuarial net (gain)/loss	2,197	9,122	(1,568)	(462)
Net Periodic (Benefit) Cost	<u>\$ 6,161</u>	<u>\$ 11,670</u>	<u>\$ (3,007)</u>	<u>\$ (3,486)</u>

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

	June 30, 2019 ⁽¹⁾⁽²⁾	December 31, 2018 ⁽¹⁾⁽²⁾	June 30, 2018 ⁽¹⁾⁽²⁾
Accrued pension costs	\$ (36,922)	\$ (33,815)	\$ (11,587)

- (1) Includes approximately \$232K at June 30, 2019, December 31, 2018 and June 30, 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 June 30, 2019, December 31, 2018 and June 30, 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 SERP trust assets of approximately \$27.2 million at June 30, 2019 and \$26.9 million at December 31, 2018 and June 30, 2018, respectively.

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):

	June 30, 2019 ⁽¹⁾⁽²⁾	December 31, 2018 ⁽¹⁾⁽²⁾	June 30, 2018 ⁽¹⁾⁽²⁾
Accrued pension costs prior to funding status adjustment	\$ (17,200)	\$ (11,565)	\$ (421)
Additional liability required	(19,722)	(22,250)	(11,166)
Accrued pension costs	<u>\$ (36,922)</u>	<u>\$ (33,815)</u>	<u>\$ (11,587)</u>
Offset to additional liability - regulatory assets - pension plan	<u>\$ 19,228</u>	<u>\$ 21,667</u>	<u>\$ 11,166</u>
Offset to additional liability - accumulated OCI, net of tax of \$133, \$153, and \$0, respectively	<u>\$ 373</u>	<u>\$ 430</u>	<u>\$ -</u>

- (1) Includes approximately \$232K at June 30, 2019, December 31, 2018 and June 30, 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 June 30, 2019, December 31, 2018 and June 30, 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 June 30,		Six Months Ended June 30,		Three Months Ended June 30,		Six Months Ended June 30,	
2019	2018	2019	2018	2019	2018	2019	2018
\$ -	\$ -	\$ -	\$ 11,144	\$ -	\$ -	\$ 1,001	\$ 1,302

During the first half 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 half 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 June 30, 2019, as well as actual asset allocations as of June 30, 2019, December 31, 2018, and June 30, 2018 expressed as a percentage of the market value of Retirement Plan assets, are summarized in the table below:

Asset Class	Target			June 30, 2019	December 31, 2018	June 30, 2018
	Minimum	Average	Maximum			
Equity Securities	45%	50%	55%	50.1%	47.5%	50.8%
Debt Securities	45%	50%	55%	49.0%	51.0%	47.9%
Other ⁽¹⁾	0%	0%	10%	0.9%	1.5%	1.3%

⁽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	June 30, 2019	December 31, 2018
Equity Securities	55%	65%	75%	65.8%	64.4%
Debt Securities	25%	35%	45%	33.4%	34.8%
Other ⁽¹⁾	0%	0%	0%	0.8%	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 contribution for both the three months ended June 30, 2019 and 2018 was \$1.3 million and for the six months ended June 30, 2019 and 2018 matching contributions were \$2.6 million and \$2.5 million, respectively. 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	Grant Date	Grant Date Fair Value	Time Based		Performance Based	
			Granted	Outstanding ⁽⁵⁾	Granted	Outstanding ⁽⁵⁾
2019 PSUP	January 1, 2019	\$ 33.10	8,838	9,001	26,514	27,003
2018 PSUP	January 1, 2018	\$ 36.59	-	-	29,514	31,283
2017 PSUP	January 1, 2017	\$ 30.85	-	-	30,085	33,056
2016 PSUP ⁽¹⁾⁽³⁾	April 1, 2016	\$ 31.00	-	-	18,806	-

Central Hudson:	Grant Date	Grant Date Fair Value	Time Based		Performance Based	
			Granted	Outstanding ⁽⁴⁾⁽⁵⁾	Granted	Outstanding ⁽⁴⁾⁽⁵⁾
2019 SUP	January 1, 2019	\$ 33.10	15,691	14,947	31,383	29,894
2018 SUP	January 1, 2018	\$ 36.59	16,337	16,199	32,675	32,398
2017 SUP	January 1, 2017	\$ 30.85	18,359	18,856	36,717	37,713
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⁾In the second quarter of 2019, 3,337 2017 SUP units, 2,814 2018 SUP units, and 3,075 2019 SUP units were forfeited following the resignation of an Officer.

⁽⁵⁾Includes notional dividends accrued as of June 30, 2019.

Compensation Expense

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
CH Energy Group	\$ 626	\$ (416)	\$ 2,150	\$ 853
Central Hudson	\$ 625	\$ (416)	\$ 2,144	\$ 853

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 June 30, 2019, December 31, 2018 and June 30, 2018, employee loans due to the Company related to the ESPP were approximately \$0.2 million, \$0.1 million and \$0.2 million, respectively.

The ESPP provides that the Company will contribute as additional salary an amount equal to 10% of an employee's contribution to a maximum contribution of 1% of eligible compensation. The Company will also contribute an amount equal to 10% of all dividends payable by Fortis

on all common stock allocated to an employee's ESPP account. Common shares are purchased under the ESPP concurrent with the quarterly dividend payment dates of March 1, June 1, September 1 and December 1. The cost of Central Hudson's contribution for both the three months ended June 30, 2019 and 2018 was approximately \$0.01 million and for both the six months ended June 30, 2019 and 2018 was approximately \$0.02 million.

NOTE 14 – Commitments and Contingencies

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

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 tranche prices approved by the PSC based on qualifying in-state nuclear plant output and Central Hudson's full-service customer New York Control Area load-ratio share. The actual obligation will be determined and is contingent upon actual load served. At June 30, 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 \$17.4 million and for RECs the purchase obligation through December 31, 2021 is estimated to be approximately \$4.9 million. Central Hudson is also obligated to pay an additional \$0.1 million Alternative Compliance Payment related to its REC obligation for the 2018 compliance year based on actual load share that was not satisfied due to NYSERDA's inability to provide REC's through their quarterly REC sale. 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 June 30, 2019, CHET's investment in Transco was approximately \$8.4 million.

CH Energy Group issued a parental guarantee to Transco to assure the payment of CHET's maximum commitment of \$182 million. As of June 30, 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 June 30, 2019, Central Hudson has accrued \$64.4 million with respect to all SIR activities, including operation, maintenance and monitoring costs (“OM&M”), of which \$26.3 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 approved by the DEC in May 2019. Activities are anticipated to commence during the heating season in late fall of 2019.
 - A meeting has been scheduled with the DEC in July 2019 to discuss the site status and potential for additional required investigation activities.
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 (“USACE”), having received concurrence from the National Oceanic and Atmospheric Administration, issued the Nationwide Permit No. 38. On May 31, 2019 a request for permit modification was submitted to the USACE and on June 5, 2019 they stated they will not take action until the DEC has approved the requested permit modifications.
- 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 the fall of 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, on April 23, 2019 a meeting was held with the DEC (including representatives from Division of Environmental Remediation and Fish & Wildlife). Draft minutes were submitted on April 30, 2019 with no additional comments received from the DEC.
- A request to apply bioremediation agents to reduce or eliminate sheens that may occur during remedial activities was approved by the DEC in May 2019.
- On May 21, 2019, letters detailing proposed river slope grading modifications, conceptual construction schedule and sequencing, including justification for in-river work commencing on August 1, 2019 were submitted to the DEC. Comments on these proposed 401 Water Quality Certification modifications were received on May

31, 2019 and responses were provided to the DEC on June 7, 2019. Requested changes remain under regulatory review.

- A hydrodynamic dye study in the Hudson River was conducted in June 2019. Results from this study are expected to be received in July 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.
- During the second quarter of 2019 the cost estimate developed for remediation and OM&M activities increased \$19.0 million to approximately \$59.5 million due to a series of new DEC project requirements and processes related to monitoring and containing sheen dispersion in the Hudson River that became known in the second quarter. It is anticipated that approximately \$25.7 million is expected to be spent in the next twelve months.

➤ **Site # 8 - Eltings Corners** – FER 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 planting restoration of the site was completed in June 2019 and the FER is anticipated to be submitted to the DEC in Q3 2019.
- Future herbicide applications will be performed as part of the monitoring and maintenance in accordance with the Invasive Species Adaptive Management Plan as approved by the DEC.
- Approximately \$0.2 million has been accrued as of June 30, 2019, based on the scope of work and cost estimate developed for remediation and OM&M activities, of which approximately \$0.1 million 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 Areas A, B & C** – 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 Areas A, B & C were approved by the DEC in July and August 2017, respectively.
- 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. On-going site inspections, groundwater monitoring and maintenance activities required by the SMP will continue as necessary.
 - In accordance with the December 2017 SMP, an annual site inspection documenting the status the Engineering Controls (“ECs”) and the Institutional Controls (“ICs”) was performed in June 2019, no actionable findings were noted and the required Periodic Review Report (“PRR”) summarizing the status of the ECs and ICs was submitted to the DEC for review.
 - Approximately \$1.4 million has been accrued as of June 30, 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 ECs and ICs was performed in March 2019 and no actionable findings were noted, the required PRR summarizing the status of the ECs and ICs was 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. The requested certification form was appended to the PRR, resubmitted and approved in June 2019.
 - Approximately \$0.4 million has been accrued as of June 30, 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 was submitted to the DEC for review in April 2019.
 - Approximately \$0.2 million has been accrued as of June 30, 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) was placed in the settlement areas in April 2019 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. Subsequently, photographic documentation of the backfilled areas was submitted to the DEC and the PRR was approved in April 2019.
- Approximately \$2.4 million has been accrued as of June 30, 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 \$8.4 million recovered through June 30, 2019.
- The total spent related to site investigation and remediation for the three months ended June 30, 2019 and 2018 was approximately \$0.2 million and \$1.0 million, and for the six months ended June 30, 2019 and 2018 spending was approximately \$1.2 million and \$1.5 million, respectively.
- The regulatory asset balance including carrying charges as of June 30, 2019, December 31, 2018 and June 30, 2018 was \$67.8 million, \$53.6 million and \$58.2 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 was \$0.2 million of insurance recoveries during the three and six months ended June 30, 2019. There were no insurance recoveries during the first six months of 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 June 30, 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 June 30, 2019

	Segments		Other Businesses and Investments	Eliminations	Total
	Central Hudson				
	Electric	Natural Gas			
Revenues from external customers	\$ 121,065	\$ 27,597	\$ -	\$ -	\$ 148,662
Intersegment revenues	6	44	-	(50)	-
Total operating revenues	121,071	27,641	-	(50)	148,662
Energy supply costs	34,462	8,465	-	(50)	42,877
Operating expenses	63,817	15,937	90	-	79,844
Depreciation and amortization	11,236	3,556	-	-	14,792
Operating income (loss)	11,556	(317)	(90)	-	11,149
Other income, net	2,243	547	252	-	3,042
Finance charges	6,200	2,202	234	-	8,636
Income (loss) before income taxes	7,599	(1,972)	(72)	-	5,555
Income tax expense (benefit)	2,421	(2,098)	376	-	699
Net Income (Loss) Attributable to CH Energy Group	\$ 5,178	\$ 126	\$ (448)	\$ -	\$ 4,856
Segment Assets at June 30, 2019	\$ 1,673,757	\$ 590,218	\$ 15,407	\$ (1,108)	\$ 2,278,274

CH Energy Group Segment Disclosure

(In Thousands)

Three Months Ended June 30, 2018

	Segments		Other Businesses and Investments	Eliminations	Total
	Central Hudson				
	Electric	Natural Gas			
Revenues from external customers	\$ 121,408	\$ 34,213	\$ -	\$ -	\$ 155,621
Intersegment revenues	8	71	-	(79)	-
Total operating revenues	121,416	34,284	-	(79)	155,621
Energy supply costs	35,186	14,091	-	(79)	49,198
Operating expenses	61,122	13,466	439	-	75,027
Depreciation and amortization	10,568	3,198	-	-	13,766
Operating income (loss)	14,540	3,529	(439)	-	17,630
Other income, net	1,446	307	303	-	2,056
Finance charges	5,833	1,928	259	-	8,020
Income (loss) before income taxes	10,153	1,908	(395)	-	11,666
Income tax expense (benefit)	1,772	537	(86)	-	2,223
Net Income (Loss) Attributable to CH Energy Group	\$ 8,381	\$ 1,371	\$ (309)	\$ -	\$ 9,443
Segment Assets at June 30, 2018	\$ 1,546,072	\$ 556,614	\$ 12,957	\$ (962)	\$ 2,114,681

CH Energy Group Segment Disclosure

(In Thousands)

	Six Months Ended June 30, 2019				
	Segments		Other Businesses and Investments	Eliminations	Total
	Central Hudson				
	Electric	Natural Gas			
Revenues from external customers	\$ 257,891	\$ 99,555	\$ -	\$ -	\$ 357,446
Intersegment revenues	21	182	-	(203)	-
Total operating revenues	257,912	99,737	-	(203)	357,446
Energy supply costs	74,003	38,683	-	(203)	112,483
Operating expenses	133,116	35,635	78	-	168,829
Depreciation and amortization	22,398	7,067	-	-	29,465
Operating income (loss)	28,395	18,352	(78)	-	46,669
Other income, net	4,476	1,335	514	-	6,325
Finance charges	12,388	4,267	469	-	17,124
Income (loss) before income taxes	20,483	15,420	(33)	-	35,870
Income tax expense	3,948	2,314	403	-	6,665
Net Income (Loss) Attributable to CH Energy Group	\$ 16,535	\$ 13,106	\$ (436)	\$ -	\$ 29,205
Segment Assets at June 30, 2019	\$ 1,673,757	\$ 590,218	\$ 15,407	\$ (1,108)	\$ 2,278,274

CH Energy Group Segment Disclosure

(In Thousands)

	Six Months Ended June 30, 2018				
	Segments		Other Businesses and Investments	Eliminations	Total
	Central Hudson				
	Electric	Natural Gas			
Revenues from external customers	\$ 268,575	\$ 104,781	\$ -	\$ -	\$ 373,356
Intersegment revenues	17	218	-	(235)	-
Total operating revenues	268,592	104,999	-	(235)	373,356
Energy supply costs	93,749	49,337	-	(235)	142,851
Operating expenses	125,636	31,814	496	-	157,946
Depreciation and amortization	21,116	6,382	-	-	27,498
Operating income (loss)	28,091	17,466	(496)	-	45,061
Other income, net	2,321	609	603	-	3,533
Finance charges	11,796	3,898	521	-	16,215
Income (loss) before income taxes	18,616	14,177	(414)	-	32,379
Income tax expense (benefit)	2,523	3,681	(91)	-	6,113
Net Income (Loss) Attributable to CH Energy Group	\$ 16,093	\$ 10,496	\$ (323)	\$ -	\$ 26,266
Segment Assets at June 30, 2018	\$ 1,546,072	\$ 556,614	\$ 12,957	\$ (962)	\$ 2,114,681

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 June 30, 2019 are as follows:

Central Hudson	% of Requirement Hedged ⁽¹⁾
Electric Derivative Contracts:	0.74 million MWh
July 2019 – December 2019	20.2%
January 2020 – March 2020	6.5%
Natural Gas Derivative Contracts:	1.4 million Dth
November 2019 – December 2019	23.3%
January 2020 – March 2020	21.7%

(1) Projected coverage as of June 30, 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 June 30, 2019, 12 open contracts with credit risk contingent features were in a liability position and, if the contingent features were triggered, \$3.1 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 June 30, 2019, December 31, 2018, and June 30, 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 June 30, 2019, December 31, 2018 and June 30, 2018 are as follows (In Thousands):

Description	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amount of Assets Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position		
				Financial Instruments	Cash Collateral Received	Net Amount
As of June 30, 2019 ⁽¹⁾						
Derivative Contracts:						
Central Hudson - electric	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Central Hudson - natural gas	8	-	8	-	-	8
Total CH Energy Group and Central Hudson Assets	<u>\$ 8</u>	<u>\$ -</u>	<u>\$ 8</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8</u>
As of December 31, 2018 ⁽¹⁾						
Derivative Contracts:						
Central Hudson - electric	\$ 711	\$ -	\$ 711	\$ 711	\$ -	\$ -
Central Hudson - natural gas	171	-	171	-	-	171
Total CH Energy Group and Central Hudson Assets	<u>\$ 882</u>	<u>\$ -</u>	<u>\$ 882</u>	<u>\$ 711</u>	<u>\$ -</u>	<u>\$ 171</u>
As of June 30, 2018 ⁽¹⁾						
Derivative Contracts:						
Central Hudson - electric	\$ 634	\$ -	\$ 634	\$ 634	\$ -	\$ -
Central Hudson - natural gas	66	-	66	1	-	65
Total CH Energy Group and Central Hudson Assets	<u>\$ 700</u>	<u>\$ -</u>	<u>\$ 700</u>	<u>\$ 635</u>	<u>\$ -</u>	<u>\$ 65</u>

(1) Interest rate cap agreements are not shown in the above chart. As of June 30, 2019, December 31, 2018 and June 30, 2018 the fair value was \$0.

Notes to Quarterly Condensed Financial Statements (UNAUDITED)

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 June 30, 2019 ⁽¹⁾						
Derivative Contracts:						
Central Hudson - electric	\$ 5,413	\$ -	\$ 5,413	\$ -	\$ -	\$ 5,413
Central Hudson - natural gas	413	-	413	-	-	413
Total CH Energy Group and Central Hudson Liabilities	\$ 5,826	\$ -	\$ 5,826	\$ -	\$ -	\$ 5,826
As of December 31, 2018 ⁽¹⁾						
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 June 30, 2018 ⁽¹⁾						
Derivative Contracts:						
Central Hudson - electric	\$ 4,421	\$ -	\$ 4,421	\$ 634	\$ -	\$ 3,787
Central Hudson - natural gas	1	-	1	1	-	-
Total CH Energy Group and Central Hudson Liabilities	\$ 4,422	\$ -	\$ 4,422	\$ 635	\$ -	\$ 3,787

(1) Interest rate cap agreements are not shown in the above chart. As of June 30, 2019, December 31, 2018 and June 30, 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 June 30, 2019, December 31, 2018 and June 30, 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 June 30, 2019⁽¹⁾				
Assets:				
Derivative Contracts:				
Central Hudson - electric	\$ -	\$ -	\$ -	\$ -
Central Hudson - natural gas	8	8	-	-
Total CH Energy Group and Central Hudson Assets	\$ 8	\$ 8	\$ -	\$ -
Liabilities:				
Derivative Contracts:				
Central Hudson - electric	\$ 5,413	\$ -	\$ 5,413	\$ -
Central Hudson - natural gas	413	413	-	-
Total CH Energy Group and Central Hudson Liabilities	\$ 5,826	\$ 413	\$ 5,413	\$ -
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 June 30, 2018⁽¹⁾				
Assets:				
Derivative Contracts:				
Central Hudson - electric	\$ 634	\$ -	\$ 634	\$ -
Central Hudson - natural gas	66	66	-	-
Total CH Energy Group and Central Hudson Assets	\$ 700	\$ 66	\$ 634	\$ -
Liabilities:				
Derivative Contracts:				
Central Hudson - electric	\$ 4,421	\$ -	\$ 4,421	\$ -
Central Hudson - natural gas	1	1	-	-
Total CH Energy Group and Central Hudson Liabilities	\$ 4,422	\$ 1	\$ 4,421	\$ -

(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 June 30, 2019, December 31, 2018 and June 30, 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 three and six months ended June 30, 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 Statement of Income				Location of Gain (Loss)
	Three Months Ended June 30,		Six Months Ended June 30,		
	2019	2018	2019	2018	
Central Hudson:					
Electricity swap contracts	\$ (4,251)	\$ (2,321)	\$ (6,059)	\$ (554)	Deferred purchased electric costs ⁽¹⁾
Natural gas swap contracts	-	-	175	(369)	Deferred purchased natural gas costs ⁽¹⁾
Total CH Energy Group and Central Hudson	<u>\$ (4,251)</u>	<u>\$ (2,321)</u>	<u>\$ (5,884)</u>	<u>\$ (923)</u>	

(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 no net 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 June 30, 2019:				
Other Investments	\$ 9,577	\$ 9,577	\$ -	\$ -
As of December 31, 2018:				
Other Investments	\$ 9,479	\$ 9,479	\$ -	\$ -
As of June 30, 2018:				
Other Investments	\$ 10,885	\$ 10,885	\$ -	\$ -

As of June 30, 2019, December 31, 2018 and June 30, 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 June 30, 2019, December 31, 2018 and June 30, 2018 the total cash surrender value of trust-owned life insurance held by these trusts was approximately \$30.8 million, \$29.3 million and \$28.7 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

	June 30, 2019		December 31, 2018		June 30, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed rate debt	\$ 623,332	\$ 703,134	\$ 624,122	\$ 665,815	\$ 574,886	\$ 611,991
Variable rate debt	63,700	63,700	63,700	63,700	63,700	63,700
Total	\$ 687,032	\$ 766,834	\$ 687,822	\$ 729,515	\$ 638,586	\$ 675,691
Estimated effective interest rate		4.47%		4.48%		4.38%

Central Hudson

	June 30, 2019		December 31, 2018		June 30, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed rate debt	\$ 610,250	\$ 688,934	\$ 610,250	\$ 651,215	\$ 560,250	\$ 596,477
Variable rate debt	63,700	63,700	63,700	63,700	63,700	63,700
Total	\$ 673,950	\$ 752,634	\$ 673,950	\$ 714,915	\$ 623,950	\$ 660,177
Estimated effective interest rate		4.42%		4.43%		4.32%

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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
CH Energy Group (Thompson Hine LLP)	\$ 550	\$ 546	\$ 1,082	\$ 1,005
Central Hudson (Thompson Hine LLP)	\$ 540	\$ 541	\$ 1,054	\$ 985
Central Hudson (The Chazen Companies)	\$ 175	\$ 129	\$ 392	\$ 245

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):

	June 30,			December 31,			June 30,		
	2019			2018			2018		
CH Energy Group ⁽¹⁾	Fortis			Fortis			Fortis		
Accounts Receivable	\$	707	\$	862	\$	242			
Accounts Payable	\$	-	\$	-	\$	-			

	June 30,			December 31,			June 30,		
	2019			2018			2018		
Central Hudson ⁽¹⁾	CHEG	Fortis	Other Affiliates	CHEG	Fortis	Other Affiliates	CHEG	Fortis	Other Affiliates
Accounts Receivable	\$ 98	\$ 25	\$ 5	\$ 92	\$ 5	\$ 7	\$ 50	\$ 8	\$ 4
Accounts Payable	\$ 965	\$ -	\$ -	\$ 810	\$ -	\$ -	\$ 885	\$ 8	\$ -

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

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

	Three Months Ended June 30, 2019		Three Months Ended June 30, 2018	
	CHEG	Fortis ⁽¹⁾	CHEG	Fortis ⁽¹⁾
CH Energy Group	\$ -	\$ 829	\$ -	\$ 731
Central Hudson	\$ 930	\$ -	\$ 824	\$ -

	Six Months Ended June 30, 2019		Six Months Ended June 30, 2018	
	CHEG	Fortis ⁽¹⁾	CHEG	Fortis ⁽¹⁾
CH Energy Group	\$ -	\$ 1,799	\$ -	\$ 1,553
Central Hudson	\$ 2,012	\$ -	\$ 1,736	\$ -

⁽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 July 22, 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 June 30, 2019.

On July 16, 2019, CH Energy Group’s Board of Directors approved a \$5.5 million dividend payment to its parent FortisUS.

On July 16, 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 third quarter of 2019.

On July 12, 2019, Moody’s lowered Central Hudson’s senior unsecured debt rating from A2 to A3 and changed the outlook from negative to stable. The rationale for the downgrade was the impact on the Company’s financial ratios of its large capital expenditure program combined with lower operating cash flow generation resulting from the passage of the Tax Cuts and Jobs Act.

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

For the Six Months Ended June 30, 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 \$237 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.

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 ("FERC") 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 \$19.4 million. During the second quarter of 2019, CHET made a capital contribution to Transco of \$1.1 million to fund a portion of the Segment B project costs.

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, efficient and secure operations;
- Advocating on behalf of customers and other stakeholders; and
- Investing in programs and employee development to position the organization for continued success in the future.

Central Hudson is committed to a cleaner energy future by supporting New York State's energy policies and its Reforming Energy Vision goals and strongly believes that maintaining affordability must be part of the solution. Central Hudson is making investments in

infrastructure, technologies and programs that cost-effectively reduce carbon emissions while continuing to provide reliable, resilient and affordable power by:

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

CH Energy Group - Regulated Operations - Central Hudson

Financial Highlights

Period Ended June 30

	Quarter			Year to Date		
	2019	2018	Change	2019	2018	Change
Electricity Sales (GWh)	1,112	1,157	(45)	2,401	2,452	(51)
Natural Gas Sales (PJ)	3.0	3.9	(0.9)	12.5	13.4	(0.9)
<i>(In millions)</i>						
Revenues	\$ 148.7	\$ 155.6	\$ (6.9)	\$ 357.4	\$ 373.4	\$ (16.0)
Energy Supply Costs - Matched to Revenues	42.9	49.2	(6.3)	112.5	142.9	(30.4)
Operating Expenses - Matched to Revenues	16.7	17.0	(0.3)	37.7	37.5	0.2
Operating Expenses - Other	63.0	57.6	5.4	131.0	119.9	11.1
Depreciation and Amortization	14.8	13.8	1.0	29.5	27.5	2.0
Other Income, net	2.8	1.8	1.0	5.8	2.9	2.9
Interest Charges	8.4	7.8	0.6	16.7	15.7	1.0
Income Taxes	0.3	2.3	(2.0)	6.3	6.2	0.1
Net income	\$ <u>5.3</u>	\$ <u>9.8</u>	\$ <u>(4.5)</u>	\$ <u>29.6</u>	\$ <u>26.6</u>	\$ <u>3.0</u>

Earnings: Central Hudson achieved year over year earnings growth of \$3.0 million, despite a \$4.5 million decrease in earnings for the second quarter of 2019 compared to 2018. The PSC-approved increase in delivery rates, effective July 1, 2018, provided a return on the additional capital invested in the business and the recovery of higher operating and financing expenses. However, the 2018 Rate Order reflected the approved change in gas rate design to lower the monthly flat customer charge, increase the volumetric charges and incorporate an updated sales forecast. As a result, the natural gas revenues recorded in the second quarter of 2019, including the Revenue Decoupling Mechanism (“RDM”) deferral, were lower than those in the same quarter of the prior year. These changes increase the seasonality of Central Hudson’s natural gas business on a quarter-to-quarter basis, but have no earnings impact on a full rate year basis. Partially offsetting these impacts was a higher number of billed gas residential and commercial customers, generating revenues above the amount provided for in delivery rates,

which are not deferred under the current RDM structure. Central Hudson also incurred expenses in 2018 above the amounts provided in rates due to weather-related service restoration costs, which also favorably impacting earnings in 2019 compared to the prior period for both the quarter and year-to-date.

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 quarter and year to date of 2019 were slightly lower than electric sales for the comparable periods of 2018, primarily due to milder than normal weather.

Natural Gas Sales

Natural gas sales for the quarter and year to date were lower when compared to the same periods of 2018 due to lower firm and interruptible sales to electric generators and a reduction in sales for resale as a result of warmer than normal weather.

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 for both the quarter and year to date compared to 2018 primarily due to a decrease in the non-service cost component of pension expense, which resulted from the expiration of investment losses incurred in 2008 on trust assets, which the company was authorized to amortize over a 10-year period. Additionally, other net income included higher storm related carrying charges in 2019 as a result of incremental storm restoration costs deferred due to major storms throughout 2018. Partially offsetting these increases is a decrease in carrying charges on the unprotected regulatory asset associated with the Tax Cuts and Jobs Act and the pension reserve, which are now included in rate base and, as such, the return on the balance is billed in current delivery revenues rather than recorded as carrying charges in Other Income and Deductions.

Interest Charges: The increase in interest charges for the quarter and year to date reflect higher interest on long-term debt partially offset by a decrease in carrying charges on the Other Post-Employment Benefits ("OPEB") reserve which is now included in rate base and the return recognized through billed delivery revenues rather than recorded in Interest Charges.

Income Taxes: The combined effective tax rate decreased from 19.2% to 5.8% for the quarter and 18.9% to 17.5% year to date, when compared to the comparable period in 2018. The decreases were primarily driven by the impact of the amortization of the protected deferred tax liability, resulting from the Tax Cuts and Jobs Act, on a lower before tax income.

Central Hudson Revenues - Electric Period Ended June 30

(In millions)

	Quarter			Year to Date		
	2019	2018	Change	2019	2018	Change
Revenues with Matching Expense Offsets:⁽¹⁾						
Recovery of commodity purchases	\$ 32.1	\$ 32.9	\$ (0.8)	\$ 69.1	\$ 89.4	\$ (20.3)
Sales to others for resale	2.4	2.3	0.1	4.8	4.3	0.5
Impact of Tax Cuts and Jobs Act	-	(3.5)	3.5	-	(7.4)	7.4
Other revenues with matching offsets	13.6	15.6	(2.0)	29.6	33.3	(3.7)
<i>Subtotal</i>	48.1	47.3	0.8	103.5	119.6	(16.1)
Revenues Impacting Earnings:						
Customer sales	71.1	71.4	(0.3)	152.7	149.5	3.2
RDM and other regulatory mechanisms	(0.6)	(0.3)	(0.3)	(3.3)	(3.6)	0.3
Revenue requirement of bonus depreciation	-	(0.5)	0.5	-	(1.1)	1.1
Shared earnings mechanisms	-	1.0 ⁽²⁾	(1.0)	-	- ⁽²⁾	-
Net plant & depreciation targets	(0.7)	(0.4) ⁽²⁾	(0.3)	(1.6)	(1.7) ⁽²⁾	0.1
Other revenues	3.3	2.9 ⁽²⁾	0.4	6.6	5.9 ⁽²⁾	0.7
<i>Subtotal</i>	73.1	74.1	(1.0)	154.4	149.0	5.4
Total Electric Revenues	\$ 121.2	\$ 121.4	\$ (0.2)	\$ 257.9	\$ 268.6	\$ (10.7)

(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.

(2) Other revenues reported for the three and six months ended June 30, 2018 have been reclassified to conform with current period presentation.

Central Hudson Revenues - Natural Gas Period Ended June 30

(In millions)

	Quarter			Year to Date		
	2019	2018	Change	2019	2018	Change
Revenues with Matching Expense Offsets:⁽¹⁾						
Recovery of commodity purchases	\$ 8.5	\$ 13.3	\$ (4.8)	\$ 33.1	\$ 40.8	\$ (7.7)
Sales to others for resale	-	0.7	(0.7)	5.5	8.4	(2.9)
Impact of Tax Cuts and Jobs Act	-	(1.1)	1.1	-	(2.9)	2.9
Other revenues with matching offsets	1.5	1.7	(0.2)	4.5	4.9	(0.4)
<i>Subtotal</i>	10.0	14.6	(4.6)	43.1	51.2	(8.1)
Revenues Impacting Earnings:						
Customer sales	17.8	17.7	0.1	56.0	52.3	3.7
RDM and other regulatory mechanisms	(1.1)	1.1	(2.2)	(2.6)	(0.2)	(2.4)
Revenue requirement of bonus depreciation	-	(0.3)	0.3	-	(0.5)	0.5
Net plant & depreciation targets	(0.3)	(0.2) ⁽²⁾	(0.1)	(0.7)	(0.7) ⁽²⁾	-
Other revenues	1.2	1.3 ⁽²⁾	(0.1)	3.8	2.7 ⁽²⁾	1.1
<i>Subtotal</i>	17.6	19.6	(2.0)	56.5	53.6	2.9
Total Natural Gas Revenues	\$ 27.6	\$ 34.2	\$ (6.6)	\$ 99.6	\$ 104.8	\$ (5.2)

(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 and six months ended June 30, 2018 have been reclassified to conform with current period presentation.

Central Hudson's revenues consist of two major categories: those that offset specific expenses in the current period (matching revenues) and those that impact earnings. Matching revenues represent amounts billed in the current period to recover costs for particular expenses (most notably, purchased electricity and purchased natural gas, pensions and 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 Statements of Income. Additionally, in the first six 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 have been incorporated in delivery rates since July 1, 2018.

Electric Revenues:

Electric revenues for the quarter and year to date decreased as a result of lower revenues for the recovery of purchased commodity costs driven by both a decrease in price and sales due to milder weather when compared to 2018. Additionally, in 2019 a greater amount of revenues were set aside for future return to customers related to net plant and depreciation levels below the defined targets in the 2018 Rate Order. The decreases were partially offset by the increase in customer delivery rates effective July 1, 2018, which incorporated the impacts of bonus depreciation and the Tax Cuts and Jobs Act.

Natural Gas Revenues:

Natural gas revenues decreased for the quarter and year to date primarily as a result of lower revenues for the recovery of purchased commodity costs due to a decrease in purchased natural gas volumes, resulting from warmer weather when compared to the comparable periods in 2018. The decreases were partially offset on a year to date basis by the increase in customer delivery rates effective July 1, 2018. The change in delivery rates resulted in lower revenues in the second quarter of 2019 compared to 2018 due to the approved change in gas rate design to lower the monthly flat customer charge, increase the volumetric charges and incorporate an updated sales forecast. This reshaping of revenues increases the seasonality of Central Hudson's natural gas business on a quarter-to-quarter basis, but has no impact on a full rate year basis.

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 June 30

(In millions)

	Quarter			Year to Date		
	2019	2018	Change	2019	2018	Change
Expenses Currently Matched to Revenues:⁽¹⁾						
Purchased electricity	\$ 34.5	\$ 35.2	\$ (0.7)	\$ 74.0	\$ 93.7	\$ (19.7)
Purchased natural gas	8.5	14.0	(5.5)	38.6	49.2	(10.6)
Pension & OPEB	2.3	2.6	(0.3)	4.9	6.1	(1.2)
NYS energy programs	8.6	9.3	(0.7)	18.9	20.7	(1.8)
Major storm reserve	0.4	0.2	0.2	0.8	0.3	0.5
Regulatory commission expense	-	0.5	(0.5)	-	1.0	(1.0)
Low income programs	2.0	1.0 ⁽³⁾	1.0	3.2	1.6 ⁽³⁾	1.6
Other matched expenses	3.3	3.4 ⁽³⁾	(0.1)	9.8	7.8 ⁽³⁾	2.0
<i>Subtotal</i>	<u>59.6</u>	<u>66.2</u>	<u>(6.6)</u>	<u>150.2</u>	<u>180.4</u>	<u>(30.2)</u>
Other Operating Expense Variations:						
Tree trimming	4.9	4.9 ⁽³⁾	-	11.9	9.4 ⁽³⁾	2.5
Property and school taxes ⁽²⁾	12.0	12.5	(0.5)	27.2	27.5	(0.3)
Weather related service restoration	0.4	3.3	(2.9)	1.6	7.0	(5.4)
Distribution maintenance	1.8	1.5 ⁽³⁾	0.3	2.6	2.1 ⁽³⁾	0.5
Uncollectible accounts and reserve	1.2	0.6	0.6	2.6	1.6	1.0
Information technology	1.8	1.5 ⁽³⁾	0.3	5.1	3.9 ⁽³⁾	1.2
Labor	20.0	18.3 ⁽³⁾	1.7	39.1	35.5 ⁽³⁾	3.6
Regulatory commission expense	0.6	-	0.6	1.2	-	1.2
Depreciation and amortization	14.8	13.8	1.0	29.5	27.5	2.0
Other expenses	20.3	15.0 ⁽³⁾	5.3	39.7	32.9 ⁽³⁾	6.8
<i>Subtotal</i>	<u>77.8</u>	<u>71.4</u>	<u>6.4</u>	<u>160.5</u>	<u>147.4</u>	<u>13.1</u>
Total Operating Expenses	<u>\$ 137.4</u>	<u>\$ 137.6</u>	<u>\$ (0.2)</u>	<u>\$ 310.7</u>	<u>\$ 327.8</u>	<u>\$ (17.1)</u>

(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 and six months ended June 30, 2018 have been reclassified to conform to the current period presentation.

Operating Expenses:

The decrease in operating expenses for the quarter and year to date 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 labor expense, information technology related expense and tree trimming costs. Expenses resulting from changes in the reserve for future uncollectible expense also increased compared to the prior year.

Financial Position

CH Energy Group – Regulated – Central Hudson Significant Changes in the Balance Sheets as of June 30, 2019

(In millions)

Balance Sheet Account	Increase (Decrease)	Explanation
Accounts receivable	(10.9)	Decrease is primarily due to the seasonality of the business coupled with a decrease in natural gas commodity costs.
Accrued unbilled utility revenues	(8.2)	Decrease reflects the seasonality of the business.
Regulatory assets - current	8.3	Increase is primarily due to collections through the Regulatory Adjustment Mechanism beginning July 1, 2019, as well as higher unrealized losses on electric derivatives.
Special deposits and prepayments	(11.4)	Decrease is primarily due to the amortization of school taxes, which were prepaid in prior periods.
Regulatory assets - long term	6.4	Increase reflects a \$19.0 million increase in environmental site remediation costs at N. Water Street, partially offset by amounts collected through rates and lower deferred taxes recoverable through future rates attributable to plant-related timing differences.
Accounts payable	(10.6)	Decrease is primarily due to decreases in purchased natural gas driven by both commodity price and seasonality and the timing of expenditures related to environmental site remediation efforts.
Regulatory liabilities - current	(7.8)	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, partially offset by revenues collected in excess of actual gas costs incurred.
Accrued income and other taxes	(7.1)	Decrease primarily relates to the payment of 2018 federal income taxes.
Accrued environmental remediation costs- LT	14.4	Estimated remediation costs associated with the N. Water Street site increased as a result of NYSDEC requirements related to sheen dispersion control in the Hudson River.

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 June 30,

(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	75.1	51.3
Working capital	11.8	30.5
Operating Activities	86.9	81.8
Investing Activities	(107.3)	(85.6)
Financing Activities	2.1	29.1
Cash, cash equivalents and restricted cash - end of period	\$ 25.5	\$ 42.4
Dividends paid on Common Stock - CH Energy Group	\$ (11.0)	\$ (11.0)

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 made into retirement plans. The decrease in working capital in 2019 was primarily due to higher remittances of Clean Energy Fund collections to NYSERDA, lower commodity costs collected in excess of amounts paid, amounts refunded to customers in 2019 for deferred revenue billed in excess of targets, income taxes paid during the first half of 2019 and a decrease in advances paid by solar project developers for future engineering studies or interconnection work to be performed. These decreases were partially offset by the impact of lower commodity prices and milder weather on customer bills in the first half of 2019 as compared to 2018.

Investing Activities: The increase in cash used in investing activities resulted from an increase of 27% in capital work performed over the prior year primarily due to the favorable weather conditions in the first half of 2019 as compared to the significant number of weather events experienced in the first half of 2018. Central Hudson's approved capital expenditures is estimated to be approximately \$230 million for the year ended December 31, 2019, which includes continued investments in delivery infrastructure, IT and network strategy systems and facilities.

Financing Activities: The decrease in additional financing needs in 2019 resulted from the use of excess cash on hand from collections in excess of remittances related to the Clean Energy Fund and advances from solar project developers, as well as improved cash provided from operations in the first half of 2019. Dividend payments were consistent in both periods at \$11.0 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 distributes excess cash to CH Energy Group in the form of dividends or receives capital contributions from CH Energy Group to meet equity financing needs.

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

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

CH Energy Group and Central Hudson's secondary sources of funds are their cash reserves and its credit facilities. CH Energy Group and Central Hudson's ability to use their 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 their 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 June 30, 2019 and December 31, 2018 was \$250 million.

There were no outstanding amounts under either credit facility as of June 30, 2019 and December 31, 2018.

Uncommitted Credit

At June 30, 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 June 30, 2019 and December 31, 2018.

Central Hudson's Bond Ratings

	June 30, 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.

On July 12, 2019, Moody's lowered Central Hudson's senior unsecured debt rating from A2 to A3 and changed the outlook from negative to stable. The rationale for the downgrade was the impact on the Company's financial ratios of its large capital expenditure program combined with lower operating cash flow generation resulting from the passage of the Tax Cuts and Jobs Act.

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

	June 30, 2019		December 31, 2018	
		%		%
Long-term Debt ⁽¹⁾	\$ 687.0	48.6	\$ 687.8	49.7
Common Equity	727.3	51.4	695.1	50.3
Total	\$ 1,414.3	100.0	\$ 1,382.9	100.0

(1) Includes current maturities of long term debt.

Central Hudson

	June 30, 2019		December 31, 2018	
		%		%
Long-term Debt ⁽¹⁾	\$ 674.0	48.1	\$ 674.0	49.2
Common Equity	728.0	51.9	696.3	50.8
Total	\$ 1,402.0	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 six months ended June 30, 2019.

Critical Accounting Estimates: There were no material changes to CH Energy Group's or Central Hudson's critical accounting estimates during the six months ended June 30, 2019.

GAAP: There were no material changes to CH Energy Group's or Central Hudson's accounting policies during the six months ended June 30, 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

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

Regulatory Proceedings

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.

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.

On June 19, 2019, Central Hudson filed a petition in this proceeding seeking expedited approval to modify the revenue allocation provisions and certain RDM targets of Central Hudson’s service class 8 (public street and highway lighting customers) as approved in the 2018 Rate Order and the authority to defer and recover revenues resulting from the petition. The request was made to address an overestimate of lighting fixtures forecasted in the Joint Proposal which resulted in a misallocation of the revenue requirement amongst service classes. The annual impact is a shift of approximately \$0.5 million, \$0.7 million and \$0.9 million for RY1, RY2 and RY3, respectively, which is de minimis when allocated and collected from the non-lighting customer classes. The petition reassigns the collection of revenues amongst the service classes with no impact on Central Hudson’s results of operations. On July 11, 2019, the Commission approved Central Hudson’s petition as presented with clarification that the onetime credit to SC8 customers should include carrying charges.

On June 21, 2019, Central Hudson filed its Non-Pipe Alternative Implementation Plan and compliance filing with the PSC. The plan proposes three projects impacting twenty-two gas customers. The proposed projects, referred to as “Transportation Mode Alternative” requires the conversion of existing natural gas users to alternative energy sources. For the initiative to be successful, 100% participation is required.

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 Distribution Relief Value (“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 DRV, Locational System Relief Value (“LSRV”), and Capacity Value calculations and compensation as well as authorizing a new rate component to encourage robust Community Distributed Generation (“CDG”) development. In addition, 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.

On May 16, 2019, the PSC issued an Order on Standby and Buyback Service Rate Design and Establishing Demand Based Rates. The Order provides current Standby and Buyback customers an increased ability to manage their usage, and provides other customers the benefits of standby service rates as optional rates. Effective July 1, 2019, the tariffs will offer Standby Service Rates to all demand-metered customers, in lieu of customer’s existing rate structure. Customer’s opting-in to standby rates must do so for a period of not less than one year and will continue to be included in the RDM reconciliation. A reliability credit, which provides a monetary credit based on the difference between a customer’s Contract Demand and maximum Daily As-Used Demand, shall be restricted by excluding customers’ DERs that receive Value Stack compensation for exports to the system. A 5 MW project-level uninstalled capacity compensation limit will be established for installed capacity purchased from buyback service customers, consistent with the maximum project size allowed under VDER. Resources with a capacity greater than 5 MW operating under existing capacity purchase contracts will be grandfathered. Additional draft tariffs and an Allocated Embedded Cost of Service Study are due September 4, 2019.

Marginal Cost of Service Proceeding

The PSC initiated a new proceeding, Case 19-E-0283 to examine Marginal Cost Of Service studies (“MCOS”). A stakeholder forum was held on June 28, 2019 to begin the evaluation of the MCOS studies (avoided distribution costs studies) as part of utilities 2018 Distribution System Implementation Plans which were re-filed on June 7, 2019. The PSC anticipates a discovery process and comment period through the fall of 2019.

Consolidated Billing for Community Distributed Generation

The PSC initiated a new proceeding to evaluate consolidated billing for Distributed Energy Resources. On June 18, 2019 a notice was issued seeking comments on the billing model to be utilized, structure of subscription charges, availability of consolidated billing to customer classes, applicability to low-income customers, cost recovery for the program, information exchange between the CDG sponsor and utility, customer protection rules and identification of other DER products and services to be considered for consolidated billing. Responses to the notice are due September 3, 2019.

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 Community Choice Aggregation 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 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 (“IVR”) within one hour of the Company’s press releases. In an order instituting proceeding and to show cause issued April 18, 2019, utilities were directed to show cause why the Commission should not pursue civil penalties pursuant to PSL §25 and/or administrative penalties, pursuant to PSL §25-a, for the apparent failure to follow their ERPs as approved and mandated by the ERP order and Commission regulations. On May 20, 2019, Central Hudson responded to the show cause order stating that the Commission should not penalize Central Hudson because the Company complied with its applicable 2016 ERP procedures, as approved by the Commission in Case 16-E-0635, which was in effect for the Riley and Quinn storms. Central Hudson’s effective and approved ERP did not include a requirement that the IVR be updated within one hour after Central Hudson issued a press release.

Gas Plastic Fusion Proceeding

On May 18, 2018, the PSC issued an Order Adopting Further Improvements in Plastic Fusion Practices on Natural Gas Systems under Case 14-G-0212. The Order requires the filing of Quality Assurance/Quality Control Program and ongoing annual reports of all visually failed and visually passed fuses revealed and expected. Data for 2015-2017 and for 2018 was provided in annual reports filed in January 2019. In a Department of Public Service Staff whitepaper issued February 12, 2019, Staff proposed Operator Qualification Best Practices for Commission adoption to address operator covered tasks as defined in 16NYCRR §255.3(9) on pipelines in New York State. 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. The Company filed comments on the Staff’s whitepaper on May 28, 2019, supporting Staff’s

recommendations, including proposed timeframe for implementation and compliance as outlined in the collaborative process.

Offshore Wind Proceeding

On July 12, 2018, the Commission issued an Order Establishing an 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 New York Control Area. 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 February 4, 2019 the JU filed a Petition for Approval of the Business-to Business Process Used to Formulate a Data Security Agreement ("DSA") and for Affirming the JUs' Authority to Require and Enforce Execution of the DSA by Entities Seeking Access to the Utility Customer Data or Utility Systems. The JUs proposed 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. Parties filed comments on April 29, 2019 and the JU filed a reply to stakeholder comments on May 17, 2019.

Energy Storage System Proceeding

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 Non-Wire Alternatives 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. On April 25, 2019, NYSERDA filed modified versions of its Energy Storage Market Acceleration Bridge Implementation Plan and Program Manual to Staff's comments, which revised: customer, project and contractor eligibility, quality assurance, measurement and verification, and

technical requirements. Additional revisions included; payment terms, application requirements, project viability and reporting sections.

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 NYSEERDA 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 classes 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 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 New York State utilities. The increase would be funded in part by unspent energy efficiency funds. In addition, in collaboration with other JU and NYSEERDA, Central Hudson proposed a \$30.2 million heat pump program for the period 2020-2025. In 2020, the utilities and NYSEERDA are directed to begin implementation of a statewide ratepayer Low Income 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.

As directed by the Commission, NYSEERDA utilized its heat pump potential study to assist the utilities in developing budgets and targets for the statewide heat pump program. Central Hudson accepted the utility-specific budget of \$30.2 million that was proposed within the study, but did not prematurely commit to NYSEERDA's proposed target. Further analysis is needed to determine an achievable target. On May 21, 2019 the JU filed an updated report, which included a discussion of heat pump program budgets and targets. Within the report Central Hudson proposed a target installation of 11,934 residential and small commercial heat pumps with a budget of \$30.2 million for the period 2020 through 2025. The 11,934 installation target results in savings of 253 GBtu, which is 39% lower than the target proposed by NYSEERDA. Central Hudson's target was derived through a robust service territory specific analysis conducted by a third party evaluation consultant. The Commission staff is reviewing policy on this issue.

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 NYSEERDA to extend its income verifications service to CDG developers seeking to verify eligibility of Low-Income subscribers. The Order also directs NYSEERDA 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, NYSEERDA 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 low-moderate income ("LMI") customers. The RFI also sought information on existing NYSEERDA 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 NYSEERDA 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. NYSEERDA expects to brief DPS Staff and stakeholders on the proposed design later this year. 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 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. PSC staff accepted 27 of the Company's audit recommendation plans. Central Hudson continues to work on implementation of the remaining seven recommendations. Central Hudson is required to file an updated report in July 2019.

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.

Climate Leadership and Community Protection Act (“CLCPA”)

On July 18, 2019, the Climate Leadership and Community Protection Act was signed into New York State law which sets renewable energy and emission reduction goals in New York State as the most aggressive in the nation. This law defines targets for 70 percent renewable electricity by 2030 and 100 percent carbon-free electricity by 2040. It requires the PSC to establish a program to require all load serving entities to together procure 6,000 MW of solar energy by 2025, 3,000 MW of energy storage by 2030 and 9,000 MW of offshore wind energy by 2035.

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

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

FERC Notice of Pending Jurisdictional Inquiry

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

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.