



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

for the period ended

**SEPTEMBER 30, 2019**

QUARTER ENDED SEPTEMBER 30, 2019

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**CH ENERGY GROUP**  
**CONDENSED CONSOLIDATED STATEMENT OF INCOME (Unaudited)**

(In Thousands)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
<b>Operating Revenues</b>				
Electric	\$ 145,844	\$ 147,287	\$ 403,735	\$ 415,862
Natural gas	16,446	16,727	116,001	121,507
Total Operating Revenues	162,290	164,014	519,736	537,369
<b>Operating Expenses</b>				
Operation:				
Purchased electricity	39,178	48,716	113,159	142,448
Purchased natural gas	1,342	2,502	39,843	51,621
Other expenses of operation - regulated activities	70,280	62,209	206,783	188,193
Other expenses of operation - non-regulated	76	205	113	693
Depreciation and amortization	15,059	13,687	44,524	41,186
Taxes, other than income tax	15,368	14,199	47,658	45,671
Total Operating Expenses	141,303	141,518	452,080	469,812
Operating Income	20,987	22,496	67,656	67,557
<b>Other Income and Deductions</b>				
Income from unconsolidated affiliates	312	299	830	902
Interest on regulatory assets and other interest income	523	491	1,885	2,750
Regulatory adjustments for interest costs	216	187	766	798
Other - net	1,728	(65)	5,623	(4)
Total Other Income	2,779	912	9,104	4,446
<b>Interest Charges</b>				
Interest on long-term debt	7,578	6,937	22,867	20,237
Interest on regulatory liabilities and other interest	986	890	2,821	3,805
Total Interest Charges	8,564	7,827	25,688	24,042
Income Before Income Taxes	15,202	15,581	51,072	47,961
Income Tax Expense	2,914	2,860	9,579	8,974
Net Income	12,288	12,721	41,493	38,987
Dividends declared on Common Stock	5,500	5,500	16,500	16,500
Change in Retained Earnings	\$ 6,788	\$ 7,221	\$ 24,993	\$ 22,487

**CH ENERGY GROUP**  
**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**(Unaudited)**

(In Thousands)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Net Income	\$ 12,288	\$ 12,721	\$ 41,493	\$ 38,987
Other Comprehensive Income:				
Employee future benefits - net of tax expense	34	-	91	-
Comprehensive Income	\$ 12,322	\$ 12,721	41,584	38,987

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

## CH ENERGY GROUP

### CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

(In Thousands)

	Nine Months Ended September 30,	
	2019	2018
<b>Operating Activities:</b>		
Net income	\$ 41,493	\$ 38,987
<b>Adjustments to reconcile net income to net cash provided from operating activities:</b>		
Depreciation	38,431	35,899
Amortization	6,093	5,287
Deferred income taxes - net	8,126	4,867
Bad debt expense	4,329	3,043
Distributed (undistributed) equity in earnings of unconsolidated affiliates	(105)	183
Pension expense	6,375	10,788
Other post-employment benefits ("OPEB") expense	(5,751)	(3,152)
Regulatory liability - rate moderation	(6,546)	(7,068)
Revenue decoupling mechanism ("RDM") recorded	11,325	10,528
<b>Changes in operating assets and liabilities - net:</b>		
Accounts receivable, unbilled revenues and other receivables	22,779	(8,444)
Fuel, materials and supplies	(15)	(1,421)
Special deposits and prepayments	2,153	3,741
Income and other taxes	(3,958)	4,498
Accounts payable	(1,944)	(6,655)
Accrued interest	2,264	1,991
Customer advances	2,146	(5,550)
Other advances	(1,572)	7,960
Pension plan contribution	(787)	(11,931)
OPEB contribution	(1,001)	(1,302)
RDM collected/(refunded) - net	(13,662)	(1,153)
Regulatory asset - major storm	(2,111)	(24,682)
Regulatory asset - site investigation and remediation ("SIR")	1,727	1,402
Regulatory liability - energy efficiency programs including clean energy fund	(4,279)	6,203
Rate adjustment mechanisms ("RAM")	2,415	-
Deferred natural gas and electric costs	(982)	14,044
Other - net	15,116	19,219
<b>Net cash provided from operating activities</b>	<b>122,059</b>	<b>97,282</b>
<b>Investing Activities:</b>		
Additions to utility plant	(171,206)	(135,437)
Other - net	551	(1,436)
<b>Net cash used in investing activities</b>	<b>(170,655)</b>	<b>(136,873)</b>
<b>Financing Activities:</b>		
Repayment of long-term debt	(790)	(739)
Proceeds from issuance of long-term debt	-	25,000
Net change in short-term borrowings	15,000	-
Capital contribution	21,870	26,000
Dividends paid on Common Stock	(16,500)	(16,500)
Other - net	(14)	(191)
<b>Net cash provided from financing activities</b>	<b>19,566</b>	<b>33,570</b>
<b>Net Change in Cash, Cash Equivalents and Restricted Cash</b>	<b>(29,030)</b>	<b>(6,021)</b>
<b>Cash, Cash Equivalents and Restricted Cash at Beginning of Period</b>	<b>43,801</b>	<b>17,140</b>
<b>Cash, Cash Equivalents and Restricted Cash at End of Period</b>	<b>\$ 14,771</b>	<b>\$ 11,119</b>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Interest paid, net of amounts capitalized	\$ 20,047	\$ 17,687
Federal and state income taxes paid	\$ 5,707	\$ -
<b>Non-Cash Investing Activities:</b>		
Accrued capital expenditures	\$ 14,248	\$ 12,910

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

**CH ENERGY GROUP**  
**CONDENSED CONSOLIDATED BALANCE SHEET (Unaudited)**

(In Thousands)

	September 30, 2019	December 31, 2018	September 30, 2018
<b>ASSETS</b>			
Utility Plant (Note 3)			
Electric	\$ 1,500,413	\$ 1,443,152	\$ 1,403,329
Natural gas	595,470	566,197	537,986
Common	292,232	267,757	258,952
Gross Utility Plant	2,388,115	2,277,106	2,200,267
Less: Accumulated depreciation	578,120	552,505	549,138
Net	1,809,995	1,724,601	1,651,129
Construction work in progress	108,667	75,560	105,156
Net Utility Plant	1,918,662	1,800,161	1,756,285
Non-utility property & plant	524	524	524
Net Non-Utility Property & Plant	524	524	524
Current Assets			
Cash and cash equivalents	13,696	42,730	10,048
Accounts receivable from customers - net of allowance for doubtful accounts of \$3.1 million, \$2.7 million, and \$2.7 million, respectively. (Note 2)	58,232	71,157	71,085
Accounts receivable - affiliates (Note 18)	979	862	223
Accrued unbilled utility revenues	18,086	23,994	17,556
Other receivables	17,954	26,346	18,361
Fuel, materials and supplies (Note 1)	25,995	25,980	25,163
Regulatory assets (Note 4)	37,583	36,285	29,450
Fair value of derivative instruments (Note 16)	669	882	2,316
Special deposits and prepayments	21,796	23,949	19,727
Total Current Assets	194,990	252,185	193,929
Deferred Charges and Other Assets			
Regulatory assets - deferred pension costs (Note 4)	25,749	29,320	11,624
Regulatory assets - other (Note 4)	117,537	111,664	107,385
Prefunded OPEB costs (Note 12)	2,159	858	6,171
Investments in unconsolidated affiliates (Note 6)	8,654	7,730	7,982
Other investments (Note 17)	39,558	39,326	39,693
Other	6,865	4,092	3,839
Total Deferred Charges and Other Assets	200,522	192,990	176,694
Total Assets	<u>\$ 2,314,698</u>	<u>\$ 2,245,860</u>	<u>\$ 2,127,432</u>

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)

	September 30, 2019	December 31, 2018	September 30, 2018
<b>CAPITALIZATION AND LIABILITIES</b>			
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	401,906	380,036	369,036
Retained earnings	340,372	315,379	302,323
Accumulated other comprehensive loss	(339)	(430)	-
Total Equity	742,099	695,145	671,519
Long-term debt (Note 11)			
Principal amount	618,370	659,215	607,032
Unamortized debt issuance costs	(4,004)	(4,296)	(3,901)
Net long-term debt	614,366	654,919	603,131
Total Capitalization	1,356,465	1,350,064	1,274,650
Current Liabilities			
Current maturities of long-term debt (Note 11)	68,662	28,607	31,554
Short-term borrowings (Note 9)	15,000	-	-
Accounts payable	45,974	53,269	40,613
Accrued interest	9,095	6,831	8,445
Accrued vacation and payroll	9,593	9,955	8,973
Customer advances	12,289	10,143	8,372
Customer deposits	7,566	7,563	7,435
Regulatory liabilities (Note 4)	92,849	99,320	73,910
Fair value of derivative instruments (Note 16)	1,795	2,135	1,104
Accrued environmental remediation costs (Note 14)	28,422	23,309	8,878
Accrued income and other taxes	1,605	5,661	2,582
Other current liabilities	39,014	36,429	32,732
Total Current Liabilities	331,864	283,222	224,598
Deferred Credits and Other Liabilities			
Regulatory liabilities - deferred OPEB costs (Note 4)	17,962	23,183	29,270
Regulatory liabilities - other (Note 4)	289,735	293,346	319,996
Operating reserves	4,992	5,171	5,059
Fair value of derivative instruments (Note 16)	-	-	689
Accrued environmental remediation costs (Note 14)	32,566	23,664	42,790
Accrued pension costs (Note 12)	37,427	32,765	11,291
Tax reserve (Note 5)	7,029	7,675	7,652
Other liabilities	25,814	23,278	23,285
Total Deferred Credits and Other Liabilities	415,525	409,082	440,032
Accumulated Deferred Income Tax (Note 5)	210,844	203,492	188,152
Commitments and Contingencies			
Total Capitalization and Liabilities	<u>\$ 2,314,698</u>	<u>\$ 2,245,860</u>	<u>\$ 2,127,432</u>

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

**CH ENERGY GROUP**  
**CONDENSED CONSOLIDATED STATEMENT OF EQUITY (Unaudited)**

(In Thousands, except share amounts)

	Nine Months Ended September 30, 2019					
	Common Stock Shares Issued	Common Stock Amount	Paid-In Capital	Retained Earnings	AOCI*	Total Equity
<b>Balance at December 31, 2018</b>	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
<b>Balance at March 31, 2019</b>	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
<b>Balance at June 30, 2019</b>	15,961,400	\$ 160	\$ 393,906	\$ 333,584	\$ (373)	\$ 727,277
Net income				12,288		12,288
Capital contribution			8,000			8,000
Dividends declared on common stock				(5,500)		(5,500)
Employee future benefits, net of tax					34	34
<b>Balance at September 30, 2019</b>	15,961,400	\$ 160	\$ 401,906	\$ 340,372	\$ (339)	\$ 742,099

	Nine Months Ended September 30, 2018					
	Common Stock Shares Issued	Common Stock Amount	Paid-In Capital	Retained Earnings	AOCI*	Total Equity
<b>Balance at December 31, 2017</b>	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)
<b>Balance at March 31, 2018</b>	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)
<b>Balance at June 30, 2018</b>	15,961,400	\$ 160	\$ 359,036	\$ 295,102	\$ -	\$ 654,298
Net income				12,721		12,721
Capital contribution			10,000			10,000
Dividends declared on common stock				(5,500)		(5,500)
<b>Balance at September 30, 2018</b>	15,961,400	\$ 160	\$ 369,036	\$ 302,323	\$ -	\$ 671,519

\*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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Operating Revenues</b>				
Electric	\$ 145,844	\$ 147,287	\$ 403,735	\$ 415,862
Natural gas	16,446	16,727	116,001	121,507
<b>Total Operating Revenues</b>	<b>162,290</b>	<b>164,014</b>	<b>519,736</b>	<b>537,369</b>
<b>Operating Expenses</b>				
Operation:				
Purchased electricity	39,178	48,716	113,159	142,448
Purchased natural gas	1,342	2,502	39,843	51,621
Other expenses of operation	70,280	62,209	206,783	188,193
Depreciation and amortization	15,059	13,687	44,524	41,186
Taxes, other than income tax	15,364	14,209	47,613	45,674
<b>Total Operating Expenses</b>	<b>141,223</b>	<b>141,323</b>	<b>451,922</b>	<b>469,122</b>
<b>Operating Income</b>	<b>21,067</b>	<b>22,691</b>	<b>67,814</b>	<b>68,247</b>
<b>Other Income and Deductions</b>				
Interest on regulatory assets and other interest income	543	488	1,855	2,735
Regulatory adjustments for interest costs	216	187	766	798
Other - net	1,726	(39)	5,674	35
<b>Total Other Income</b>	<b>2,485</b>	<b>636</b>	<b>8,295</b>	<b>3,568</b>
<b>Interest Charges</b>				
Interest on long-term debt	7,356	6,688	22,176	19,468
Interest on regulatory liabilities and other interest	979	889	2,813	3,804
<b>Total Interest Charges</b>	<b>8,335</b>	<b>7,577</b>	<b>24,989</b>	<b>23,272</b>
<b>Income Before Income Taxes</b>	<b>15,217</b>	<b>15,750</b>	<b>51,120</b>	<b>48,543</b>
<b>Income Tax Expense</b>	<b>2,904</b>	<b>2,896</b>	<b>9,166</b>	<b>9,100</b>
<b>Net Income</b>	<b>\$ 12,313</b>	<b>\$ 12,854</b>	<b>\$ 41,954</b>	<b>\$ 39,443</b>

**CENTRAL HUDSON**  
**CONDENSED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)**

(In Thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Net Income</b>	<b>\$ 12,313</b>	<b>\$ 12,854</b>	<b>\$ 41,954</b>	<b>\$ 39,443</b>
<b>Other Comprehensive Income:</b>				
Employee future benefits - net of tax expense	34	-	91	-
<b>Comprehensive Income</b>	<b>\$ 12,347</b>	<b>\$ 12,854</b>	<b>\$ 42,045</b>	<b>\$ 39,443</b>

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



**CENTRAL HUDSON**  
**CONDENSED STATEMENT OF CASH FLOWS (Unaudited)**

(In Thousands)

	Nine Months Ended September 30,	
	2019	2018
<b>Operating Activities:</b>		
Net income	\$ 41,954	\$ 39,443
<b>Adjustments to reconcile net income to net cash provided from operating activities:</b>		
Depreciation	38,431	35,899
Amortization	6,093	5,287
Deferred income taxes - net	7,884	2,987
Bad debt expense	4,329	3,043
Pension expense	6,375	10,788
OPEB expense	(5,751)	(3,152)
Regulatory liability - rate moderation	(6,546)	(7,068)
RDM recorded	11,325	10,528
<b>Changes in operating assets and liabilities - net:</b>		
Accounts receivable, unbilled revenues and other receivables	22,879	(9,089)
Fuel, materials and supplies	(15)	(1,421)
Special deposits and prepayments	2,147	3,741
Income and other taxes	(6,256)	7,425
Accounts payable	(1,726)	(6,734)
Accrued interest	2,045	1,744
Customer advances	2,146	(5,550)
Other advances	(1,572)	7,960
Pension plan contribution	(787)	(11,931)
OPEB contribution	(1,001)	(1,302)
RDM collected/(refunded) - net	(13,662)	(1,153)
Regulatory asset - major storm	(2,111)	(24,682)
Regulatory asset - SIR	1,727	1,402
Regulatory liability - energy efficiency programs including clean energy fund	(4,279)	6,203
RAM	2,415	-
Deferred natural gas and electric costs	(982)	14,044
Other - net	14,524	19,737
<b>Net cash provided from operating activities</b>	<b>119,586</b>	<b>98,149</b>
<b>Investing Activities:</b>		
Additions to utility plant	(171,206)	(135,437)
Other - net	1,411	(1,414)
<b>Net cash used in investing activities</b>	<b>(169,795)</b>	<b>(136,851)</b>
<b>Financing Activities:</b>		
Proceeds from issuance of long-term debt	-	25,000
Net change in short-term borrowings	15,000	-
Capital contribution	2,000	7,000
Other - net	(14)	(191)
<b>Net cash provided from financing activities</b>	<b>16,986</b>	<b>31,809</b>
<b>Net Change in Cash, Cash Equivalents and Restricted Cash</b>	<b>(33,223)</b>	<b>(6,893)</b>
Cash, Cash Equivalents and Restricted Cash - Beginning of Period	40,346	14,607
<b>Cash, Cash Equivalents and Restricted Cash - End of Period</b>	<b>\$ 7,123</b>	<b>\$ 7,714</b>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Interest paid, net of amounts capitalized	\$ 19,575	\$ 17,164
Federal and state income taxes paid	\$ 7,682	\$ -
<b>Non-Cash Investing Activities:</b>		
Accrued capital expenditures	\$ 14,248	\$ 12,910

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

**CENTRAL HUDSON**  
**CONDENSED BALANCE SHEET (Unaudited)**

(In Thousands)

	September 30, 2019	December 31, 2018	September 30, 2018
<b>ASSETS</b>			
Utility Plant (Note 3)			
Electric	\$ 1,500,413	\$ 1,443,152	\$ 1,403,329
Natural gas	595,470	566,197	537,986
Common	292,232	267,757	258,952
Gross Utility Plant	2,388,115	2,277,106	2,200,267
Less: Accumulated depreciation	578,120	552,505	549,138
Net	1,809,995	1,724,601	1,651,129
Construction work in progress	108,667	75,560	105,156
Net Utility Plant	1,918,662	1,800,161	1,756,285
Non-Utility Property and Plant	524	524	524
Net Non-Utility Property and Plant	524	524	524
Current Assets			
Cash and cash equivalents	6,048	39,275	6,643
Accounts receivable from customers - net of allowance for doubtful accounts of \$3.1 million, \$2.7 million, and \$2.7 million, respectively. (Note 2)	58,232	71,157	71,085
Accrued unbilled utility revenues	18,086	23,994	17,556
Other receivables	18,075	26,450	18,471
Fuel, materials and supplies (Note 1)	25,995	25,980	25,163
Regulatory assets (Note 4)	37,583	36,285	29,450
Fair value of derivative instruments (Note 16)	669	882	2,316
Special deposits and prepayments	21,764	23,911	19,689
Total Current Assets	186,452	247,934	190,373
Deferred Charges and Other Assets			
Regulatory assets - deferred pension costs (Note 4)	25,749	29,320	11,624
Regulatory assets - other (Note 4)	117,537	111,664	107,385
Prefunded OPEB costs (Note 12)	2,159	858	6,171
Other investments (Note 17)	38,759	38,567	38,901
Other	6,865	4,070	3,808
Total Deferred Charges and Other Assets	191,069	184,479	167,889
Total Assets	<u>\$ 2,296,707</u>	<u>\$ 2,233,098</u>	<u>\$ 2,115,071</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)

	September 30, 2019	December 31, 2018	September 30, 2018
<b>CAPITALIZATION AND LIABILITIES</b>			
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	246,952
Accumulated other comprehensive loss	(339)	(430)	-
Retained earnings	407,549	365,595	346,857
Capital stock expense	(4,633)	(4,633)	(4,633)
Total Equity	<u>740,340</u>	<u>696,295</u>	<u>673,487</u>
Long-term debt (Note 11)			
Principal amount	606,950	646,950	593,950
Unamortized debt issuance costs	(3,945)	(4,231)	(3,833)
Net long-term debt	<u>603,005</u>	<u>642,719</u>	<u>590,117</u>
Total Capitalization	<u>1,343,345</u>	<u>1,339,014</u>	<u>1,263,604</u>
Current Liabilities			
Current maturities of long-term debt (Note 11)	67,000	27,000	30,000
Short-term borrowings (Note 9)	15,000	-	-
Accounts payable	46,653	53,730	41,031
Accrued interest	8,836	6,791	8,155
Accrued vacation and payroll	9,593	9,955	8,973
Customer advances	12,289	10,143	8,372
Customer deposits	7,566	7,563	7,435
Regulatory liabilities (Note 4)	92,849	99,320	73,910
Fair value of derivative instruments (Note 16)	1,795	2,135	1,104
Accrued environmental remediation costs (Note 14)	28,422	23,309	8,878
Accrued income and other taxes	2,591	8,786	5,196
Other current liabilities	37,110	35,015	31,565
Total Current Liabilities	<u>329,704</u>	<u>283,747</u>	<u>224,619</u>
Deferred Credits and Other Liabilities			
Regulatory liabilities - deferred OPEB costs (Note 4)	17,962	23,183	29,270
Regulatory liabilities - other (Note 4)	289,735	293,346	319,996
Operating reserves	4,992	5,171	5,059
Fair value of derivative instruments (Note 16)	-	-	689
Accrued environmental remediation costs (Note 14)	32,566	23,664	42,790
Accrued pension costs (Note 12)	37,195	32,533	11,059
Tax reserve (Note 5)	7,029	7,675	7,652
Other liabilities	23,782	21,316	21,667
Total Deferred Credits and Other Liabilities	<u>413,261</u>	<u>406,888</u>	<u>438,182</u>
Accumulated Deferred Income Tax (Note 5)	<u>210,397</u>	<u>203,449</u>	<u>188,666</u>
Commitments and Contingencies			
Total Capitalization and Liabilities	<u>\$ 2,296,707</u>	<u>\$ 2,233,098</u>	<u>\$ 2,115,071</u>

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

**CENTRAL HUDSON**  
**CONDENSED STATEMENT OF EQUITY (Unaudited)**

(In Thousands, except share amounts)

Nine Months Ended September 30, 2019							
	Common Stock Shares Issued	Common Stock Amount	Paid-In Capital	Capital Stock Expense	Retained Earnings	AOCI*	Total Equity
<b>Balance at December 31, 2018</b>	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
<b>Balance at March 31, 2019</b>	16,862,087	\$ 84,311	\$ 251,452	\$ (4,633)	\$ 389,932	\$ (407)	\$ 720,655
Net income					5,304		5,304
Capital contribution			2,000				2,000
Employee future benefits, net of tax						34	34
<b>Balance at June 30, 2019</b>	16,862,087	\$ 84,311	\$ 253,452	\$ (4,633)	\$ 395,236	\$ (373)	\$ 727,993
Net income					12,313		12,313
Employee future benefits, net of tax						34	34
<b>Balance at September 30, 2019</b>	16,862,087	\$ 84,311	\$ 253,452	\$ (4,633)	\$ 407,549	\$ (339)	\$ 740,340

Nine Months Ended September 30, 2018							
	Common Stock Shares Issued	Common Stock Amount	Paid-In Capital	Capital Stock Expense	Retained Earnings	AOCI*	Total Equity
<b>Balance at December 31, 2017</b>	16,862,087	\$ 84,311	\$ 239,952	\$ (4,633)	\$ 307,414	\$ -	\$ 627,044
Net income					16,836		16,836
<b>Balance at March 31, 2018</b>	16,862,087	\$ 84,311	\$ 239,952	\$ (4,633)	\$ 324,250	\$ -	\$ 643,880
Net income					9,753		9,753
Capital contribution			2,500				2,500
<b>Balance at June 30, 2018</b>	16,862,087	\$ 84,311	\$ 242,452	\$ (4,633)	\$ 334,003	\$ -	\$ 656,133
Net income					12,854		12,854
Capital contribution			4,500				4,500
<b>Balance at September 30, 2018</b>	16,862,087	\$ 84,311	\$ 246,952	\$ (4,633)	\$ 346,857	\$ -	\$ 673,487

\*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. CH Energy Group formed CHET to engage in Federal Energy Regulatory Commission (“FERC”) regulated electric transmission projects and CHET has a 6.1% ownership interest in New York Transco LLC (“Transco”). CHGT was formed to hold CH Energy Group’s ownership stake in possible gas transmission pipeline opportunities in New York State. As of September 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.

The 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 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 September 30, 2018 are included for supplemental information.

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. The same accounting policies are used to prepare both the quarterly and the annual financial statements.

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”.

## 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.

## 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.

## Restricted Cash

Restricted cash primarily consists of cash collected from developers and held in escrow related to a potential System Deliverability Upgrade project pursuant to terms and conditions of the New York Independent System Operator’s (“NYISO”) Open Access Transmission Tariff.

The following tables provide a reconciliation of cash, cash equivalents and restricted cash reported on 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)

	September 30, 2019	September 30, 2018
Cash and cash equivalents	\$ 13,696	\$ 10,048
Restricted cash included in other long-term assets	1,075	1,070
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	<u>\$ 14,771</u>	<u>\$ 11,118</u>

### Central Hudson

(In Thousands)

	September 30, 2019	September 30, 2018
Cash and cash equivalents	\$ 6,048	\$ 6,643
Restricted cash included in other long-term assets	1,075	1,070
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	<u>\$ 7,123</u>	<u>\$ 7,713</u>

## 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):

	September 30, 2019	December 31, 2018	September 30, 2018
Natural gas	\$ 5,623	\$ 5,369	\$ 6,175
Fuel used in electric generation	416	462	485
Materials and supplies	19,956	20,149	18,503
Total	<u>\$ 25,995</u>	<u>\$ 25,980</u>	<u>\$ 25,163</u>

## 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 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. 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.

As of January 1, 2019, adoption of the new standard resulted in the recording of 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 Accounting Standard Update (“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 September 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.

**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. 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. The amendment



requires prospective application to any modifications of disclosures made as a result 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) projected benefit obligation (“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 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, revenue requirement effect for incremental leak prone pipe miles replaced above the PSC targets and capital demonstration projects placed in service as authorized under Reforming Energy Vision (“REV”) Orders. In addition, Central Hudson records alternative revenues related to positive revenue adjustments and earnings adjustment mechanisms related to New York State clean energy goals, when prescribed targets are met.

**Other Revenues**

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Electric</b>				
Revenues from Contracts with Customers (ASC 606)	\$ 143,364	\$ 155,445	\$ 388,117	\$ 435,216
Alternative Revenues (Non ASC 606)	(5,618)	(7,047)	(8,816)	(10,692)
Other Revenue Adjustments (Non ASC 606)	8,098	(1,111)	24,434	(8,662)
Total Operating Revenues Electric	\$ 145,844	\$ 147,287	\$ 403,735	\$ 415,862
<b>Natural Gas</b>				
Revenues from Contracts with Customers (ASC 606)	\$ 16,321	\$ 17,049	\$ 119,158	\$ 125,988
Alternative Revenues (Non ASC 606)	1,215	857	1,116	2,933
Other Revenue Adjustments (Non ASC 606)	(1,090)	(1,179)	(4,273)	(7,414)
Total Operating Revenues Natural Gas	\$ 16,446	\$ 16,727	\$ 116,001	\$ 121,507

The decrease in electric and natural gas revenues from contracts 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 electric and natural gas 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. Other natural gas revenues in 2019 also included the deferral of Danskammer revenues.

### 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		
		September 30, 2019	December 31, 2018	September 30, 2018
<b>Electric:</b>				
Production	25-85	\$ 41,854	\$ 39,691	\$ 39,615
Transmission	30-90 <sup>(1)</sup>	398,153	388,609	363,181
Distribution	7-80	1,054,074	1,009,086	994,897
Other	40	6,332	5,766	5,636
Total		\$ 1,500,413	\$ 1,443,152	\$ 1,403,329
<b>Natural Gas:</b>				
Transmission	19-85 <sup>(1)</sup>	\$ 59,285	\$ 58,720	\$ 57,939
Distribution	28-95	535,742	507,035	479,605
Other	N/A	443	442	442
Total		\$ 595,470	\$ 566,197	\$ 537,986
<b>Common:</b>				
Land and Structures	50	\$ 81,778	\$ 79,232	\$ 76,599
Office and Other Equipment, Radios and Tools	8-35	71,069	61,279	58,578
Transportation Equipment	10-12	70,886	67,069	66,773
Other	3-10	68,499	60,177	57,002
Total		\$ 292,232	\$ 267,757	\$ 258,952
Gross Utility Plant		\$ 2,388,115	\$ 2,277,106	\$ 2,200,267

(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 September 30, 2019 and 2018, the borrowed component of funds used during construction and recorded as a reduction of interest expense was \$0.3 million and the equity component reported as other income for the three months ended September 30, 2019 and 2018 was \$0.7 million and \$0.5 million, respectively. For the nine months ended September 30, 2019 and 2018, the borrowed component of funds used during construction and recorded as a reduction of interest expense was \$0.8 million for both periods and the equity component reported as other income was \$1.6 million and \$1.5 million, respectively.

Included in the Net Utility Plant balances of \$1.9 billion at September 30, 2019, and \$1.8 billion at December 31, 2018 and September 30, 2018 was \$102.3 million, \$91.8 million and \$86.9 million of intangible utility plant assets, comprised primarily of computer software costs, land, transmission and water rights and the related accumulated amortization of \$50.2 million, \$44.1 million and \$42.3 million, respectively.

As of September 30, 2019, December 31, 2018 and September 30, 2018, Central Hudson has reclassified from utility plant assets \$43.7 million, \$44.1 million and \$45.6 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 September 30, 2019, December 31, 2018 and September 30, 2018, Asset Retirement Obligations (“ARO’s”) for Central Hudson were approximately \$0.6 million, \$0.8 million, and \$1.0 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):

	September 30, 2019	December 31, 2018	September 30, 2018
<b>Regulatory Assets:</b>			
Deferred purchased electric costs (Note 1)	\$ 6,074	\$ 1,637	\$ 5,118
Deferred purchased natural gas costs (Note 1)	-	3,057	-
Deferred unrealized losses on derivatives - electric and natural gas	1,795	2,135	1,793
RAM - electric and carrying charges	6,443	8,800	-
RDM and carrying charges - natural gas	-	2,445	1,507
Demand management programs and carrying charges	10,214	8,815 <sup>(2)(3)</sup>	7,716 <sup>(3)</sup>
Deferred and accrued costs - SIR and carrying charges (Note 14)	66,053	53,563 <sup>(2)</sup>	55,443
Deferred storm costs and carrying charges	20,239	17,597 <sup>(2)</sup>	28,347
Deferred vacation pay accrual	7,645	7,981	7,317
Deferred pension costs (Note 12)	25,749	29,320	11,624
Income taxes recoverable through future rates	11,566	18,168	6,789
Tax reform - unprotected impacts	13,464	13,688	13,688
Other	12,851	10,423 <sup>(2)(3)</sup>	9,567 <sup>(3)</sup>
Carrying charges balancing	(1,224) <sup>(1)</sup>	(360) <sup>(1)</sup>	(450) <sup>(1)</sup>
<b>Total Regulatory Assets</b>	<b>\$ 180,869</b>	<b>\$ 177,269</b>	<b>\$ 148,459</b>
<b>Less: Current Portion of Regulatory Assets</b>	<b>\$ 37,583</b>	<b>\$ 36,285</b>	<b>\$ 29,450</b>
<b>Total Long-term Regulatory Assets</b>	<b>\$ 143,286</b>	<b>\$ 140,984</b>	<b>\$ 119,009</b>

Notes to Quarterly Condensed Financial Statements (Unaudited)

Regulatory Liabilities:			
Rate moderator - electric and carrying charges	\$ 30,245	\$ 34,416 <sup>(2)</sup>	\$ 36,531
Rate moderator - natural gas and carrying charges	8,731	9,341 <sup>(2)</sup>	9,914
RDM and carrying charges - electric	8,550	13,690	10,156
RDM and carrying charges - natural gas	506	-	-
Deferred purchased natural gas costs (Note 1)	398	-	825
Deferred unrealized gains on derivatives - electric and natural gas	669	882	2,316
Clean Energy Fund and carrying charges	66,750	68,841 <sup>(4)</sup>	65,761 <sup>(4)</sup>
Tax reform - protected deferred tax liability	189,675	194,513	195,761
Deferred cost of removal (Note 3)	43,718	44,119	45,633
Income taxes refundable through future rates	5,752	5,865	5,524
Deferred OPEB costs (Note 12)	17,962	23,183	29,270
Net plant and depreciation targets	5,271	2,399	468
Fast charging infrastructure program and carrying charges	4,519	-	-
Energy efficiency programs and carrying charges	4,775	5,493 <sup>(2)(4)</sup>	6,257 <sup>(4)</sup>
Deferred unbilled revenue	5,082	5,082	5,082
Other	9,167	8,385 <sup>(2)</sup>	10,128
Carrying charges balancing	(1,224) <sup>(1)</sup>	(360) <sup>(1)</sup>	(450) <sup>(1)</sup>
<b>Total Regulatory Liabilities</b>	<b>\$ 400,546</b>	<b>\$ 415,849</b>	<b>\$ 423,176</b>
Less: Current Portion of Regulatory Liabilities	\$ 92,849	\$ 99,320	\$ 73,910
<b>Total Long-term Regulatory Liabilities</b>	<b>\$ 307,697</b>	<b>\$ 316,529</b>	<b>\$ 349,266</b>
<b>Net Regulatory Liabilities</b>	<b>\$ (219,677)</b>	<b>\$ (238,580)</b>	<b>\$ (274,717)</b>

(1) These amounts represent September 30, 2019, December 31, 2018 and September 30, 2018 estimated netting on the balance sheet of carrying charges to be offset against regulatory liabilities and collected through various rate adjustment mechanisms as prescribed in the 2018 Rate Order.

(2) 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.

(3) REV balances of \$9,492 and \$7,762 reported as current and long term regulatory assets at December 31, 2018 and September 30, 2018 have been reclassified to conform to the September 30, 2019 presentation, with \$8,815 and \$7,716 reported in the Demand Management Programs line item and the remaining \$677 and \$46 included in other regulatory assets, respectively.

(4) Energy Efficiency Programs and carrying charges reported as of September 30, 2018 and December 31, 2018 have been reclassified to conform to the September 30, 2019 presentation, with \$6,257 and \$5,493 reported in the Energy efficiency program and carrying charges line item and the remaining \$65,761 and \$68,841 reported in the Clean Energy Fund and carrying charges line item, respectively.

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.

*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.

The significant new regulatory assets and liabilities include:

*Fast Charging Station Infrastructure Program:* This regulatory liability represents the amount provided by NYSERDA and set aside to fund the fast charging stations annual incentive payments as prescribed in the related Order.

## 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 adopted the terms set forth in the April 18, 2018 Joint Proposal with minor modifications. The 2018 Rate Order was effective July 1, 2018, with Rate Year (“RY”)1, RY2 and RY3 defined as the twelve months ending June 30, 2019, June 30, 2020 and June 30, 2021, respectively.

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

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

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

On June 19, 2019, the Company filed a petition seeking expedited approval to modify the revenue allocation provisions and certain RDM targets of Central Hudson’s service class 8 (“SC8”) (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 a street lighting category which resulted in a misallocation of the revenue requirement that should have been recovered from all other Central Hudson customer classes. The annual impact is a shift of approximately \$0.5 million, \$0.7 million and \$0.9 million for RY1, RY2 and RY3, respectively which is de minimis when allocated and collected from the non-lighting customer classes. The petition reassigns the collection of revenues amongst the service classes with no impact on Central Hudson’s results of operations. On July 22, 2019, the Commission approved Central Hudson’s petition as presented to modify SC8 RDM targets and defer the revenue shortfall as a regulatory asset with clarification that the onetime credit to SC8 customers should include carrying charges.

## 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 repair deduction for a significant amount of repair costs that were previously capitalized for tax purposes.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Tax reserve balance at the beginning of the period	\$ 7,248	\$ 7,419	\$ 7,675	\$ 4,301
Change in natural gas transmission and distribution repair deduction	239	233	716	695
Change in tax benefit offset <sup>(1)</sup>	(458)	-	(1,362)	2,656
Tax reserve balance at the end of the period	<u>\$ 7,029</u>	<u>\$ 7,652</u>	<u>\$ 7,029</u>	<u>\$ 7,652</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*.

**CH Energy Group**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Effective tax rate - federal	12.5%	13.3%	12.7%	13.6%
Effective tax rate - state	6.7%	5.1%	6.1%	5.1%
Effective tax rate - combined	<u>19.2%</u>	<u>18.4%</u>	<u>18.8%</u>	<u>18.7%</u>

For the three months ended September 30, 2019, the higher combined effective tax rate for CH Energy Group was driven by the impact of additional book reserves which are not deductible for income tax purposes and the associated deferred tax assets that are recorded with an offsetting regulatory liability.

**Central Hudson**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Effective tax rate - federal	12.5%	13.4%	11.8%	13.8%
Effective tax rate - state	6.6%	5.0%	6.1%	4.9%
Effective tax rate - combined	19.1%	18.4%	17.9%	18.7%

For the three months ended September 30, 2019, the higher combined effective tax rate for Central Hudson was driven by the impact of additional book reserves which are not deductible for income tax purposes and the associated deferred tax assets that are recorded with an offsetting regulatory asset or liability. For the nine months ended September 30, 2019, the lower combined effective tax rate for Central Hudson was driven by an increase in the amortization of protected deferred tax liability.

**NOTE 6 – Investments in Unconsolidated Affiliates**

CH Energy Group formed CHET to engage in regulated 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 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 September 30, 2019, December 31, 2018 and September 30, 2018, CHET's investment in Transco was approximately \$7.7 million, \$6.9 million and \$7.1 million, respectively.

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

CHEC has equity investments in limited partnerships, one of which holds investments in energy sector start-up companies. The value of CHEC's equity investments at September 30, 2019, December 31, 2018 and September 30, 2018 was \$1.0 million, \$0.8 million and \$0.9 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 research and development ("R&D") expenditures for the three months ended September 30, 2019 and 2018 were \$1.0 million and \$0.8 million, respectively. For the nine months ended September 30, 2019 and 2018, Central Hudson's R&D expenditures were \$2.7 million and \$2.4 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 September 30, 2019, CH Energy Group did not have any leases other than leases from Central Hudson. Central Hudson's leasing activities accounted for as operating leases include office facilities and equipment with remaining terms of approximately one to five years and communication tower space with remaining terms of approximately 17 months to 18 years including options to renew existing leases for an additional 10 to 15 years. Most leases include one or more options to renew, with renewal terms that may extend the lease term from 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	September 30, 2019
Operating Lease Assets	Other Assets	\$ 1,674
Current Operating Lease Liabilities	Other Current Liabilities	\$ 408
Noncurrent Operating Lease Liabilities	Other Liabilities	1,270
Total Lease Liabilities		\$ 1,678

Operating lease cost for the three and nine months ended September 30, 2019 was approximately \$0.1 million and \$0.3 million, respectively. 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 nine months ended September 30, 2019 approximated \$0.1 million and \$0.5 million, respectively.

As of September 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 nine months ended 9/30/2019)	\$ 123
2020	402
2021	184
2022	179
2023	176
Thereafter	1,011
Total Lease Payments	2,075
Less: Imputed Interest	397
Present Value of Lease Liabilities	1,678
Less: Current Portion	408
Total Non-Current Lease Liabilities	\$ 1,270



## 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 fourth 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:

	September 30, 2019
<b>Lease Term and Discount Rate :</b>	
Weighted-Average Remaining Lease Term (years)	9.9
Weighted-Average Discount Rate	3.92%
	Nine Months Ended September 30, 2019
<b>Supplemental Cash Flow Information :</b>	
Cash Paid for Amounts Included in the Measurement of Lease Liabilities	
Operating Cash Flows used in Operating Leases	\$ 359
<b>Non-Cash Operating Activities :</b>	
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
<b>Total Lease Payments</b>	<b>\$ 3,407</b>

Operating lease cost for the three and nine months ended September 30, 2018 was not material to CH Energy Group's 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: <sup>(1)</sup>			
Limit	\$50 million <sup>(2)</sup> / \$200 million <sup>(3)</sup>		\$200 million <sup>(3)</sup>
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 <sup>(2)</sup>	Available up to \$15 million <sup>(3)</sup>	Available up to \$15 million <sup>(3)</sup>
Uncommitted Credit Agreements	Available up to \$40 million <sup>(4)</sup>		Available up to \$40 million <sup>(4)</sup>

- (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 September 30, 2019, CH Energy Group and Central Hudson had \$15 million in borrowings outstanding under Central Hudson's uncommitted credit agreements with an effective weighted average interest rate of 2.75%. At December 31, 2018 and September 30, 2018 there were no amounts outstanding under the various credit arrangements for CH Energy Group or Central Hudson.

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

During the nine months ended September 30, 2019 and 2018, CH Energy Group received capital contributions of \$22.0 million and \$26.0 million, respectively, from its parent FortisUS Inc. ("FortisUS").

During the nine months ended September 30, 2019 and 2018, Central Hudson received capital contributions of \$2.0 million and \$7.0 million, respectively, from its parent CH Energy Group.

For the nine months ended September 30, 2019, CHET received a \$1.1 million capital contribution during the second quarter from its parent CH Energy Group. There were no capital contributions made during 2018.

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 \$59.0 million and \$54.9 million in dividends to CH Energy Group for the periods ended September 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 nine months ended September 30, 2019 and 2018, the Board of Directors of CH Energy Group declared and paid dividends of \$5.5 million and \$16.5 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 nine months of 2019. During 2018 CHEC paid dividends to its parent CH Energy Group of \$0.3 million in the second quarter of 2018. During the three and nine months ended September 30, 2018, CHET paid dividends to its parent CH Energy Group of \$1.0 million and \$1.5 million, respectively.

## Preferred Stock

Other than one share of Junior Preferred Stock, Central Hudson had no outstanding preferred stock as of September 30, 2019, December 31, 2018 and September 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.

There were no maturities or new issuances of long-term debt during the nine months ended September 30, 2019 at CH Energy Group and Central Hudson. As of September 30, 2019, CH Energy Group and Central Hudson were in compliance with all covenants.

To mitigate the potential cash flow impact from unexpected increases in short-term interest rates, Central Hudson has purchased interest rate caps on its \$30 million and \$33.7 million of variable interest debt instruments. The three year interest rate caps will expire on March 26, 2020 and April 1, 2022, respectively. There have been no payouts on these interest rate caps for the three and nine months ended September 30, 2019 and 2018. See Note 16 – "Accounting for Derivative Instruments and Hedging Activities" for fair value disclosures related to these interest rate cap agreements.

### **NOTE 12 – Post-Employment Benefits**

Central Hudson has a non-contributory Retirement Income Plan ("Retirement Plan") covering substantially all of its employees hired before January 1, 2008 and a non-qualified Supplemental

Executive Retirement Plan (“SERP”) for certain executives (collectively “Pension”). 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.

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’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	
	September 30,		September 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	
	Nine Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Service cost	\$ 8,431	\$ 9,795	\$ 1,146	\$ 1,398
Interest cost	20,340	18,780	3,795	3,546
Expected return on plan assets	(23,325)	(25,524)	(5,082)	(5,679)
Amortization of prior service cost (credit)	500	771	(2,017)	(3,801)
Amortization of recognized actuarial net (gain)/loss	3,296	13,683	(2,352)	(693)
Net Periodic (Benefit) Cost	<u>\$ 9,242</u>	<u>\$ 17,505</u>	<u>\$ (4,510)</u>	<u>\$ (5,229)</u>

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

	September 30, 2019 <sup>(1)(2)</sup>	December 31, 2018 <sup>(1)(2)</sup>	September 30, 2018 <sup>(1)(2)</sup>
Accrued pension costs	\$ (38,476)	\$ (33,815)	\$ (12,859)

(1) Includes approximately \$232K at September 30, 2019, December 31, 2018 and September 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 September 30, 2019, December 31, 2018 and September 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 \$26.5 million at September 30, 2019, \$26.9 million at December 31, 2018 and \$26.7 million at September 30, 2018.

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

	September 30, 2019 <sup>(1)(2)</sup>	December 31, 2018 <sup>(1)(2)</sup>	September 30, 2018 <sup>(1)(2)</sup>
Accrued pension costs prior to funding status adjustment	\$ (20,018)	\$ (11,565)	\$ (6,511)
Additional liability required	(18,458)	(22,250)	(6,348)
Accrued pension costs	<u>\$ (38,476)</u>	<u>\$ (33,815)</u>	<u>\$ (12,859)</u>
Offset to additional liability - regulatory assets - pension plan	<u>\$ 18,009</u>	<u>\$ 21,667</u>	<u>\$ 6,348</u>
Offset to additional liability - accumulated OCI, net of tax of \$121, \$153, and \$0, respectively	<u>\$ 340</u>	<u>\$ 430</u>	<u>\$ -</u>

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

During the first nine months of 2019, Central Hudson did not make a contribution to the SERP. For 2018, Central Hudson made a contribution of \$3.3 million to the SERP during the first quarter.

#### 401(k) Retirement Plan

Central Hudson sponsors a 401(k) retirement plan ("401(k) plan") for its employees. The 401(k) plan provides for employee tax-deferred salary deductions for participating employees and employer matches. The matching benefit varies by employee group. Central Hudson's matching contributions for the three months ended September 30, 2019 and 2018 were \$1.4 and \$1.2 million and for the nine months ended September 30, 2019 and 2018 matching contributions were \$4.0 million and \$3.7 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.

CH Energy Group:	Grant Date	Grant Date Fair Value	Time Based		Performance Based	
			Granted	Outstanding <sup>(5)</sup>	Granted	Outstanding <sup>(5)</sup>
2019 PSUP	January 1, 2019	\$ 33.10	8,838	9,075	26,514	27,226
2018 PSUP	January 1, 2018	\$ 36.59	-	-	29,514	31,541
2017 PSUP	January 1, 2017	\$ 30.85	-	-	30,085	33,328
2016 PSUP <sup>(1)(3)</sup>	April 1, 2016	\$ 31.00	-	-	18,806	-

Central Hudson:	Grant Date	Grant Date Fair Value	Time Based		Performance Based	
			Granted	Outstanding <sup>(4)(5)</sup>	Granted	Outstanding <sup>(4)(5)</sup>
2019 SUP	January 1, 2019	\$ 33.10	15,691	15,070	31,383	30,140
2018 SUP	January 1, 2018	\$ 36.59	16,337	16,282	32,675	32,565
2017 SUP	January 1, 2017	\$ 30.85	18,359	18,956	36,717	37,912
2016 SUP <sup>(1)(2)(3)</sup>	January 1, 2016	\$ 27.26	23,352	-	46,704	-

<sup>(1)</sup>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.

<sup>(2)</sup>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.

<sup>(3)</sup>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.

<sup>(4)</sup>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.

<sup>(5)</sup>Includes notional dividends accrued as of September 30, 2019.

## Compensation Expense

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
CH Energy Group <sup>(1)</sup>	\$ 962	\$ (668)	\$ 3,112	\$ 185
Central Hudson <sup>(1)</sup>	\$ 954	\$ (658)	\$ 3,099	\$ 195

<sup>(1)</sup> Included in the prior year quarter is a reduction to expense resulting from a transfer of an executive who is retirement eligible to an affiliated company.

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.

### **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 September 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 \$15.0 million and for RECs the purchase obligation through December 31, 2021 is estimated to be approximately \$4.7 million. 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 electric cost adjustment mechanisms.

## Other Commitments

### *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 September 30, 2019, CHET's investment in Transco was approximately \$7.7 million.

CH Energy Group issued a parental guarantee to Transco to assure the payment of CHET's maximum commitment of \$182 million. As of September 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. In addition, Central Hudson is also performing environmental SIR at two non-MGP sites within its service territory, Little Britain Road and Eltings Corners.

Central Hudson accrues for remediation costs based on the amounts that can be reasonably estimated at a point in time. As of September 30, 2019, Central Hudson has accrued \$61.0 million with respect to all SIR activities, including operation, maintenance and monitoring costs ("OM&M"), of which \$28.4 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**
    - Investigation activities were completed in November 2018 and the investigation summary report was approved in March 2019.
    - The DEC issued a letter of Completeness in August 2018, and a Brownfield Cleanup Agreement 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 2019/2020 heating season.
  - On July 22, 2019 the DEC requested additional investigation to be performed. The requested potable well survey and groundwater sampling and the development of the Remedial Investigation Work Plan will be initiated in late 2019 and activities are anticipated to commence in the first quarter of 2020.
2. *Remedial Alternatives Analysis (“RAA”)* – Engineering analysis of alternatives for remediation based on the RI is compiled into a RAA Report. Management accrues for an estimate of remediation costs developed and quantified in the RAA based on DEC approved methods, as well as an estimate of post-remediation OM&M. Prior to the completion of the RAA, management cannot reasonably estimate what cost will be incurred for remediation or post-remediation activities.
  3. *Remedial Design* - Upon approval of the RAA and final decision of remediation approach based on alternatives presented, a Remedial Design (“RD”) or Remedial Action Work Plan is developed and filed with the DEC for approval.
  4. *Remediation* – Completion of the work plan as defined in the approved RD. Upon completion, final reports are filed with the DEC for approval and may include a Construction Completion Report, Final Engineering Report (“FER”), or other reports required by the DEC based on the work performed.
- **Site #5 – North Water Street** – Remediation in Progress
- 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.
  - Equipment demobilization was completed in January 2019 and remedial dredging is anticipated to commence in late 2019 in accordance with permit requirements.
  - Bulkhead/barrier wall installation work was halted during the past winter as a result of river icing and resumed in October 2019.
  - In preparation for the second season of remedial activities, a meeting was held in April 2019 with the DEC (including representatives from Division of Environmental Remediation and Fish & Wildlife). Draft minutes were submitted 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.
  - In May 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.
  - A hydrodynamic dye study in the Hudson River was conducted in June 2019. The results were submitted to the DEC, New York State Department of Health (“NYSDOH”), Poughkeepsie Water Treatment Facility (“PWTF”), Riverkeeper and other involved agencies.
  - On July 18, 2019 the Water Quality Monitoring Plan was approved by the DEC and NYSDOH and background water quality sampling was conducted in July and August 2019.
  - The Poughkeepsie Joint Water Project Board (“PJWB”) and Hudson River Drinking Water Inter-municipal Council submitted letters to the DEC in August 2019. Both letters discussed potential concerns for project related activities impacting their municipal water intakes located within the Hudson River.
  - Central Hudson attended the PJWB meeting on September 3, 2019 to present the project and mitigation measures to be implemented during in-water activities. A letter was received

on September 10, 2019 from the PJWB offering several additional potential mitigation strategies for consideration and a Water Supply Protection and Contingency Plan was submitted to the DEC, NYSDOH, and PJWB on September 12, 2019.

- On September 18, 2019, the DEC stated that commencement of dredging was not authorized at this time based on continued concerns of the DOH and PWTF. The DEC requested additional information on the design of procedures for containment and monitoring during in-water activities, alternatives reviewed for intake protection at the PWTF and resolution of concerns related to the turnaround time for water sampling lab results. Additional information to address initial concerns from the DEC was supplied on September 26, 2019.
- During the second quarter of 2019 the cost estimate developed for remediation and OM&M activities increased \$19.0 million due to a series of DEC project requirements and processes related to monitoring and containing sheen dispersion in the Hudson River that became known in the second quarter. There are no significant additional procedures required at this time resulting from the discussions and communications during the third quarter. Management believes the concerns raised have been adequately addressed and are covered by the additional costs accrued for in the second quarter. Approximately \$56.1 million has been accrued as of September 30, 2019, of which approximately \$27.8 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 February 2018, the DEC approved the FER summary letter and issued a Satisfactory Completion letter changing the site classification from active to closed. 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 September 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

- All required remedial work was completed and a Release and Covenant Not to Sue Letter was issued in March 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 or required for the site. The requested certification form was appended to the PRR, resubmitted and approved in June 2019.
- Approximately \$0.4 million has been accrued as of September 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
  - 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 approved by the DEC in July 2019.
  - Approximately \$0.2 million has been accrued as of September 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
  - 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 September 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.
  
- **Site # 8 - Eltings Corners** – Post-Remediation In Progress
  - Final planting restoration of the site was completed in June 2019 and the FER was submitted to the DEC in August 2019.
  - Field inspections and initial control applications to halt the spread of invasive plant species within the remedial area commenced in August 2019 and will continue as needed. 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 September 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.

– *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 \$10.4 million recovered through September 30, 2019.
- The total spent related to site investigation and remediation for the three months ended September 30, 2019 and 2018 was approximately \$3.6 million and \$2.4 million, and for the nine months ended September 30, 2019 and 2018 spending was approximately \$4.8 million and \$3.9 million, respectively.
- The regulatory asset balance including carrying charges as of September 30, 2019, December 31, 2018 and September 30, 2018 was \$66.1 million, \$53.6 million and \$55.4 million, respectively, which represents the cumulative difference between amounts spent or currently accrued as a liability and the amounts recovered to date through rates or insurance recoveries, plus carrying charges accrued on deferred balances.

Central Hudson has put its insurers on notice and intends to seek reimbursement from its insurers for its costs. Certain of these insurers have denied coverage. There were no insurance recoveries during the three months ended September 30, 2019 and \$0.2 million of insurance recoveries for the nine months ended September 30, 2019. There were no insurance recoveries during the first nine months of 2018. We do not expect insurance recoveries to offset a meaningful portion of total costs.

## **Litigation**

### *Asbestos Litigation*

Central Hudson is involved in various asbestos lawsuits.

As of September 30, 2019, of the 3,378 asbestos cases brought against Central Hudson, 1,171 remain pending. Of the cases no longer pending against Central Hudson, 2,046 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."

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

**CH Energy Group Segment Disclosure**

(In Thousands)

	Three Months Ended September 30, 2019				
	Segments		Other Businesses and Investments	Eliminations	Total
	Central Hudson				
	Electric	Natural Gas			
Revenues from external customers	\$ 145,844	\$ 16,446	\$ -	\$ -	\$ 162,290
Intersegment revenues	13	70	-	(83)	-
Total operating revenues	145,857	16,516	-	(83)	162,290
Income (loss) before income taxes	19,702	(4,485)	(15)	-	15,202
Net Income (Loss) Attributable to CH Energy Group	\$ 15,422	\$ (3,109)	\$ (25)	\$ -	\$ 12,288
Segment Assets at September 30, 2019	\$ 1,697,955	\$ 598,752	\$ 19,005	\$ (1,014)	\$ 2,314,698

**CH Energy Group Segment Disclosure**

(In Thousands)

	Three Months Ended September 30, 2018				
	Segments		Other Businesses and Investments	Eliminations	Total
	Central Hudson				
	Electric	Natural Gas			
Revenues from external customers	\$ 147,287	\$ 16,727	\$ -	\$ -	\$ 164,014
Intersegment revenues	12	29	-	(41)	-
Total operating revenues	147,299	16,756	-	(41)	164,014
Income (loss) before income taxes	19,076	(3,326)	(169)	-	15,581
Net Income (Loss) Attributable to CH Energy Group	\$ 15,236	\$ (2,382)	\$ (133)	\$ -	\$ 12,721
Segment Assets at September 30, 2018	\$ 1,555,179	\$ 559,892	\$ 13,167	\$ (806)	\$ 2,127,432

**CH Energy Group Segment Disclosure**

(In Thousands)

	Nine Months Ended September 30, 2019				
	Segments		Other Businesses and Investments	Eliminations	Total
	Central Hudson				
	Electric	Natural Gas			
Revenues from external customers	\$ 403,735	\$ 116,001	\$ -	\$ -	\$ 519,736
Intersegment revenues	34	252	-	(286)	-
Total operating revenues	403,769	116,253	-	(286)	519,736
Income (loss) before income taxes	40,187	10,933	(48)	-	51,072
Net Income (Loss) Attributable to CH Energy Group	\$ 31,959	\$ 9,995	\$ (461)	\$ -	\$ 41,493
Segment Assets at September 30, 2019	\$ 1,697,955	\$ 598,752	\$ 19,005	\$ (1,014)	\$ 2,314,698

**CH Energy Group Segment Disclosure**

(In Thousands)

	Nine Months Ended September 30, 2018				
	Segments		Other Businesses and Investments	Eliminations	Total
	Central Hudson				
	Electric	Natural Gas			
Revenues from external customers	\$ 415,862	\$ 121,507	\$ -	\$ -	\$ 537,369
Intersegment revenues	29	247	-	(276)	-
Total operating revenues	415,891	121,754	-	(276)	537,369
Income (loss) before income taxes	37,694	10,849	(582)	-	47,961
Net Income (Loss) Attributable to CH Energy Group	\$ 31,331	\$ 8,112	\$ (456)	\$ -	\$ 38,987
Segment Assets at September 30, 2018	\$ 1,555,179	\$ 559,892	\$ 13,167	\$ (806)	\$ 2,127,432

**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 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 September 30, 2019 are as follows:

Central Hudson	% of Requirement Hedged <sup>(1)</sup>
Electric Derivative Contracts:	0.6 million MWh
October 2019 – December 2019	8.6%
January 2020 – September 2020	11.9%
Natural Gas Derivative Contracts:	1.7 million Dth
November 2019 – December 2019	27.8%
January 2020 – March 2020	26.2%

(1) Projected coverage as of September 30, 2019.

### Cash Flow Hedges

Central Hudson has been authorized to fully recover the interest costs associated with its \$33.7 million Series B NYSEDA 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 September 30, 2019, 11 open contracts with credit risk contingent features were in a liability position and, if the contingent features were triggered, \$1.1 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 September 30, 2019, December 31, 2018, and September 30, 2018, Central Hudson did not have collateral posted against the fair value amount of derivatives.

Notes to Quarterly Condensed Financial Statements (Unaudited)

The net presentation for CH Energy Group's and Central Hudson's derivative assets and liabilities as of September 30, 2019, December 31, 2018 and September 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 September 30, 2019 <sup>(1)</sup>						
Derivative Contracts:						
Central Hudson - electric	\$ 669	\$ -	\$ 669	\$ 355	\$ -	\$ 314
Central Hudson - natural gas	-	-	-	-	-	-
Total CH Energy Group and Central Hudson Assets	<u>\$ 669</u>	<u>\$ -</u>	<u>\$ 669</u>	<u>\$ 355</u>	<u>\$ -</u>	<u>\$ 314</u>
As of December 31, 2018 <sup>(1)</sup>						
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 September 30, 2018 <sup>(1)</sup>						
Derivative Contracts:						
Central Hudson - electric	\$ 2,204	\$ -	\$ 2,204	\$ 1,014	\$ -	\$ 1,190
Central Hudson - natural gas	112	-	112	1	-	111
Total CH Energy Group and Central Hudson Assets	<u>\$ 2,316</u>	<u>\$ -</u>	<u>\$ 2,316</u>	<u>\$ 1,015</u>	<u>\$ -</u>	<u>\$ 1,301</u>

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

Description	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amount of Liabilities Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position		
				Financial Instruments	Cash Collateral Received	Net Amount
As of September 30, 2019 <sup>(1)</sup>						
Derivative Contracts:						
Central Hudson - electric	\$ 1,236	\$ -	\$ 1,236	\$ 355	\$ -	\$ 881
Central Hudson - natural gas	559	-	559	-	-	559
Total CH Energy Group and Central Hudson Liabilities	<u>\$ 1,795</u>	<u>\$ -</u>	<u>\$ 1,795</u>	<u>\$ 355</u>	<u>\$ -</u>	<u>\$ 1,440</u>
As of December 31, 2018 <sup>(1)</sup>						
Derivative Contracts:						
Central Hudson - electric	\$ 2,135	\$ -	\$ 2,135	\$ 711	\$ -	\$ 1,424
Total CH Energy Group and Central Hudson Liabilities	<u>\$ 2,135</u>	<u>\$ -</u>	<u>\$ 2,135</u>	<u>\$ 711</u>	<u>\$ -</u>	<u>\$ 1,424</u>
As of September 30, 2018 <sup>(1)</sup>						
Derivative Contracts:						
Central Hudson - electric	\$ 1,792	\$ -	\$ 1,792	\$ 1,014	\$ -	\$ 778
Central Hudson - natural gas	1	-	1	1	-	-
Total CH Energy Group and Central Hudson Liabilities	<u>\$ 1,793</u>	<u>\$ -</u>	<u>\$ 1,793</u>	<u>\$ 1,015</u>	<u>\$ -</u>	<u>\$ 778</u>

(1) Interest rate cap agreements are not shown in the above chart. As of September 30, 2019, December 31, 2018 and September 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 September 30, 2019, December 31, 2018 and September 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)
<b>As of September 30, 2019<sup>(1)</sup></b>				
<b>Assets:</b>				
<b>Derivative Contracts:</b>				
Central Hudson - electric	\$ 669	\$ -	\$ 669	\$ -
Central Hudson - natural gas	-	-	-	-
Total CH Energy Group and Central Hudson Assets	\$ 669	\$ -	\$ 669	\$ -
<b>Liabilities:</b>				
<b>Derivative Contracts:</b>				
Central Hudson - electric	\$ 1,236	\$ -	\$ 1,236	\$ -
Central Hudson - natural gas	559	559	-	-
Total CH Energy Group and Central Hudson Liabilities	\$ 1,795	\$ 559	\$ 1,236	\$ -
<b>As of December 31, 2018<sup>(1)</sup></b>				
<b>Assets:</b>				
<b>Derivative Contracts:</b>				
Central Hudson - electric	\$ 711	\$ -	\$ 711	\$ -
Central Hudson - natural gas	171	171	-	-
Total CH Energy Group and Central Hudson Assets	\$ 882	\$ 171	\$ 711	\$ -
<b>Liabilities:</b>				
<b>Derivative Contracts:</b>				
Central Hudson - electric	\$ 2,135	\$ -	\$ 2,135	\$ -
Total CH Energy Group and Central Hudson Liabilities	\$ 2,135	\$ -	\$ 2,135	\$ -

As of September 30, 2018<sup>(1)</sup>

Assets:			
Derivative Contracts:			
Central Hudson - electric	\$ 2,204	\$ -	\$ 2,204
Central Hudson - natural gas	112	112	-
Total CH Energy Group and Central Hudson Assets	<u>\$ 2,316</u>	<u>\$ 112</u>	<u>\$ 2,204</u>
Liabilities:			
Derivative Contracts:			
Central Hudson - electric	\$ 1,792	\$ -	\$ 1,792
Central Hudson - natural gas	1	1	-
Total CH Energy Group and Central Hudson Liabilities	<u>\$ 1,793</u>	<u>\$ 1</u>	<u>\$ 1,792</u>

(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 September 30, 2019, December 31, 2018 and September 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 nine months ended September 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 September 30,		Nine Months Ended September 30,		
	2019	2018	2019	2018	
Central Hudson:					
Electricity swap contracts	\$ (4,936)	\$ (1,089)	\$ (10,995)	\$ (1,643)	Deferred purchased electric costs <sup>(1)</sup>
Natural gas swap contracts	-	-	175	(369)	Deferred purchased natural gas costs <sup>(1)</sup>
Total CH Energy Group and Central Hudson	<u>\$ (4,936)</u>	<u>\$ (1,089)</u>	<u>\$ (10,820)</u>	<u>\$ (2,012)</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. 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. 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 in the first quarter of 2019 as a reduction of purchased natural gas and is reflected in the Statement of Income for the nine month ended September 30, 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)
<b>As of September 30, 2019:</b>				
Other Investments	\$ 7,606	\$ 7,606	\$ -	\$ -
<b>As of December 31, 2018:</b>				
Other Investments	\$ 9,479	\$ 9,479	\$ -	\$ -
<b>As of September 30, 2018:</b>				
Other Investments	\$ 9,436	\$ 9,436	\$ -	\$ -

As of September 30, 2019, December 31, 2018 and September 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 September 30, 2019, December 31, 2018 and September 30, 2018 the total cash surrender value of trust-owned life insurance held by these trusts was approximately \$32.1 million, \$29.3 million and \$30.3 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

	September 30, 2019		December 31, 2018		September 30, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed rate debt	\$ 623,332	\$ 730,309	\$ 624,122	\$ 665,815	\$ 574,886	\$ 602,848
Variable rate debt	63,700	63,700	63,700	63,700	63,700	63,700
Total	<u>\$ 687,032</u>	<u>\$ 794,009</u>	<u>\$ 687,822</u>	<u>\$ 729,515</u>	<u>\$ 638,586</u>	<u>\$ 666,548</u>
Estimated effective interest rate		4.43%		4.48%		4.39%

#### Central Hudson

	September 30, 2019		December 31, 2018		September 30, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed rate debt	\$ 610,250	\$ 716,002	\$ 610,250	\$ 651,215	\$ 560,250	\$ 587,464
Variable rate debt	63,700	63,700	63,700	63,700	63,700	63,700
Total	<u>\$ 673,950</u>	<u>\$ 779,702</u>	<u>\$ 673,950</u>	<u>\$ 714,915</u>	<u>\$ 623,950</u>	<u>\$ 651,164</u>
Estimated effective interest rate		4.38%		4.43%		4.33%

**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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
CH Energy Group (Thompson Hine LLP)	\$ 511	\$ 627	\$ 1,593	\$ 1,632
Central Hudson (Thompson Hine LLP)	\$ 501	\$ 614	\$ 1,555	\$ 1,600
Central Hudson (The Chazen Companies)	\$ 243	\$ 129	\$ 635	\$ 374

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):

	September 30,			December 31,			September 30,		
	2019			2018			2018		
	Fortis			Fortis			Fortis		
CH Energy Group <sup>(1)</sup>									
Accounts Receivable	\$	979	\$	862	\$	223			
Accounts Payable	\$	-	\$	-	\$	-			

  

	September 30,			December 31,			September 30,		
	2019			2018			2018		
	CHEG	Fortis	Other Affiliates	CHEG	Fortis	Other Affiliates	CHEG	Other Affiliates	
Central Hudson <sup>(1)</sup>									
Accounts Receivable	\$ 93	\$ 21	\$ 7	\$ 92	\$ 5	\$ 7	\$ 113	\$ -	
Accounts Payable	\$ 879	\$ -	\$ -	\$ 810	\$ -	\$ -	\$ 665	\$ 3	

<sup>(1)</sup> 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 September 30, 2019		Three Months Ended September 30, 2018	
	CHEG	Fortis <sup>(1)</sup>	CHEG	Fortis <sup>(1)</sup>
CH Energy Group	\$ -	\$ 868	\$ -	\$ 607
Central Hudson	\$ 977	\$ -	\$ 704	\$ -

<sup>(1)</sup>Fortis amounts include Fortis and all Fortis subsidiaries.

Notes to Quarterly Condensed Financial Statements (Unaudited)

	Nine Months Ended September 30, 2019		Nine Months Ended September 30, 2018	
	CHEG	Fortis <sup>(1)</sup>	CHEG	Fortis <sup>(1)</sup>
CH Energy Group	\$ -	\$ 2,673	\$ -	\$ 2,160
Central Hudson	\$ 2,988	\$ -	\$ 2,440	\$ -

<sup>(1)</sup> Fortis amounts include Fortis and all Fortis subsidiaries.

**NOTE 19 – Subsequent Events**

An evaluation of subsequent events through October 28, 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 September 30, 2019.

On October 15, 2019, CH Energy Group's Board of Directors approved the acceptance of a capital contribution in the amount of \$7.5 million from its parent FortisUS to be received in the fourth quarter of 2019.

On October 15, 2019, Central Hudson's Board of Directors approved the acceptance of a capital contribution in the amount of \$9 million from its parent CH Energy Group to be received in the fourth quarter of 2019.

On October 28, 2019, Central Hudson issued \$50 million of Series O Senior Notes, with an interest rate of 3.89% per annum and a maturity date of October 28, 2049; and \$50 million of Series P Senior Notes, with an interest rate of 3.99% per annum and a maturity date of October 28, 2059. Central Hudson expects to use the proceeds from the sale of the Senior Notes to repay \$27 million of maturing debt and for general corporate purposes, including the funding of capital expansion and improvement projects.

**MANAGEMENT'S DISCUSSION and ANALYSIS of FINANCIAL CONDITION and RESULTS of OPERATIONS**  
**For the Nine Months Ended September 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.*

**Overview**

CH Energy Group is the holding company parent corporation of four principal, wholly owned subsidiaries, Central Hudson Gas & Electric Corporation ("Central Hudson" or the "Company"), Central Hudson Enterprises Corporation, Central Hudson Electric Transmission LLC ("CHET") and Central Hudson Gas Transmission LLC ("CHGT"). Central Hudson is a regulated electric and natural gas transmission and distribution utility. In 2014, CH Energy Group formed CHET to engage in regulated 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 \$230 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 predominately from the revenue it generates from delivering energy to approximately 300,000 electric and 80,000 natural gas customers, with earnings growth coming primarily from increases in net utility plant. Central Hudson’s delivery rates are designed to recover the cost of providing safe and reliable service while affording the opportunity to earn a fair and reasonable return on its capital.

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

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

Central Hudson is committed to a cleaner energy future by supporting New York State’s energy policies and its Reforming 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 September 30**

	Quarter			Year to Date		
	2019	2018	Change	2019	2018	Change
Electricity Sales (GWh)	1,374	1,416	(42)	3,775	3,868	(93)
Natural Gas Sales (PJ)	3.0	4.0	(1.0)	15.5	17.4	(1.9)
<i>(In millions)</i>						
Revenues	\$ 162.3	\$ 164.0	\$ (1.7)	\$ 519.7	\$ 537.4	\$ (17.7)
Energy Supply Costs - Matched to Revenues	40.5	51.2	(10.7)	153.0	194.1	(41.1)
Operating Expenses - Matched to Revenues	20.0	18.4	1.6	57.6	55.9	1.7
Operating Expenses - Other	65.6	58.0	7.6	196.8	177.9	18.9
Depreciation and Amortization	15.1	13.7	1.4	44.5	41.2	3.3
Other Income, net	2.5	0.6	1.9	8.3	3.6	4.7
Interest Charges	8.3	7.6	0.7	25.0	23.3	1.7
Income Taxes	2.9	2.9	-	9.2	9.1	0.1
Net income	\$ <u>12.3</u>	\$ <u>12.9</u>	\$ <u>(0.6)</u>	\$ <u>42.0</u>	\$ <u>39.4</u>	\$ <u>2.6</u>

*Earnings:* Central Hudson achieved year over year earnings growth of \$2.6 million through September. The PSC-approved increase in delivery rates provided a return on the additional capital invested in the business and the recovery of higher operating and financing expenses. Additionally, there were 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 Revenue Decoupling Mechanism (“RDM”) structure. This favorability occurred despite a decrease in earnings in the second and third quarters of 2019 compared to 2018. The 2018 Rate Order reflects a changed gas rate design to lower the monthly flat customer charge, increase the volumetric charges and incorporate an updated sales forecast. 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. Central Hudson also incurred expenses in 2018 above the amounts provided in rates due to weather-related service restoration costs, recorded a reduction to 2018 revenues for the failure to meet reliability targets and earned incentives in 2019 for meeting certain efficiency targets defined in the current rate order, which favorably impacted earnings on a year-over-year basis.

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 period 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 for the quarter and year to date increased over the comparable period 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 and amortized over a 10-year period. Partially offsetting this increase in Other Income 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. Additionally, storm related carrying charges for the third quarter decreased as a result of the recovery of incremental storm restoration costs via the Rate Adjustment Mechanism ("RAM") effective July 1, 2019 as per the 2018 Rate Order.

*Interest Charges:* The increase in interest charges for the quarter and year to date reflect higher interest on long-term debt and an increase in carrying charges on balances collected under Orders for the Clean Energy Fund and Direct Current Fast Charging Infrastructure programs. These increases were 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 in 2019 increased from 18.4% to 19.2% for the quarter and 18.7% to 18.8% for the year to date, when compared to the same period in 2018. The increases were primarily driven by additional book reserves which are not deductible for income tax purposes.

## Central Hudson Revenues - Electric Period Ended September 30

(In millions)

	Quarter			Year to Date		
	2019	2018	Change	2019	2018	Change
<b>Revenues with Matching Expense Offsets:<sup>(1)</sup></b>						
Recovery of commodity purchases	\$ 37.5	\$ 47.5	\$ (10.0)	\$ 106.6	\$ 136.9	\$ (30.3)
Sales to others for resale	1.7	1.2	0.5	6.6	5.5	1.1
Impact of Tax Cuts and Jobs Act	-	-	-	-	(7.4)	7.4
Other revenues with matching offsets	17.5	17.6	(0.1)	47.0	50.9	(3.9)
<i>Subtotal</i>	56.7	66.3	(9.6)	160.2	185.9	(25.7)
<b>Revenues Impacting Earnings:</b>						
Customer sales	91.9	86.8	5.1	244.6	236.3	8.3
RDM and other regulatory mechanisms	(5.3)	(6.4)	1.1	(8.6)	(10.1)	1.5
Revenue requirement of bonus depreciation	-	-	-	-	(1.1)	1.1
Incentives earned	0.5	-	0.5	0.9	-	0.9
Negative revenue adjustment	-	(1.9) <sup>(2)</sup>	1.9	-	(1.9) <sup>(2)</sup>	1.9
Net plant & depreciation targets	(0.4)	(0.3) <sup>(2)</sup>	(0.1)	(1.9)	(2.0) <sup>(2)</sup>	0.1
Other revenues	2.4	2.8 <sup>(2)</sup>	(0.4)	8.5	8.8 <sup>(2)</sup>	(0.3)
<i>Subtotal</i>	89.1	81.0	8.1	243.5	230.0	13.5
<b>Total Electric Revenues</b>	<b>\$ 145.8</b>	<b>\$ 147.3</b>	<b>\$ (1.5)</b>	<b>\$ 403.7</b>	<b>\$ 415.9</b>	<b>\$ (12.2)</b>

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

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

**Central Hudson Revenues - Natural Gas**  
**Period Ended September 30**

(In millions)

	Quarter			Year to Date		
	2019	2018	Change	2019	2018	Change
<b>Revenues with Matching Expense Offsets:<sup>(1)</sup></b>						
Recovery of commodity purchases	\$ 1.3	\$ 2.4	\$ (1.1)	\$ 34.2	\$ 43.2	\$ (9.0)
Sales to others for resale	0.1	0.1	-	5.6	8.5	(2.9)
Impact of Tax Cuts and Jobs Act	-	-	-	-	(2.9)	2.9
Other revenues with matching offsets	0.9	1.2	(0.3)	5.6	6.1	(0.5)
<i>Subtotal</i>	2.3	3.7	(1.4)	45.4	54.9	(9.5)
<b>Revenues Impacting Earnings:</b>						
Customer sales	12.1	11.6	0.5	68.1	63.9	4.2
RDM and other regulatory mechanisms	1.2	0.9	0.3	(1.5)	0.7	(2.2)
Revenue requirement of bonus depreciation	-	-	-	-	(0.5)	0.5
Net plant & depreciation targets	(0.2)	(0.2) <sup>(2)</sup>	-	(0.9)	(0.9) <sup>(2)</sup>	-
Other revenues	1.0	0.7 <sup>(2)</sup>	0.3	4.9	3.4 <sup>(2)</sup>	1.5
<i>Subtotal</i>	14.1	13.0	1.1	70.6	66.6	4.0
<b>Total Natural Gas Revenues</b>	<b>\$ 16.4</b>	<b>\$ 16.7</b>	<b>\$ (0.3)</b>	<b>\$ 116.0</b>	<b>\$ 121.5</b>	<b>\$ (5.5)</b>

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

(2) Other revenues reported for the three and nine months ended September 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 the deferral of benefits related to the Tax Cuts and Jobs Act for future pass back to customers. 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 2018 a reduction to revenue was recorded for not achieving electric service interruption targets per 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, as well as incentives earned in 2019 for achieving targets defined in the 2018 Rate Order for efficiencies in electric and natural gas operations that benefit customers and support New York States clean energy goals.

*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.

### Central Hudson Operating Expenses Period Ended September 30

(In millions)

	Quarter			Year to Date		
	2019	2018	Change	2019	2018	Change
<b>Expenses Currently Matched to Revenues:<sup>(1)</sup></b>						
Purchased electricity	\$ 39.2	\$ 48.7	\$ (9.5)	\$ 113.2	\$ 142.4	\$ (29.2)
Purchased natural gas	1.4	2.5	(1.1)	39.9	51.7	(11.8)
Pension & OPEB	0.6	0.2	0.4	5.5	6.4	(0.9)
New York States energy efficiency programs	10.0	11.5	(1.5)	28.9	32.2	(3.3)
Major storm reserve	3.2	0.4	2.8	4.0	0.8	3.2
Regulatory commission expense	-	0.5	(0.5)	-	1.6	(1.6)
Low income programs	2.4	1.9 <sup>(3)</sup>	0.5	7.1	4.3 <sup>(3)</sup>	2.8
Other matched expenses	3.7	3.9 <sup>(3)</sup>	(0.2)	12.0	10.6 <sup>(3)</sup>	1.4
<i>Subtotal</i>	<u>60.5</u>	<u>69.6</u>	<u>(9.1)</u>	<u>210.6</u>	<u>250.0</u>	<u>(39.4)</u>
<b>Other Operating Expense Variations:</b>						
Tree trimming	5.8	5.4 <sup>(3)</sup>	0.4	17.7	14.7 <sup>(3)</sup>	3.0
Property and school taxes <sup>(2)</sup>	12.7	11.9	0.8	39.9	39.4	0.5
Weather related service restoration	1.6	1.4	0.2	3.2	8.4	(5.2)
Distribution maintenance	1.7	1.2 <sup>(3)</sup>	0.5	4.3	3.3 <sup>(3)</sup>	1.0
Uncollectible accounts and reserve	1.7	1.5	0.2	4.3	3.0	1.3
Information technology	1.8	1.5 <sup>(3)</sup>	0.3	6.9	5.4 <sup>(3)</sup>	1.5
Labor	19.5	18.4 <sup>(3)</sup>	1.1	58.6	53.9 <sup>(3)</sup>	4.7
Regulatory commission expense	0.6	-	0.6	1.8	-	1.8
Depreciation and amortization	15.1	13.7	1.4	44.5	41.2	3.3
Other expenses	20.2	16.7 <sup>(3)</sup>	3.5	60.1	49.8 <sup>(3)</sup>	10.3
<i>Subtotal</i>	<u>80.7</u>	<u>71.7</u>	<u>9.0</u>	<u>241.3</u>	<u>219.1</u>	<u>22.2</u>
<b>Total Operating Expenses</b>	<u>\$ 141.2</u>	<u>\$ 141.3</u>	<u>\$ (0.1)</u>	<u>\$ 451.9</u>	<u>\$ 469.1</u>	<u>\$ (17.2)</u>

(1) Includes expenses that, in accordance with the 2018 Rate Order, are adjusted in the current period to equal the revenues billed for the applicable expenses and the differences are deferred.

(2) In accordance with the 2018 Rate Order, Central Hudson is authorized to continue to defer for the benefit of or recovery from customers 90% of any difference between actual property tax expense and the amounts provided in rates for each Rate Year. Central Hudson's portion is limited to 5%, with a maximum of approximately \$0.5 million, pre-tax per Rate Year.

(3) Other expenses reported for the three and nine months ended September 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. In addition, year to date storm restoration costs were lower 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.

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

## Financial Position

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

(In millions)

Balance Sheet Account	Increase (Decrease)	Explanation
Accounts receivable	(12.9)	Decrease is primarily due to the seasonality of the business coupled with a decrease in commodity costs and an increase in refunds and credits issued to customers in 2019.
Accrued unbilled utility revenues	(5.9)	Decrease reflects the seasonality of the business.
Other Receivable	(8.4)	Decrease is primarily due to the collection of costs related to mutual aid provided for hurricane restoration efforts in Puerto Rico.
Regulatory assets - long term	5.9	Increase reflects a \$14.9 million increase in amounts accrued for future environmental remediation costs at North Water Street manufactured gas plant ("MGP") site, partially offset by amounts collected through rates, as well as lower deferred taxes recoverable through future rates attributable to plant and derivative related timing differences.
Short-term borrowings	15.0	Proceeds from short-term borrowings to meet working capital needs.
Accounts payable	(7.1)	Decrease is primarily due to decreases in purchased natural gas costs driven by both commodity price and seasonality coupled with the timing of expenditures related to environmental site remediation efforts.
Regulatory liabilities - current	(6.5)	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, and RDMs refunded to customers in 2019 for previously deferred revenues billed in excess of targets.
Accrued income and other taxes	(6.2)	Decrease primarily relates to the payment of 2018 federal income taxes.
Accrued environmental remediation costs - (Current \$5.1M, Long Term \$8.9M)	14.0	Increase is primarily due to higher estimated remediation costs related to the North Water Street MGP site as a result of New York State Department of Environmental Conservation ("DEC") requirements related to sheen dispersion control in the Hudson River.
Regulatory liabilities-related to OPEB costs	(5.2)	Decrease is the result of the amortization of accrued liabilities related to prior service costs and net actuarial losses.
Accumulated deferred income tax	6.9	The increase is primarily due to the accounting requirement to recognize deferred taxes for the difference between tax basis of assets and liabilities and the book basis. These amounts are fully deferred for future return to or recovery from customers.

## Liquidity And Capital Resources

### CH Energy Group - Regulated, Non-regulated and Holding Company Summary of Cash Flow Period Ended September 30,

(In millions)

	Year to Date	
	2019	2018
<b>Cash, cash equivalents and restricted cash - beginning of period</b>	\$ 43.8	\$ 17.1
Cash from operations pre-working capital	91.7	78.2
Working capital	30.4	19.1
Operating Activities	122.1	97.3
Investing Activities	(170.7)	(136.9)
Financing Activities	19.6	33.6
<b>Cash, cash equivalents and restricted cash - end of period</b>	\$ 14.8	\$ 11.1
<b>Dividends paid on Common Stock - CH Energy Group</b>	\$ (16.5)	\$ (16.5)

*Operating Activities:* The increase in cash from operations pre-working capital in 2019 as compared to 2018 was primarily due to higher revenues providing return on rate base growth, lower expenditures for storm restoration in 2019 and lower contributions made into retirement plans. The increase in working capital in 2019 was primarily due to the collection of costs related to mutual aid provided for hurricane restoration efforts in Puerto Rico, the recovery of eligible deferrals and carrying charges through the RAM effective July 1, 2019 per the 2018 Rate Order and the impact of lower commodity prices and milder weather on the business in 2019 as compared to 2018. These increases were partially offset by higher remittances of Clean Energy Fund collections to NYSERDA, income taxes paid during 2019, amounts refunded to customers in 2019 for deferred revenues billed in excess of targets and a decrease in advances paid by solar project developers for future engineering studies or interconnection work to be performed.

*Investing Activities:* The increase in cash used in investing activities resulted from an increase of 26% in capital work performed over the prior year primarily due to the favorable weather conditions in the nine months ended September 30, 2019 as compared to the significant number of weather events experienced in the same period in the prior year. Central Hudson's approved capital expenditures are estimated to be approximately \$230 million for the year ended December 31, 2019, which includes continued investments in delivery infrastructure, Information Technology 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 Clean Energy Fund collections in excess of remittances to NYSERDA, advances from solar project developers, and improved cash provided from operations for the nine months ended September 30, 2019. Dividend payments were consistent in both periods at \$16.5 million.

### Anticipated Sources and Uses of Cash

CH Energy Group's cash flow is primarily generated by the operations of its utility subsidiary, Central Hudson. Generally, the subsidiary does not accumulate significant amounts of cash but rather 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's 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 CHET's investment obligations 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. On a consolidated basis CH Energy Group's committed credit as of September 30, 2019 and December 31, 2018 was \$250 million.

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

### Uncommitted Credit

At September 30, 2019 and December 31, 2018, Central Hudson had uncommitted short-term credit arrangements with three commercial banks totaling \$40 million. At September 30, 2019, CH Energy Group and Central Hudson had \$15 million in borrowings outstanding under Central Hudson's uncommitted credit agreements with an effective weighted average interest rate of 2.75%. There were no outstanding borrowings under the uncommitted credit agreements at December 31, 2018.

### Central Hudson's Bond Ratings

	September 30, 2019		December 31, 2018	
	Rating <sup>(1)</sup>	Outlook	Rating <sup>(1)</sup>	Outlook
S&P	A-	Stable	A-	Stable
Moody's	A3	Stable	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.

On October 28, 2019, Central Hudson issued \$50 million of Series O Senior Notes, with an interest rate of 3.89% per annum and a maturity date of October 28, 2049; and \$50 million of Series P Senior Notes, with an interest rate of 3.99% per annum and a maturity date of October 28, 2059. Central Hudson expects to use the proceeds from the sale of the Senior Notes to repay \$27 million of maturing debt and for general corporate purposes, including the funding of capital expansion and improvement projects.

Central Hudson's solid 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

	September 30, 2019		December 31, 2018	
		%		%
Long-term Debt <sup>(1)</sup>	\$ 687.0	47.6	\$ 687.8	49.7
Short-term Debt	15.0	1.0	-	-
Common Equity	742.1	51.4	695.1	50.3
Total	<u>\$ 1,444.1</u>	<u>100.0</u>	<u>\$ 1,382.9</u>	<u>100.0</u>

(1) Includes current maturities of long term debt.

#### Central Hudson

	September 30, 2019		December 31, 2018	
		%		%
Long-term Debt <sup>(1)</sup>	\$ 674.0	47.2	\$ 674.0	49.2
Short-term Debt	15.0	1.0	-	-
Common Equity	740.3	51.8	696.3	50.8
Total	<u>\$ 1,429.3</u>	<u>100.0</u>	<u>\$ 1,370.3</u>	<u>100.0</u>

(1) Includes current maturities of long term debt.

In accordance with the 2018 Rate Order, Central Hudson's customer rates continued to be premised on a capital structure, excluding short-term debt of a common equity ratio of 48% for the rate year beginning July 1, 2018. Beginning July 1, 2019 the common equity ratio increased to 49% and beginning July 1, 2020 will further increase to a common equity ratio of 50%. Central Hudson is currently managing its financing to maintain its common equity ratio at approximately 50%.

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



## **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 nine months ended September 30, 2019.

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

*GAAP:* There were no material changes to CH Energy Group's or Central Hudson's accounting policies during the nine months ended September 30, 2019, except as noted below:

### *Leases*

Effective January 1, 2019, CH Energy Group and Central Hudson adopted Accounting Standard Codification 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.

## **Business Outlook and Summary of Significant Business Risks**

### **Outlook**

There were no material changes to CH Energy Group's or Central Hudson's mission and strategy since its 2018 Annual Financial Report.

### **Risk Factors**

There were no material changes to CH Energy Group's or Central Hudson's risk factors, as set forth in its 2018 Annual Financial Report, during the first nine months of 2019.

### **Changes in Internal Controls over Financial Reporting**

There have been no material changes in CH Energy Group's or Central Hudson's internal control over financial reporting during the nine months ended September 30, 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 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 seeking expedited approval to modify the revenue allocation provisions and certain RDM targets of Central Hudson's service class 8 ("SC8") (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 22, 2019, the Commission approved Central Hudson's petition as presented to modify SC8 RDM targets and defer the revenue shortfall as a regulatory asset 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 longstanding 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.

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 an authorized new rate component to encourage robust Community Distributed Generation ("CDG") development. In addition, the Order provided for an opt-in to participate in Central Hudson's demand response programs as an alternative to DRV and LSRV compensation, the expansion of Phase One Net Energy Metering eligibility for certain demand-billed customer projects under 750 kilowatts and a provision for a Community Adder as an upfront incentive for Market Transition Charge replacement applicable to the development of at least 50 MW of new CDG projects funded by NYSERDA from previously collected, uncommitted ratepayer funds.

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

Resources with a capacity greater than 5 MW operating under existing capacity purchase contracts will be grandfathered. Additional draft tariffs and an Allocated Embedded Cost of Service Study were filed October 4, 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. The JU filed responses to the notice on September 3, 2019 supporting a Net Crediting Model and urging the Commission to evaluate any new billing model, including the costs and likelihood of advancing CDG projects. The JU filed supplemental comments on September 13, 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 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. In a Department of Public Service Staff whitepaper issued February 12, 2019, Staff proposed Operator Qualification Best Practices for Commission adoption to address operator covered tasks as defined in 16NYCRR §255.3(9) on pipelines in New York State. The Company filed comments on 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 order to comply with NYSERDA’s New York State Offshore Wind Master Plan. The standard calls for Phase 1 Offshore Renewable Energy Credits (“ORECs”). On July 18, 2019 Governor Cuomo announced the selection of two offshore wind building projects that include an 880 MW project and 816 MW project. 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 July 31, 2019, the Commission granted an additional four-month extension to November 29, 2019 for LSEs to provide executed contracts for the purchase of ORECs to NYSERDA. The additional time will allow NYSERDA to incorporate directives prescribed in the September 20, 2019 Order Approving the Zero-Emissions Credit (“ZEC”) Implementation Plan in a future OREC Plan as well as provide LSEs and NYSERDA the opportunity to more effectively develop LSEs’ 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 October 17, 2019 the Commission issued an Order Establishing Minimum Cyber Security and Privacy Protections. The Order adopts minimum cyber security and data privacy requirements for entities that receive from, or exchange customer data with, utilities on an electronic basis other than by mail. The Order directs each of the JUs to file a revised DSA and Self Attestation within 60 days. The Commission will continue to develop cyber security and data privacy requirements and modify or expand upon them in the future, as appropriate.

### **Energy Storage System Proceeding**

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. On August 1, 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. NYSERDA filed its revised Energy Storage Retail Incentive Program Manual on August 13, 2019. On September 30, 2019, Central Hudson posted its Request for Proposal (“RFP”) and Energy Storage Service Agreement Terms and Conditions for prospective bidders and stakeholders. Only prequalified bidders are eligible to submit offers for this RFP. Proposals are due December 20, 2019.

### **Electric Vehicle (“EV”) Direct Current Fast Charging (“DCFC”) Infrastructure Program**

On February 7, 2019, the Commission issued an Order Establishing Framework for a DCFC Infrastructure program. The Order adopted the multi-party DCFC per plug incentive proposal to support critical public infrastructure in furtherance of the State Energy Plan carbon reduction targets and zero emission vehicle deployment goals. Central Hudson’s program is capped at 100 plugs, with maximum incentive payments for the program capped at \$4.4 million with the initial incentive based on the year in which the DCFC qualifies. Annual incentive payments will be made for a maximum of seven years. The incentives for plugs greater than 75 kW are set at \$11,000 beginning in 2019 decreasing each year with a plug incentive of \$1,571 in 2025. The incentives for plugs sized between 50kW and 74kW beginning in 2019 are set at \$6,600 decreasing each year with a plug incentive of \$943 in 2025. Unencumbered, uncommitted NYSERDA legacy funds (i.e. remaining System Benefit Charge (“SBC”)) will be used to fund the DCFC per-plug incentives for those customer classes that have contributed to the SBC. Customer classes that did not contribute to the SBC will be assessed a surcharge. On July 12, 2019, the Commission issued an Order Modifying Incentive Program and Granting, in Part, Petition for Rehearing in response to a February 28, 2019 rehearing petition filed by Tesla Inc. that modified and expanded eligibility for the DCFC per-plug incentive program to include proprietary plugs at stations that are co-located with a commonly accepted non-proprietary standardized plug-type of the same or greater capacity of the other plugs being installed. 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 1<sup>st</sup> 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.

### **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 members and NYSERDA, Central Hudson proposed a \$30.2 million heat pump program for the period 2020-2025. In 2020, the utilities and NYSERDA are directed to begin implementation of a statewide ratepayer 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, NYSERDA 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 commit to NYSERDA'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 NYSERDA. 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.

### **Clean Energy Standard**

On September 20, 2019 the Commission issued Order Approving ZEC Implementation Plan which adopts a "pay-as-you-go" model to address the program design issue that payment obligations were not responsive to changes in LSEs' loads. Under the "pay-as-you-go" model, changes in LSE load can be automatically adjusted, eliminating the need for LSEs to petition the Commission for relief. NYSERDA is required to provide each affected LSE with a revised agreement. LSEs are directed to provide NYSERDA with an executed copy of the Agreement for the Sale of Zero-Emission Energy Certificates no later than February 1, 2020.

### **Climate Leadership and Community Protection Act ("CLCPA")**

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

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

A 22-member Climate Action Council, comprised of technical experts appointed by the governor and led by 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 Walkkill River is not navigable as defined within the Federal Power Act at the location of the projects. In response to a recent request by the US Department of the Interior's Fish and Wildlife Service, the FERC will investigate the jurisdictional status of these projects. Central Hudson submitted responses to the information requests on August 8, 2019.

### **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](http://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.