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

ANNUAL FINANCIAL REPORT

for the period ended

DECEMBER 31, 2019

YEAR ENDED DECEMBER 31, 2019

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FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of CH Energy Group Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2019, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CH Energy Group, Inc. and its subsidiaries as of December 31, 2019 and 2018, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2019 in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

February 12, 2020

Deloitte.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Central Hudson Gas & Electric Corporation (the "Company") as of December 31, 2019 and 2018, the related statements of income, comprehensive income, equity, and cash flows, for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 12, 2020 expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

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

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

Deloitte & Touche LLP

February 12, 2020

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

Deloitte.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Central Hudson Gas & Electric Corporation (the “Company”) as of December 31, 2019, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) (PCAOB) and in accordance with auditing standards generally accepted in the United States of America, the financial statements as of and for the year ended December 31, 2019, of the Company and our report dated February 12, 2020, expressed an unqualified opinion on those financial statements.

Basis for Opinion

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

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

Definition and Limitations of Internal Control over Financial Reporting

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

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

Deloitte & Touche LLP

February 12, 2020

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

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

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

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

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

Management assessed the effectiveness of the Corporation’s internal control over financial reporting as of December 31, 2019. Management based this assessment on criteria for effective internal control over financial reporting described in “*Internal Control - Integrated Framework*” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management determined that, as of December 31, 2019, the Corporation maintained effective internal control over financial reporting.

The effectiveness of the Corporation’s internal control over financial reporting as of December 31, 2019, has been audited by Deloitte and Touche LLP, an independent registered public accounting firm, as stated in their report which appears herein.

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

February 12, 2020

CH ENERGY GROUP
CONSOLIDATED STATEMENT OF INCOME
(In Thousands)

	Year Ended December 31, 2019	2018	2017
Operating Revenues			
Electric	$ 529,460	$ 558,533	$ 528,277
Natural gas	162,203	166,098	143,192
Total Operating Revenues	691,663	724,631	671,469
Operating Expenses			
Operation:			
Purchased electricity	142,085	191,462	155,107
Purchased natural gas	49,430	63,639	44,804
Other expenses of operation - regulated activities	275,898	254,447	240,587
Other expenses of operation - non-regulated	165	879	339
Depreciation and amortization	59,365	54,494	50,516
Taxes, other than income tax	63,623	60,618	65,792
Total Operating Expenses	590,566	625,539	557,145
Operating Income	101,097	99,092	114,324
Other Income and Deductions			
Income from unconsolidated affiliates	1,335	1,044	1,576
Interest on regulatory assets and other interest income	2,604	3,496	3,851
Regulatory adjustments for interest costs	916	1,019	695
Other - net	7,800	158	(2,395)
Total Other Income	12,655	5,717	3,727
Interest Charges			
Interest on long-term debt	30,861	27,650	25,689
Interest on regulatory liabilities and other interest	3,591	4,532	5,924
Total Interest Charges	34,452	32,182	31,613
Income Before Income Taxes	79,300	72,627	86,438
Income Tax Expense	14,734	15,084	32,686
Net Income	64,566	57,543	53,752
Dividends declared on Common Stock	16,500	22,000	22,000
Change in Retained Earnings	$ 48,066	$ 35,543	$ 31,752

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

	Year Ended December 31, 2019	2018	2017
Net Income	$ 64,566	$ 57,543	$ 53,752
Other Comprehensive Income:			
Net unrealized loss on investments held by equity method investees - net of tax	-	-	(144)
Employee future benefits - net of tax expense	(399)	(430)	-
Comprehensive Income	$ 64,167	$ 57,113	$ 53,608

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

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

	Year Ended December 31,		
	2019	2018	2017
Operating Activities:			
Net income	$ 64,566	$ 57,543	$ 53,752
Adjustments to reconcile net income to net cash provided from operating activities:			
Depreciation	51,009	47,398	44,695
Amortization	8,356	7,096	5,821
Deferred income taxes - net	15,710	8,020	31,722
Bad debt expense	7,159	4,799	3,196
Distributed (undistributed) equity in earnings of unconsolidated affiliates	(620)	517	(727)
Pension expense	6,993	13,399	15,483
Other post-employment benefits ("OPEB") expense	(7,417)	(5,026)	(2,527)
Regulatory liability - rate moderation	(11,583)	(5,146)	(10,153)
Revenue decoupling mechanism ("RDM") recorded	13,064	15,058	(532)
Changes in operating assets and liabilities - net:			
Accounts receivable, unbilled revenues and other receivables	1,685	(25,788)	(18,971)
Fuel, materials and supplies	(231)	(2,238)	267
Special deposits and prepayments	(2,861)	(481)	(918)
Income and other taxes	(6,355)	7,613	3,780
Accounts payable	(498)	(273)	3,543
Accrued interest	202	377	645
Customer advances	4,761	(3,779)	(2,591)
Other advances	(2,911)	8,777	11,049
Pension plan contribution	(1,050)	(12,194)	(14,050)
OPEB contribution	(1,001)	(1,302)	(1,533)
RDM collected/(refunded) - net	(16,259)	(3,115)	(16,000)
Regulatory asset - major storm	(3,296)	(28,698)	(4,163)
Regulatory asset - site investigation and remediation ("SIR")	(366)	(1,458)	1,684
Regulatory asset - temporary state assessment	-	496	2,376
Regulatory liability - energy efficiency programs including clean energy fund	(3,007)	8,182	31,102
Rate adjustment mechanisms ("RAM")	4,625	-	-
Deferred natural gas and electric costs	(7,401)	13,643	(4,203)
Other - net	18,079	24,622	21,313
Net cash provided from operating activities	131,353	128,042	154,060
Investing Activities:			
Additions to utility plant	(238,717)	(188,973)	(169,643)
Other - net	934	(217)	2,139
Net cash used in investing activities	(237,783)	(189,190)	(167,504)
Financing Activities:			
Repayment of long-term debt	(28,607)	(31,503)	(34,406)
Proceeds from issuance of long-term debt	100,000	105,000	60,000
Capital contribution	29,370	37,000	7,000
Dividends paid on Common Stock	(16,500)	(22,000)	(22,000)
Other - net	(559)	(688)	(384)
Net cash provided from financing activities	83,704	87,809	10,210
Net Change in Cash, Cash Equivalents and Restricted Cash	(22,726)	26,661	(3,234)
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	43,801	17,140	20,374
Cash, Cash Equivalents and Restricted Cash at End of Period	$ 21,075	$ 43,801	$ 17,140
Supplemental Disclosure of Cash Flow Information:			
Interest paid, net of amounts capitalized	$ 29,675	$ 26,385	$ 25,264
Federal and state income taxes paid, net of refunds	$ 5,725	$ -	$ -
Cash Paid for Amounts Included in the Measurement of Lease Liabilities:			
Operating Cash Flows used in Operating Leases	$ (505)	$ -	$ -
Non-Cash Operating Activities:			
Right-of-Use Assets Obtained in Exchange for New Operating Lease Liabilities	$ 4,599	$ -	$ -
Non-Cash Investing Activities:			
Accrued capital expenditures	$ 23,203	$ 19,342	$ 14,575

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

CH ENERGY GROUP
CONSOLIDATED BALANCE SHEET
(In Thousands)

	December 31, 2019	December 31, 2018
ASSETS		
Utility Plant (Note 3)		
Electric	$ 1,533,547	$ 1,443,152
Natural gas	615,857	566,197
Common	305,073	267,757
Gross Utility Plant	2,454,477	2,277,106
Less: Accumulated depreciation	580,633	552,505
Net	1,873,844	1,724,601
Construction work in progress	105,057	75,560
Net Utility Plant	1,978,901	1,800,161
Non-utility property & plant	524	524
Net Non-Utility Property & Plant	524	524
Current Assets		
Cash and cash equivalents	19,999	42,730
Accounts receivable from customers - net of allowance for doubtful accounts of $4.5 million and $2.7 million, respectively	69,171	71,157
Accounts receivable - affiliates (Note 18)	982	862
Accrued unbilled utility revenues	24,202	23,994
Other receivables	19,159	26,346
Fuel, materials and supplies (Note 1)	26,211	25,980
Regulatory assets (Note 4)	55,535	36,285
Income tax receivable	787	-
Fair value of derivative instruments (Note 16)	-	882
Special deposits and prepayments	26,810	23,949
Total Current Assets	242,856	252,185
Deferred Charges and Other Assets		
Regulatory assets - deferred pension costs (Note 4)	-	29,320
Regulatory assets - other (Note 4)	123,385	111,664
Prefunded OPEB costs (Note 12)	12,514	858
Investments in unconsolidated affiliates (Note 6)	9,169	7,730
Other investments (Note 17)	40,127	39,326
Other	10,363	4,092
Total Deferred Charges and Other Assets	195,558	192,990
Total Assets	$ 2,417,839	$ 2,245,860

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

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

CAPITALIZATION AND LIABILITIES	December 31, 2019	December 31, 2018
Capitalization (Note 10)		
CH Energy Group Common Shareholders' Equity		
Common Stock (30,000,000 shares authorized: $0.01 par value; 15,961,400 shares issued and outstanding)	$ 160	$ 160
Paid-in capital	409,406	380,036
Retained earnings	363,445	315,379
Accumulated other comprehensive loss	(399)	(430)
Total Equity	772,612	695,145
Long-term debt (Note 11)		
Principal amount	717,497	659,215
Unamortized debt issuance costs	(4,446)	(4,296)
Net long-term debt	713,051	654,919
Total Capitalization	1,485,663	1,350,064
Current Liabilities		
Current maturities of long-term debt (Note 11)	41,718	28,607
Accounts payable	50,063	53,269
Accrued interest	7,033	6,831
Accrued vacation and payroll	10,754	9,955
Customer advances	14,904	10,143
Customer deposits	7,655	7,563
Regulatory liabilities (Note 4)	94,730	99,320
Fair value of derivative instruments (Note 16)	6,262	2,135
Accrued environmental remediation costs (Note 14)	20,396	23,309
Accrued income and other taxes	-	5,661
Other current liabilities	40,572	36,429
Total Current Liabilities	294,087	283,222
Deferred Credits and Other Liabilities		
Regulatory liabilities - deferred pension costs (Note 4)	1,780	-
Regulatory liabilities - deferred OPEB costs (Note 4)	26,643	23,183
Regulatory liabilities - other (Note 4)	288,508	293,346
Operating reserves	4,544	5,171
Accrued environmental remediation costs (Note 14)	36,585	23,664
Accrued pension costs (Note 12)	11,228	32,765
Tax reserve (Note 5)	3,126	7,675
Other liabilities	34,592	23,278
Total Deferred Credits and Other Liabilities	407,006	409,082
Accumulated Deferred Income Tax (Note 5)	231,083	203,492
Commitments and Contingencies		
Total Capitalization and Liabilities	$ 2,417,839	$ 2,245,860

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

CH ENERGY GROUP

CONSOLIDATED STATEMENT OF EQUITY

(In Thousands, except share amounts)

	CH Energy Group Common Shareholders						
	Common Stock Shares Issued	Common Stock Amount	Paid-In Capital	Retained Earnings	AOCI*	Total Equity
Balance at December 31, 2016	15,961,400	$ 160	$ 336,036	$ 248,084	$ 144	$ 584,424
Net income				53,752		53,752
Capital contribution			7,000			7,000
Change in fair value: Investments					(144)	(144)
Dividends declared on common stock				(22,000)		(22,000)
Balance at December 31, 2017	15,961,400	$ 160	$ 343,036	$ 279,836	$ -	$ 623,032
Net income				57,543		57,543
Capital contributions			37,000			37,000
Dividends declared on common stock				(22,000)		(22,000)
Employee future benefits, net of tax					(430)	(430)
Balance at December 31, 2018	15,961,400	$ 160	$ 380,036	$ 315,379	$ (430)	$ 695,145
Net income				64,566		64,566
Capital contributions			29,370			29,370
Dividends declared on common stock				(16,500)		(16,500)
Employee future benefits, net of tax					31	31
Balance at December 31, 2019	15,961,400	$ 160	$ 409,406	$ 363,445	$ (399)	$ 772,612

*Accumulated other comprehensive income (loss)

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

CENTRAL HUDSON
STATEMENT OF INCOME
(In Thousands)

	Year Ended December 31,		
	2019	2018	2017
Operating Revenues			
Electric	$ 529,460	$ 558,533	$ 528,277
Natural gas	162,203	166,098	143,192
Total Operating Revenues	691,663	724,631	671,469
Operating Expenses			
Operation:			
Purchased electricity	142,085	191,462	155,107
Purchased natural gas	49,430	63,639	44,804
Other expenses of operation	275,898	254,447	240,606
Depreciation and amortization	59,365	54,494	50,516
Taxes, other than income tax	63,580	60,586	65,705
Total Operating Expenses	590,358	624,628	556,738
Operating Income	101,305	100,003	114,731
Other Income and Deductions			
Interest on regulatory assets and other interest income	2,572	3,477	3,829
Regulatory adjustments for interest costs	916	1,019	695
Other - net	7,868	65	(2,110)
Total Other Income	11,356	4,561	2,414
Interest Charges			
Interest on long-term debt	29,948	26,634	24,575
Interest on regulatory liabilities and other interest	3,583	4,532	5,924
Total Interest Charges	33,531	31,166	30,499
Income Before Income Taxes	79,130	73,398	86,646
Income Tax Expense	14,268	15,217	31,610
Net Income	$ 64,862	$ 58,181	$ 55,036

CENTRAL HUDSON
STATEMENT OF COMPREHENSIVE INCOME
(In Thousands)

	Year Ended December 31,		
	2019	2018	2017
Net Income	$ 64,862	$ 58,181	$ 55,036
Other Comprehensive Income:			
Employee future benefits - net of tax expense	(399)	(430)	-
Comprehensive Income	$ 64,463	$ 57,751	$ 55,036

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

CENTRAL HUDSON
STATEMENT OF CASH FLOWS
(In Thousands)

	Year Ended December 31, 2019	2018	2017
Operating Activities:			
Net income	$ 64,862	$ 58,181	$ 55,036
Adjustments to reconcile net income to net cash provided from operating activities:			
Depreciation	51,009	47,398	44,695
Amortization	8,356	7,096	5,821
Deferred income taxes - net	15,346	5,618	31,355
Bad debt expense	7,159	4,799	3,196
Pension expense	6,993	13,399	15,483
OPEB expense	(7,417)	(5,026)	(2,527)
Regulatory liability - rate moderation	(11,583)	(5,146)	(10,153)
RDM recorded	13,064	15,058	(532)
Changes in operating assets and liabilities - net:			
Accounts receivable, unbilled revenues and other receivables	1,774	(25,788)	(18,835)
Fuel, materials and supplies	(231)	(2,238)	267
Special deposits and prepayments	(2,876)	(481)	(923)
Income and other taxes	(8,574)	11,015	3,415
Accounts payable	(599)	(310)	3,560
Accrued interest	207	380	649
Customer advances	4,761	(3,779)	(2,591)
Other advances	(2,911)	8,777	11,049
Pension plan contribution	(1,050)	(12,194)	(14,050)
OPEB contribution	(1,001)	(1,302)	(1,533)
RDM collected/(refunded) - net	(16,259)	(3,115)	(16,000)
Regulatory asset - major storm	(3,296)	(28,698)	(4,163)
Regulatory asset - SIR	(366)	(1,458)	1,684
Regulatory asset - temporary state assessment	-	496	2,376
Regulatory liability - energy efficiency programs including clean energy fund	(3,007)	8,182	31,102
RAM	4,625	-	-
Deferred natural gas and electric costs	(7,401)	13,643	(4,203)
Other - net	16,611	24,538	20,708
Net cash provided from operating activities	128,196	129,045	154,886
Investing Activities:			
Additions to utility plant	(238,717)	(188,973)	(169,643)
Other - net	1,820	(145)	2,121
Net cash used in investing activities	(236,897)	(189,118)	(167,522)
Financing Activities:			
Repayment of long-term debt	(27,000)	(30,000)	(33,000)
Proceeds from issuance of long-term debt	100,000	105,000	60,000
Capital contribution	11,000	11,500	-
Dividends paid to parent - CH Energy Group	-	-	(13,262)
Other - net	(559)	(688)	(384)
Net cash provided from financing activities	83,441	85,812	13,354
Net Change in Cash, Cash Equivalents and Restricted Cash	(25,260)	25,739	718
Cash, Cash Equivalents and Restricted Cash - Beginning of Period	40,346	14,607	13,889
Cash, Cash Equivalents and Restricted Cash - End of Period	$ 15,086	$ 40,346	$ 14,607
Supplemental Disclosure of Cash Flow Information:			
Interest paid, net of amounts capitalized	$ 28,759	$ 25,365	$ 24,146
Federal and state income taxes paid, net of refunds	$ 7,670	$ -	$ -
Cash Paid for Amounts Included in the Measurement of Lease Liabilities:			
Operating Cash Flows used in Operating Leases	$ (505)	$ -	$ -
Non-Cash Operating Activities:			
Right-of-Use Assets Obtained in Exchange for New Operating Lease Liabilities	$ 4,599	$ -	$ -
Non-Cash Investing Activities:			
Accrued capital expenditures	$ 23,203	$ 19,342	$ 14,575

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

CENTRAL HUDSON

BALANCE SHEET

(In Thousands)

	December 31, 2019	December 31, 2018
ASSETS		
Utility Plant (Note 3)		
Electric	$ 1,533,547	$ 1,443,152
Natural gas	615,857	566,197
Common	305,073	267,757
Gross Utility Plant	2,454,477	2,277,106
Less: Accumulated depreciation	580,633	552,505
Net	1,873,844	1,724,601
Construction work in progress	105,057	75,560
Net Utility Plant	1,978,901	1,800,161
Non-Utility Property and Plant	524	524
Net Non-Utility Property and Plant	524	524
Current Assets		
Cash and cash equivalents	14,010	39,275
Accounts receivable from customers - net of allowance for doubtful accounts of $4.5 million and $2.7 million, respectively	69,171	71,157
Accrued unbilled utility revenues	24,202	23,994
Other receivables	19,295	26,450
Fuel, materials and supplies (Note 1)	26,211	25,980
Regulatory assets (Note 4)	55,535	36,285
Fair value of derivative instruments (Note 16)	-	882
Special deposits and prepayments	26,787	23,911
Total Current Assets	235,211	247,934
Deferred Charges and Other Assets		
Regulatory assets - deferred pension costs (Note 4)	-	29,320
Regulatory assets - other (Note 4)	123,385	111,664
Prefunded OPEB costs (Note 12)	12,514	858
Other investments (Note 17)	39,301	38,567
Other	10,363	4,070
Total Deferred Charges and Other Assets	185,563	184,479
Total Assets	$ 2,400,199	$ 2,233,098

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

CENTRAL HUDSON

BALANCE SHEET (CONT'D)

(In Thousands, except share amounts)

	December 31, 2019	December 31, 2018
CAPITALIZATION AND LIABILITIES		
Capitalization (Note 10)		
Common Stock (30,000,000 shares authorized: $5 par value; 16,862,087 shares issued and outstanding)	$ 84,311	$ 84,311
Paid-in capital	262,452	251,452
Accumulated other comprehensive loss	(399)	(430)
Retained earnings	430,457	365,595
Capital stock expense	(4,633)	(4,633)
Total Equity	772,188	696,295
Long-term debt (Note 11)		
Principal amount	706,950	646,950
Unamortized debt issuance costs	(4,390)	(4,231)
Net long-term debt	702,560	642,719
Total Capitalization	1,474,748	1,339,014
Current Liabilities		
Current maturities of long-term debt (Note 11)	40,000	27,000
Accounts payable	50,423	53,730
Accrued interest	6,998	6,791
Accrued vacation and payroll	10,754	9,955
Customer advances	14,904	10,143
Customer deposits	7,655	7,563
Regulatory liabilities (Note 4)	94,730	99,320
Fair value of derivative instruments (Note 16)	6,262	2,135
Accrued environmental remediation costs (Note 14)	20,396	23,309
Accrued income and other taxes	273	8,786
Other current liabilities	38,006	35,015
Total Current Liabilities	290,401	283,747
Deferred Credits and Other Liabilities		
Regulatory liabilities - deferred pension costs (Note 4)	1,780	-
Regulatory liabilities - deferred OPEB costs (Note 4)	26,643	23,183
Regulatory liabilities - other (Note 4)	288,508	293,346
Operating reserves	4,544	5,171
Accrued environmental remediation costs (Note 14)	36,585	23,664
Accrued pension costs (Note 12)	10,996	32,533
Tax reserve (Note 5)	2,910	7,675
Other liabilities	32,347	21,316
Total Deferred Credits and Other Liabilities	404,313	406,888
Accumulated Deferred Income Tax (Note 5)	230,737	203,449
Commitments and Contingencies		
Total Capitalization and Liabilities	$ 2,400,199	$ 2,233,098

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

CENTRAL HUDSON

STATEMENT OF EQUITY

(In Thousands, except share amounts)

	Central Hudson Common Shareholders						
	Common Stock Shares Issued	Common Stock Amount	Paid-In Capital	Capital Stock Expense	Retained Earnings	AOCI*	Total Equity
Balance at December 31, 2016	16,862,087	$ 84,311	$ 239,952	$ (4,633)	$ 265,640	$ -	$ 585,270
Net income					55,036		55,036
Dividends declared on Common Stock to parent - CH Energy Group					(13,262)		(13,262)
Balance at December 31, 2017	16,862,087	$ 84,311	$ 239,952	$ (4,633)	$ 307,414	$ -	$ 627,044
Net income					58,181		58,181
Capital contributions			11,500				11,500
Employee future benefits, net of tax						(430)	(430)
Balance at December 31, 2018	16,862,087	$ 84,311	$ 251,452	$ (4,633)	$ 365,595	$ (430)	$ 696,295
Net income					64,862		64,862
Capital contribution			11,000				11,000
Employee future benefits, net of tax						31	31
Balance at December 31, 2019	16,862,087	$ 84,311	$ 262,452	$ (4,633)	$ 430,457	$ (399)	$ 772,188

*Accumulated other comprehensive income (loss)

The accompanying notes are an integral part of these 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 hold its 6.1% ownership interest in New York Transco LLC ("Transco"). CHGT was formed to hold CH Energy Group's ownership stake in possible gas transmission pipeline opportunities in New York State. As of December 31, 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 Annual Financial Report is a combined report of CH Energy Group and Central Hudson. The Notes to the Consolidated Financial Statements apply to both CH Energy Group and Central Hudson. CH Energy Group's Consolidated Financial Statements include the accounts of CH Energy Group and its wholly owned subsidiaries, which include Central Hudson, CHET, CHGT and CHEC. All intercompany balances and transactions have been eliminated in consolidation.

CHEC's investments in limited partnerships ("Partnerships") and limited liability companies and CHET's investment in Transco are accounted for under the equity method. CHEC's proportionate share of the change in fair value of available-for-sale securities held by the Partnerships is recorded in CH Energy Group's Consolidated Statement of Comprehensive Income.

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

Preparation of the financial statements in accordance with GAAP includes the use of estimates and assumptions by management that affect the reported amounts of assets, liabilities and the disclosures of the contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. 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 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.

Rates, Revenues, and Cost Adjustment Mechanisms

Central Hudson's electric and natural gas retail rates are regulated by the PSC. Wholesale transmission rates, facilities charges, and rates for electricity sold for resale in interstate commerce are regulated by the Federal Energy Regulatory Commission.

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

Revenue Recognition

Revenue from Contracts with Customers

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

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

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

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

Alternative Revenues

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

Other Revenues

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

Cash and Cash Equivalents

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

Restricted Cash

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

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

CH Energy Group

(In Thousands)

	December 31, 2019	December 31, 2018
Cash and cash equivalents	$ 19,999	$ 42,730
Restricted cash included in other long-term assets	1,076	1,071
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	$ 21,075	$ 43,801

Central Hudson

(In Thousands)

	December 31, 2019	December 31, 2018
Cash and cash equivalents	$ 14,010	$ 39,275
Restricted cash included in other long-term assets	1,076	1,071
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	$ 15,086	$ 40,346

Accounts Receivable

Receivables are carried at net realizable value. The allowance for doubtful accounts reflects management's best estimate of uncollectible accounts receivable balances. Estimates for uncollectible accounts are based on accounts receivable aging data, as well as consideration of various quantitative and qualitative factors, including special collection issues. Interest can be charged on accounts receivable balances that have been outstanding for more than 20 days.

During 2019, the Company changed its estimate of the allowance for doubtful accounts which resulted in an increase in bad debt expense for 2019 of $1.4 million. The change in accounting estimate is not expected to have a significant impact on future earnings.

Fuel, Materials & Supplies

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

	December 31, 2019	December 31, 2018
Natural gas	$ 4,823	$ 5,369
Fuel used in electric generation	413	462
Materials and supplies	20,975	20,149
Total	$ 26,211	$ 25,980

Utility Plant - Central Hudson

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

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

AFUDC is defined as the net cost of borrowed funds used for construction purposes and a reasonable rate on other funds when so used. The concurrent credit for the amount so capitalized is reported in the Consolidated Statement of Income as follows: the portion applicable to borrowed funds is reported as a reduction of interest charges while the portion applicable to other funds (the equity component) is reported as other income. The AFUDC rate was 6.4% in 2019, 6.0% in 2018 and 6.1% in 2017.

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

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

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

Depreciation and Amortization

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

Central Hudson performs depreciation studies periodically and, upon approval by the PSC, adjusts the depreciation rates of its various classes of depreciable property. Central Hudson's composite rates for depreciation, inclusive of intangible amortization, were 2.77% in 2019 and in 2018 and 2017 were 2.75% of the original average cost of depreciable property. The ratio of the amount of accumulated depreciation to the original cost of depreciable property at December 31, 2019, 2018, and 2017 was 23.9%, 24.5% and 25.1%, respectively.

Asset Retirement Obligations

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

Impairment of Long-Lived Assets

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

Leases

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

Research and Development

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

Debt Issuance Costs

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

Income Tax

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

Post-Employment and Other Benefits

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

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

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

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

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

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

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

Equity-Based Compensation

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

Common Stock Dividends

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

Derivatives

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

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

Normal Purchases and Normal Sales

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

Reclassification

Certain amounts in 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 Pronouncements

Leases –

Effective January 1, 2019, CH Energy Group and Central Hudson adopted Accounting Standards Update ("ASU") No. 2016-02, 2018-01, 2018-10, 2018-11 and 2018-20 - *Leases* 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 has been applied on a prospective basis to all new or modified land easements since January 1, 2019. CH Energy Group and Central Hudson utilized the hindsight practical expedient in transition to determine the lease term. 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 resulted in the recording of additional lease assets and lease liabilities of approximately $1.9 million as right-of-use assets and lease obligations and had no impact on net income or cash flows. See Note 8 - "Leases" for additional disclosures related to CH Energy Group and Central Hudson's leasing arrangements.

Fair Value Measurement

Effective December 31, 2019, CH Energy Group and Central Hudson adopted elements of ASU No. 2018-13 *Changes to the Disclosure Requirements for Fair Value Measurement* that are allowed to be early adopted. The partial adoption of this ASU removed the following disclosures: (a) the amount of, and reasons for, transfers between level 2 and level 3 of the fair value hierarchy; (b) the policy for timing of transfers between levels; and (c) the valuation processes for level 3 fair value measurements.

Compensation—Retirement Benefits

Effective December 31, 2019, CH Energy Group and Central Hudson early adopted ASU No. 2018-14, *Changes to the Disclosure Requirements for Defined Benefit Plans* which clarified disclosure requirements for defined benefit pension and other postretirement plans. In particular, it removes the following disclosures: (a) the amounts in accumulated other comprehensive income expected to be recognized as components of net period benefit costs over the next fiscal period; (b) the amount and timing of plan assets expected to be returned to the employer; and (c) the effects of a one-percentage-point change on the assumed health care costs and the change in rates on service cost, interest cost and the benefit obligation for post-retirement health care benefits.

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 a current expected credit loss ("CECL") model that is based on expected losses rather than incurred losses. Under the CECL model, an entity recognizes as an allowance its estimate of expected credit losses, which the 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. Based on its initial evaluation, CH Energy Group and its subsidiaries estimate that the adoption of this ASU will increase the allowance for doubtful accounts by approximately $1.1 million with a cumulative adjustment to retained earnings effective January 1, 2020.

Income Taxes

ASU No. 2019-12, *Simplifying the Accounting for Income Taxes*, was issued on December 2019 to simplify the accounting for income taxes by eliminating certain exceptions to the guidance in ASC 740 related to the approach for intra-period tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The new guidance also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The amendment is effective for annual reporting periods beginning after December 15, 2020, and interim periods within those reporting periods. Early adoption of all changes is permitted in any interim or annual period, with any adjustments reflected as of the beginning of the fiscal year of adoption. Upon adoption, entities should disclose the nature and reason for the change in accounting principle, the transition methods, and a qualitative description of the financial statement line items affected by the change. CH Energy Group and its subsidiaries are currently evaluating the impact, if any, that the adoption of this standard will have on financial disclosures.

Note 2 - Revenues and Receivables

Effective January 1, 2018, CH Energy Group and Central Hudson adopted ASU 2014-09, *Revenue from Contracts with Customers* ("ASC 606"), using the modified retrospective approach. There was no material impact upon adoption of the new standard. However, upon adoption, CH Energy and Central Hudson made an accounting policy election to report revenues net of utility taxes. Had this policy been in place in 2017, the impact would have been to lower operating revenues and taxes other than income taxes by approximately $7.6 million.

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 the 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 ("NRAs") pursuant to PSC Orders.

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

	Year Ended December 31,		
Electric	2019	2018	2017 [1]
Revenues from Contracts with Customers (ASC 606)	$ 512,787	$ 574,908	$ 495,945
Alternative Revenues (Non ASC 606)	(11,755)	(15,506)	1,049
Other Revenue Adjustments (Non ASC 606)	28,428	(869)	31,283
Total Operating Revenues Electric	$ 529,460	$ 558,533	$ 528,277
Natural Gas			
Revenues from Contracts with Customers (ASC 606)	$ 161,385	$ 169,159	$ 142,054
Alternative Revenues (Non ASC 606)	4,664	5,299	3,758
Other Revenue Adjustments (Non ASC 606)	(3,846)	(8,360)	(2,620)
Total Operating Revenues Natural Gas	$ 162,203	$ 166,098	$ 143,192

[1] Effective January 2018, the Company made an accounting policy election to present revenues, net of utility taxes prospectively, with no impact to net income. Utility taxes included in revenue for the year ended December 31, 2017 was approximately $7.6 million.

In 2019, 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 revenue adjustments for natural gas also include the deferral of Danskammer revenues.

In 2018, the increase in electric and natural gas revenues from contracts with customers was primarily due to the increase in recovery of commodity costs, higher sales and an increase in customer delivery rates as prescribed in the 2018 and 2015 Rate Orders. The decrease in electric alternative revenues was primarily due to RDM adjustments to reduce revenues as higher sales resulted in revenues exceeding the prescribed PSC targets in 2018. This decrease was partially offset in 2018 by incentives earned related to Non-wires alternative and EAMs. The increase in alternative revenues for natural gas was primarily due to incentives earned related to reduced service terminations, emergency response time, gas leak reduction and excavation damages.

Other electric and natural gas revenue adjustments in 2018 decreased due to the deferral in 2018 to preserve the benefits of the Tax Cuts and Jobs Act for customers, the regulatory deferrals resulting from not achieving the electric service interruption and net plant and depreciation targets, and the accounting policy change to present revenues net of utility taxes, partially offset by the refund of bill credits refunded to customers.

NOTE 3 – Utility Plant - Central Hudson

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

	Estimated Depreciable Life in Years	Utility Plant December 31, 2019	Utility Plant December 31, 2018
Electric:			
Production	25-85	$ 42,961	$ 39,691
Transmission	30-90 (1)	403,242	388,609
Distribution	7-80	1,080,869	1,009,086
Other	40	6,475	5,766
Total		$ 1,533,547	$ 1,443,152
Natural Gas:			
Transmission	19-85 (1)	$ 59,608	$ 58,720
Distribution	28-95	555,807	507,035
Other	N/A	442	442
Total		$ 615,857	$ 566,197
Common:			
Land and Structures	50	$ 86,278	$ 79,232
Office and Other Equipment, Radios and Tools	8-35	72,911	61,279
Transportation Equipment	10-12	73,017	67,069
Other	3-10	72,867	60,177
Total		$ 305,073	$ 267,757
Gross Utility Plant		$ 2,454,477	$ 2,277,106

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

For the years ended December 31, 2019, 2018 and 2017 the borrowed component of funds used during construction and recorded as a reduction of interest expense was $1.2 million, $1.1 million and $0.8 million, respectively, and the equity component reported as other income was $2.3 million for the year ended December 31, 2019, $2.1 million in 2018 and $1.6 million in 2017.

Included in the Net Utility Plant balance of $2.0 billion and $1.8 billion at December 31, 2019 and 2018 is $115.0 million and $91.8 million of intangible utility plant assets, comprised primarily of computer software costs, land, transmission and water rights, and the related accumulated amortization of $52.4 million and $44.1 million, respectively. Amortization expense is estimated to average approximately $6.2 million annually for each of the next five years.

As of December 31, 2019 and 2018, Central Hudson has reclassified from accumulated depreciation $43.0 million and $44.1 million, respectively, of cost of removal recovered through the rate-making process in excess of amounts incurred to date as a regulatory liability.

As of December 31, 2019 and 2018, ARO's for Central Hudson were approximately $0.6 million and $0.8 million, respectively. These amounts have been classified in the above chart under "Electric - Other" and "Common - Other" based on the nature of the ARO and are reflected as "Other - long-term liabilities" in the CH Energy Group and Central Hudson Balance Sheets.

NOTE 4 – Regulatory Matters

Summary of Regulatory Assets and Liabilities

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

	December 31, 2019		December 31, 2018	
Regulatory Assets:				
Deferred purchased electric costs (Note 1)	$ 8,013		$ 1,637	
Deferred purchased natural gas costs (Note 1)	4,082		3,057	
Deferred unrealized losses on derivatives - electric and natural gas (Note 16)	6,262		2,135	
RAM - electric	13,518		8,800	
RAM - natural gas	3,201		444	(4)
EAMs – electric	2,118		644	(4)
RDM and carrying charges - natural gas	2,518		2,445	
Demand management programs	10,747		8,815	(2)
Deferred and accrued costs - SIR (Note 14)	62,694		53,563	
Deferred storm costs	11,420		17,597	
Deferred vacation pay accrual	8,384		7,981	
Deferred pension costs (Note 12)	-		29,320	
Income taxes recoverable through future rates	22,253		18,168	
Tax reform - unprotected impacts (Note 5)	13,464		13,688	
Other	10,765		9,335	(2)
Carrying charges balancing	(519)	(1)	(360)	(1)
Total Regulatory Assets	$ 178,920		$ 177,269	
Less: Current Portion of Regulatory Assets	$ 55,535		$ 36,285	
Total Long-term Regulatory Assets	$ 123,385		$ 140,984	
Regulatory Liabilities:				
Rate moderator - electric	$ 26,583		$ 34,416	
Rate moderator - natural gas	7,959		9,341	
RDM and carrying charges – electric	10,735		13,690	
Deferred unrealized gains on derivatives - electric and natural gas (Note 16)	-		882	
Clean Energy Fund and carrying charges	68,277		68,841	(3)
Tax reform - protected deferred tax liability (Note 5)	189,447		194,513	
Deferred cost of removal (Note 3)	43,039		44,119	
Deferred pension costs (Note 12)	1,780		-	
Income taxes refundable through future rates	7,896		5,865	
Deferred OPEB costs (Note 12)	26,643		23,183	
Net plant and depreciation targets	6,082		2,399	
Fast charging infrastructure program and carrying charges	4,584		-	
Energy efficiency programs and carrying charges	4,999		5,493	(3)
Deferred unbilled revenue	5,082		5,082	
Other	9,074		8,385	
Carrying charges balancing	(519)	(1)	(360)	(1)
Total Regulatory Liabilities	$ 411,661		$ 415,849	
Less: Current Portion of Regulatory Liabilities	$ 94,730		$ 99,320	
Total Long-term Regulatory Liabilities	$ 316,931		$ 316,529	
Net Regulatory Liabilities	$ (232,741)		$ (238,580)	

(1) These amounts represent December 31, 2019 and 2018 estimated netting on the balance sheet of carrying charges to be offset against regulatory liabilities and collected through Rate Case offset.

(2) REV balances of $9,492 reported as current and long term regulatory assets at December 31, 2018 has been reclassified to conform to the December 31, 2019 presentation, with $8,815 reported in the Demand management programs line item and the remaining $677 in Other regulatory assets.

(3) Energy efficiency programs and carrying charges reported as of December 31, 2018 have been reclassified to conform to the December 31, 2019 presentation, with $5,493 reported in the Energy efficiency program and carrying charges line item and the remaining $68,841 reported in the Clean Energy Fund and carrying charges line item.

(4) RAM - natural gas and EAMs reported as of December 31, 2018 in the Other regulatory assets line have been reclassified to conform to the December 31, 2019 presentation.

The significant regulatory assets and liabilities include:

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 in service and depreciation expense below the defined targets as prescribed in the 2018 Rate Order.

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.

Rate Moderator – Electric and Natural Gas: Under the terms of the 2018 Rate Order, certain regulatory assets and liabilities were identified for offset and a regulatory liability was established with the net balance, which will be used for future customer rate moderation. In addition, the Order requires Central Hudson to defer Danskammer Generating Station delivery revenues for future natural gas rate moderation. The current portion of the Rate Moderator represents the amount estimated to be used for rate moderation in the next twelve months related to customer electric and natural gas bill credits as prescribed in the 2018 Rate Order.

Revenue Decoupling Mechanism: Central Hudson's delivery rate structure includes RDMs, which provide the ability to record revenues equal to those forecasted in the development of current rates for most of Central Hudson's customers. The difference between actual revenues and forecasted revenues are deferred for future recovery from or refund to customers with the deferred balance subject to carrying charges at the Other Customer Capital Rate approved annually by the PSC.

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

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

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

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

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

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

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

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

	December 31, 2019	December 31, 2018
Balances with offsetting accrued liability balances recoverable when future costs are actually incurred:		
Deferred pension related to underfunded status	$ -	$ 24,454
Income taxes recoverable through future rates	22,253	18,168
Deferred unrealized losses on derivatives - electric	5,542	2,135
Deferred unrealized losses on derivatives - natural gas	720	-
Accrued SIR costs	56,981	46,972
Deferred ARO	475	512
Deferred vacation pay accrual	8,384	7,982
	$ 94,355	$ 100,223
Balances earning a return via inclusion in rates and/or the application of carrying charges:		
Deferred property taxes	$ 138	$ 545
Deferred pension costs	-	4,866
Deferred storm costs	11,420	17,596
Deferred SIR costs, net of recoveries	5,713	6,590
Deferred debt expense on re-acquired debt	2,377	2,897
Tax reform - unprotected deferred tax asset	13,464	13,688
Other	5,146	2,174
	$ 38,258	$ 48,356
Subject to current recovery:		
Deferred purchased electric costs	$ 8,013	$ 1,637
Deferred purchased natural gas costs	4,082	3,057
RAM - electric and gas	16,719	9,244
EAMs - electric and gas	2,247	644[2]
RDM	2,518	2,445
Demand management programs[1]	10,747	8,815[2]
Other	2,500	2,901[2]
	$ 46,826	$ 28,743
Accumulated carrying charges:		
Carrying charges balancing	(519)	(360)
Other	-	307
	$ (519)	$ (53)
Total Regulatory Assets	$ 178,920	$ 177,269

(1) These amounts are subject to recovery over prescribed PSC timeframes unique to each program (most over 5 or 10 years). Balances subject to recovery over a period greater than 1 year are authorized to earn carrying charges at the pre-tax weighted average cost of capital.

(2) Certain balances reported for the period ended December 31, 2018 have been reclassified to conform with the December 31, 2019 presentation.

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:

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

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

Key provisions of the 2018 Rate Order include:

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

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

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

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

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 reassigned 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.

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, 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. See Note 5 – "Income Tax" for additional information regarding the deferred balances.

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.

FERC Proceeding

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

NOTE 5 – Income Tax

Uncertain Tax Positions

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

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

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

	CH Energy Group Year Ended December 31,		**Central Hudson** Year Ended December 31,	
	2019	2018	2019	2018
Tax reserve balance at the beginning of the period	$ 7,675	$ 4,301	$ 7,675	$ 4,301
Change in natural gas transmission and distribution repair deduction	504	718	504	718
Change in tax benefit offset [(1)]	(5,053)	2,656	(5,269)	2,656
Tax reserve balance at the end of the period	$ 3,126	$ 7,675	$ 2,910	$ 7,675

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

Income Tax Examinations

Jurisdiction	Tax Years Open for Audit
Federal	2017 – 2018
New York State	2016 – 2018

Components of Tax Reform Regulatory Balances

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

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

	December 31, 2019	December 31, 2018
Protected Regulatory Liability at the beginning of the period	$ 194,513	$ 198,576
Amortization of Protected Tax Liability	(5,066)	(4,063)
Protected Regulatory Liability at the end of the period	$ 189,447	$ 194,513

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

	December 31, 2019	December 31, 2018
Unprotected Regulatory Asset at the beginning of the period	$ 13,688	$ 23,267
Change in Unprotected Tax Asset	(224)	(9,579)
Unprotected Regulatory Asset at the end of the period	$ 13,464	$ 13,688

Reconciliation - CH Energy Group

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

	Year Ended December 31,		
	2019	2018	2017
Net income	$ 64,566	$ 57,543	$ 53,752
Current federal income tax (benefit)expense	(886)	6,123	239
Current state income tax (benefit)expense	(90)	1,007	725
Deferred federal income tax expense	10,957	4,560	28,182
Deferred state income tax expense	4,753	3,394	3,540
Income before income taxes	$ 79,300	$ 72,627	$ 86,438
Computed federal tax at 21% (35% in 2017)	$ 16,653	$ 15,252	$ 30,253
State income tax net of federal tax benefit	3,797	3,494	3,319
Amortization of protected deferred tax liability[(1)]	(3,983)	(3,716)	-
State income tax prior period adjustment	(113)	(17)	(547)
Remeasurement of deferred federal income taxes	-	-	1,091
Depreciation flow-through	466	2,649	2,975
Cost of removal	(1,910)	(1,690)	(2,838)
Other	(176)	(888)	(1,567)
Total income tax expense	$ 14,734	$ 15,084	$ 32,686

Effective tax rate – federal	12.7%	14.7%	32.9%
Effective tax rate – state	5.9%	6.1%	4.9%
Effective tax rate – combined	18.6%	20.8%	37.8%

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

For the years ended December 31, 2019 and 2018, the lower combined effective tax rate was driven by the reduction in the federal income tax rate from 35% to 21%, in accordance with the Tax Cuts and Jobs Act, and the impact of tax normalization rules.

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

	December 31, 2019	December 31, 2018
Accumulated Deferred Income Tax Asset:		
Unbilled revenues	$ 1,991	$ 1,821
Plant-related	7,152	6,301
Tax reform - protected deferred tax liability	50,249	51,598
Pension Costs	362	-
Income taxes refundable through future rates	6,041	4,031
OPEB costs	3,108	5,473
Net Operating Loss ("NOL") carryforwards	495	-
Clean Energy Fund	18,836	18,899
Rate moderator	9,028	11,436
Contributions in aid of construction	8,945	8,881
Directors and officers deferred compensation	12,557	10,270
RDM	2,147	2,938
Customer benefit fund	504	680
Research and development credit	485	479
Fast charging infrastructure	1,198	-
Other	2,551	1,661
Accumulated Deferred Income Tax Asset	$ 125,649	$ 124,468
Accumulated Deferred Income Tax Liability:		
Depreciation	$ 226,657	$ 214,831
Repair allowance	4,367	4,598
Pension costs	-	1,665
Change in tax accounting for repairs	85,523	74,820
Income taxes recoverable through future rates	12,949	10,604
Tax reform - unprotected deferred tax asset	3,519	3,577
Cost of removal	4,993	4,443
Deferred SIR costs	1,493	1,722
Targeted Demand Management	2,809	2,204
Purchased electric costs	2,094	428
Purchased natural gas costs	1,067	799
Storm costs	2,985	4,599
RAM	4,370	2,416
Other	3,906	1,254
Accumulated Deferred Income Tax Liability	$ 356,732	$ 327,960
Net Deferred Income Tax Liability	$ 231,083	$ 203,492

Reconciliation – Central Hudson

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

	Year Ended December 31, 2019	2018	2017
Net income	$ 64,862	$ 58,181	$ 55,036
Current federal income tax (benefit)expense	(889)	8,546	(463)
Current state income tax (benefit)expense	(189)	1,117	720
Deferred federal income tax expense	10,462	2,334	27,896
Deferred state income tax expense	4,884	3,220	3,457
Income before income taxes	$ 79,130	$ 73,398	$ 86,646
Computed federal tax at 21% (35% in 2017)	$ 16,617	$ 15,413	$ 30,326
State income tax net of federal tax benefit	3,898	3,414	3,262
Amortization of protected deferred tax liability[1]	(3,983)	(3,716)	-
State income tax prior period adjustment	(189)	12	(547)
Depreciation flow-through	466	2,649	2,975
Cost of removal	(1,910)	(1,690)	(2,838)
Other	(631)	(865)	(1,568)
Total income tax expense	$ 14,268	$ 15,217	$ 31,610
Effective tax rate – federal	12.1%	14.8%	31.7%
Effective tax rate – state	5.9%	5.9%	4.8%
Effective tax rate – combined	18.0%	20.7%	36.5%

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

For the years ended December 31, 2019 and 2018, the lower combined effective tax rate was driven by the reduction in the federal income tax rate from 35% to 21%, in accordance with the Tax Cuts and Jobs Act, and the impact of tax normalization rules.

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

	December 31, 2019	2018
Accumulated Deferred Income Tax Asset:		
Unbilled revenues	$ 1,991	$ 1,821
Plant-related	7,152	6,301
Tax reform - protected deferred tax liability	50,249	51,598
Pension costs	362	-
Income taxes refundable through future rates	6,041	4,031
OPEB costs	3,108	5,473
NOL carryforwards	541	-
Clean Energy Fund	18,836	18,899
Rate moderator	9,028	11,436
Contributions in aid of construction	8,945	8,881
Directors and officers deferred compensation	11,605	10,270
RDM	2,147	2,938
Customer benefit fund	504	680
Research and development credit	485	479
Fast charging infrastructure	1,198	-
Other	2,403	1,661
Accumulated Deferred Income Tax Asset	$ 124,595	$ 124,468

Accumulated Deferred Income Tax Liability:		
Depreciation	$ 226,082	$ 214,167
Repair allowance	4,367	4,598
Pension costs	-	1,665
Change in tax accounting for repairs	85,523	74,820
Income taxes recoverable through future rates	12,949	10,604
Tax reform - unprotected deferred tax asset	3,519	3,577
Cost of removal	4,993	4,443
Deferred SIR costs	1,493	1,722
Demand management programs	2,809	2,204
Purchased electric costs	2,094	428
Purchased natural gas costs	1,067	799
Storm costs	2,985	4,599
RAM	4,370	2,416
Other	3,081	1,875
Accumulated Deferred Income Tax Liability	$ 355,332	$ 327,917
Net Deferred Income Tax Liability	$ 230,737	$ 203,449

NOTE 6 – Investments in Unconsolidated Affiliates

In April 2019, National Grid and Transco were awarded the Segment B portion of one of its proposals related to the AC Transmission Order with NYISO for a transmission project that will improve the flow of power from upstate renewable resources to meet downstate demand and enhance the reliability and resilience of the grid. Transco will be authorized to earn a return on equity invested in the project (up to 53% of the project cost) of 9.65%, with up to an additional 1% available for incentives. The project has an estimated cost of $600 million and CHET’s equity funding requirement as a 6.1% owner of Transco is expected to be $19.4 million. During 2019, CHET made a capital contribution of $1.1 million to Transco to fund a portion of the Segment B project costs. At December 31, 2019 and 2018, CHET's investment in Transco was approximately $7.9 million and $6.9 million.

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 December 31, 2019 and 2018 was $1.3 million and $0.8 million, respectively. These investments are not considered to be a part of the core business; however, Management intends to retain these investments at this time.

NOTE 7 – Research and Development

Central Hudson’s R&D expenditures were $3.5 million in 2019, $3.3 million in 2018 and $3.6 million in 2017. These expenditures were for internal research programs and for contributions to research administered by NYSERDA, the Electric Power Research Institute and other industry organizations.

NOTE 8 – Leases

At December 31, 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 ten years and communication tower space with remaining terms of approximately one to 17 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	December 31, 2019
Operating Lease Assets	Other Assets	$ 4,161
Current Operating Lease Liabilities	Other Current Liabilities	$ 542
Noncurrent Operating Lease Liabilities	Other Liabilities	3,626
Total Lease Liabilities		$ 4,168

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

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

Year Ending December 31,	Operating Leases
2020	$ 667
2021	457
2022	460
2023	465
2024	423
Thereafter	2,483
Total Lease Payments	4,955
Less: Imputed Interest	787
Present Value of Lease Liabilities	4,168
Less: Current Portion	542
Total Non-Current Lease Liabilities	$ 3,626

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

	December 31, 2019
Lease Term and Discount Rate :	
Weighted-Average Remaining Lease Term (years)	10.0
Weighted-Average Discount Rate	3.27%

Disclosures Related to Periods Prior to Adoption of the New Lease Standard

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

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

Operating lease costs for the year ended December 31, 2018 were 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:(1)			
Limit	$50 million(2) / $200 million(3)		$200 million(3)
Expiration	July 10, 2020 / October 15, 2020		October 15, 2020
Use of proceeds	For general corporate purposes	For capital expenditures and for general corporate purposes	For capital expenditures and for general corporate purposes
Letters of Credit:	Available up to $25 million(2)	Available up to $15 million(3)	Available up to $15 million(3)
Uncommitted Credit Agreements	Available up to $40 million(4)		Available up to $40 million(4)

(1) Providing committed credit. The credit facilities include a covenant that the total consolidated funded debt to total capital of CH Energy Group and total funded debt to total capital of Central Hudson, respectively, shall not exceed 0.65 to 1.00. The credit facilities are all subject to certain restrictions and conditions, including there will be no event of default, and subject to certain exceptions, CH Energy Group and Central Hudson will not sell, lien, or otherwise encumber its assets and enter into certain transactions including those with affiliates. CH Energy Group and Central Hudson are also required to pay a commitment fee calculated at a rate based on the applicable Standard and Poor's or Moody's rating on the average daily unused portion of the credit facilities.

(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 December 31, 2019 and 2018 there were no amounts outstanding under the various credit arrangements for CH Energy Group or Central Hudson. CH Energy Group and Central Hudson are in compliance with all debt covenants.

NOTE 10 – Capitalization – Common and Preferred Stock

Capitalization

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

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

During 2017, CH Energy Group received a capital contribution of $7.0 million from FortisUS.

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

Common Stock Dividends

CH Energy Group's ability to pay dividends is affected by the ability of its subsidiaries to pay dividends. The Federal Power Act limits the payment of annual dividends by Central Hudson to its retained earnings. More restrictive is the PSC's limit on the dividends Central Hudson may pay to CH Energy Group, which is 100% of the average annual income available for common stock, calculated on a two-year rolling average basis. Based on this calculation, Central Hudson was restricted to a maximum annual payment of $61.5 million and $56.6 million in dividends to CH Energy Group for the periods ended December 31, 2019 and 2018, respectively. Central Hudson's ability to pay dividends would be reduced to 75% of its average annual income in the event of a downgrade of its senior debt rating below "BBB+" by more than one rating agency, if the stated reason for the downgrade is related to any of CH Energy Group's or Central Hudson's affiliates. Further restrictions are imposed for rating downgrades below this level. In addition, Central Hudson would not be allowed to pay dividends if its average common equity ratio for the 13 months prior to a proposed dividend was more than 200 basis points below the ratio used in setting rates (currently 49%). CH Energy Group's other subsidiaries do not have express restrictions on their ability to pay dividends.

In 2019, the Board of Directors of CH Energy Group declared and paid dividends of $16.5 million to FortisUS, the sole shareholder of CH Energy Group. In 2018 and 2017, the Board of Directors of CH Energy Group declared and paid dividends of $22.0 million to FortisUS.

Central Hudson did not pay any dividends to its parent CH Energy Group in 2019 and 2018. During 2017, the Board of Directors of Central Hudson declared and paid dividends to its parent CH Energy Group in the amount of $13.3 million.

CHET declared and paid dividends of $0.9 million and $2.2 million to its parent CH Energy Group during 2019 and 2018, respectively. CHET did not pay dividends in 2017. CHEC did not pay any dividends to its parent CH Energy Group during 2019. CHEC paid dividends to its parent CH Energy Group of $0.3 million during 2018 and $0.7 million during 2017.

Preferred Stock

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

NOTE 11 – Capitalization – Long-Term Debt

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

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

		December 31, 2019		December 31, 2018	
Series	Maturity Date	Principal	Unamortized Debt Issuance Costs	Principal	Unamortized Debt Issuance Costs
Central Hudson:					
Promissory Notes:					
2004 Series E (5.05%)[(4)]	Nov. 04, 2019	$ -	$ -	$ 27,000	$ 18
2006 Series E (5.76%)[(4)]	Nov. 17, 2031	27,000	206	27,000	223
1999 Series B[(1),(2)]	Jul. 01, 2034	33,700	251	33,700	268
2005 Series E (5.84%)[(4)]	Dec. 05, 2035	24,000	158	24,000	169
2007 Series F (5.804%)[(5)]	Mar. 23, 2037	33,000	239	33,000	253
2009 Series F (5.80%)[(5)]	Nov. 01, 2039	24,000	215	24,000	226
2010 Series A (4.30%)[(6)]	Sep. 21, 2020	16,000	7	16,000	17
2010 Series B (5.64%)[(6)]	Sep. 21, 2040	24,000	104	24,000	109
2010 Series G (4.15%)[(6)]	Apr. 01, 2021	44,150	57	44,150	102
2010 Series G (5.716%)[(6)]	Apr. 01, 2041	30,000	219	30,000	230
2011 Series G (3.378%)[(6)]	Apr. 01, 2022	23,400	66	23,400	95
2011 Series G (4.707%)[(6)]	Apr. 01, 2042	10,000	96	10,000	101
2012 Series G (4.776%)[(6)]	Apr. 01, 2042	48,000	471	48,000	492
2012 Series G (4.065%)[(6)]	Oct. 01, 2042	24,000	284	24,000	296
2013 Series D (4.09%)[(7)]	Dec. 2, 2028	16,700	93	16,700	104
2014 Series E [(7),(10)]	Mar. 26, 2024	30,000	87	30,000	108
2015 Series F (2.98%)[(7)]	Mar. 31, 2025	20,000	82	20,000	98
2016 Series G (2.16%)[(8)]	Sep. 21, 2020	24,000	30	24,000	75
2016 Series H (2.56%)[(8)]	Oct. 28, 2026	10,000	62	10,000	71
2016 Series I (3.63%)[(8)]	Oct. 28, 2046	20,000	126	20,000	131
2017 Series J (4.05%)[(8)]	Aug. 31, 2047	30,000	177	30,000	188
2017 Series K (4.20%)[(8)]	Aug. 31, 2057	30,000	181	30,000	185
2018 Series L (4.27%)[(8)]	Jun. 15, 2048	25,000	182	25,000	183
2018 Series M (3.99%)[(8)]	Oct. 28, 2026	40,000	212	40,000	243
2018 Series N (4.21%)[(8)]	Oct. 28, 2033	40,000	229	40,000	246
2019 Series O (3.89%)[(9)]	Oct. 28, 2049	50,000	278	-	-
2019 Series P (3.99%)[(9)]	Oct. 28, 2059	50,000	278	-	-
Total Central Hudson		$ 746,950	$ 4,390	$ 673,950	$ 4,231
Less: Current Portion of Long-term Debt		(40,000)		(27,000)	
Central Hudson Net Long-term Debt		$ 706,950		$ 646,950	
CH Energy Group:					
Promissory Notes:					
2009 Series B (6.80%)[(3)]	Dec. 15, 2025	$ 12,265	$ 56	$ 13,872	$ 65
Less: Current Portion of Long-term Debt		(1,718)		(1,607)	
CH Energy Group Net Long-term Debt		$ 717,497	$ 4,446	$ 659,215	$ 4,296

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

On 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 used 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.

At December 31, 2019, Central Hudson had $30 million of 2014 Series E 10-year notes with a floating interest rate of 3 month LIBOR plus 1%. To mitigate the potential cash flow impact from unexpected increases in short-term interest rates, Central Hudson purchased a 3-year interest rate cap on March 21, 2017 that will expire on March 26, 2020. The rate cap has a notional amount equal to the outstanding principal amount of the 2014 Series E notes and is based on the quarterly reset of the LIBOR rate on the quarterly interest payment dates. Central Hudson would receive a payout if the LIBOR rate exceeds 3% at the start of any quarterly interest period during the term of the cap. There have been no payouts on this interest rate cap during the years ended December 31, 2019 and 2018.

The principal amount of Central Hudson's outstanding 1999 Series B NYSERDA Bonds totaled $33.7 million at December 31, 2018. These are tax-exempt multi-modal bonds that are currently in a variable rate mode and mature in 2034. To mitigate the potential cash flow impact from unexpected increases in short-term interest rates on Series B NYSERDA Bonds, Central Hudson purchased a three year interest rate cap on March 25, 2019. The rate cap has a notional amount equal to the outstanding principal amount of the Series B bonds and expires on April 1, 2022. The cap is based on the monthly weighted average of an index of tax-exempt variable rate debt, multiplied by 175%. Central Hudson would receive a payout if the adjusted index exceeds 4% for a given month. This interest rate cap replaced a similar interest rate cap that expired on April 1, 2019. There were no payouts on these interest rate caps during the periods presented.

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

In its 2018 Rate Order, the PSC extended the continued deferral accounting treatment for variations in the interest costs of the 1999 Series B NYSERDA Bonds and the Series E 10-year notes. As such, variations between the actual interest rates on these bonds and the interest rate included in the current delivery rate structure for these bonds are deferred for future recovery from or refund to customers and therefore do not impact earnings.

Long-Term Debt Maturities

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

Financing Petition

By Order issued and effective September 18, 2015, the PSC authorized an increase in Central Hudson's committed available credit facilities to $200 million in the aggregate with maturities not to exceed five years; and commencing upon the expiration of the prior financing order on December 31, 2018, grants the authorization to issue and sell long-term debt in an aggregate amount not to exceed $425 million through December 2021.

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

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

Debt Covenants

CH Energy Group's $12.3 million of privately placed notes require compliance with certain covenants including maintaining a ratio of total consolidated debt to total consolidated capitalization of no more than 0.65 to 1.00 and not permitting certain debt, other than the privately placed notes, associated with the unregulated operations of CH Energy Group to exceed 10% of total consolidated assets.

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

As of December 31, 2019, CH Energy Group and Central Hudson were in compliance with all covenants.

NOTE 12 – Post-Employment Benefits

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

Pension Benefits

Central Hudson has a non-contributory Retirement Plan covering substantially all of its employees hired before January 1, 2008 and a non-qualified SERP for certain executives. The Retirement Plan is a defined benefit plan, which provides pension benefits based on an employee's compensation and years of service. In 2007, Central Hudson amended the Retirement Plan to eliminate these benefits for managerial, professional, and supervisory employees hired on or after January 1, 2008. The Retirement Plan for unionized employees was similarly amended for all employees hired on or after May 1, 2008. As of December 31, 2019, 61% of all active employees were not eligible to participate in the Retirement Plan. The Retirement Plan's assets are held in a trust fund. Central Hudson has provided periodic updates to the benefit formulas stated in the Retirement Plan.

Decisions to fund Central Hudson's Retirement Plan are based on several factors, including, but not limited to, the funded status, corporate resources, projected investment returns, actual investment returns, inflation, the value of plan assets relative to plan liabilities, regulatory considerations, interest rate assumptions and the Pension Protection Act of 2006 ("PPA"). Based on the funding requirements of the PPA, Central Hudson plans to make contributions that maintain the target funded percentage at 80% or higher. Actual contributions could vary significantly based upon a range of factors that Central Hudson considers in its funding decisions. There were no contributions made during 2019, however, \$11.1 million and \$13.0 million were contributed to the Retirement Plan during the years ended December 31, 2018 and 2017, respectively.

In accordance with the terms of the Trust agreement for the SERP, following the acquisition of CH Energy Group, Inc. by Fortis on June 27, 2013, Central Hudson is required to maintain a funding level for the SERP at 110% of the present value of the accrued benefits payable under the Plan on an annual basis. There were no contributions made during 2019, however, during the years ended December 31, 2018 and 2017 Central Hudson made a \$3.3 million and \$0.7 million contribution to the SERP, respectively.

Central Hudson's accrued liability (i.e. the under-funded status) for Pension benefits was \$12.3 million and \$33.8 million at December 31, 2019 and 2018, respectively. The decrease in Central Hudson's unfunded liability of approximately \$21.5 million resulted from a \$114.9 million increase in plan assets partially offset by an increase in plan liabilities of approximately \$93.4 million. The increase in plan assets was primarily driven by the investment gain on plan assets and the increase in plan liabilities was primarily driven by a decrease in the discount rate. The cumulative amount of net periodic benefit cost in excess of employer contributions at December 31, 2019 and December 31, 2018 was \$22.8 million and \$11.6 million, respectively. This does not include any cumulative contributions to the SERP as it is a non-qualified plan.

The difference between these amounts and the required funding status adjustment of \$10.5 million at December 31, 2019 and \$22.2 million at December 31, 2018 will be recognized in Central Hudson's future expense and has been recorded as a regulatory asset for the portion recoverable from Central Hudson customers in accordance with the 1993 PSC Policy and as other comprehensive income ("OCI") for the portion, net of tax, that relates to a former Central Hudson employee who transferred to an affiliated company, but continues to accrue benefits in Central Hudson's Retirement Plan and SERP.

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

	December 31, 2019(1)(2)	December 31, 2018(1)(2)
Accrued pension costs	\$ (12,304)	\$ (33,815)

(1) Includes approximately \$0.2 million at December 31, 2019 and 2018 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 \$1.1 million at December 31, 2019 and \$1.0 million at December 31, 2018 that is reflected in the Balance Sheet under other current liabilities for pension costs due over the next twelve months.

Accrued pension costs include the difference between the PBO for the Retirement Plan and the market value of the pension assets and any liability for the non-qualified SERP. The under-funded status does not reflect approximately \$26.5 million and \$26.9 million of SERP trust assets at December 31, 2019 and 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):

	December 31, 2019(1)(2)	December 31, 2018(1)(2)
Accrued pension costs prior to funding status adjustment	$ (22,836)	$ (11,565)
Funding status adjustment required	10,532	(22,250)
Accrued pension costs	$ (12,304)	$ (33,815)
Offset to funding status adjustment - regulatory (liability) assets - pension plan	$ (11,061)	$ 21,667
Offset to funded status adjustment - accumulated OCI, net of tax of $138 and $153, respectively	$ 391	$ 430

(1) Includes approximately $0.2 million at December 31, 2019 and 2018 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 $1.1 million at December 31, 2019 and $1.0 million at December 31, 2018 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 or liabilities rather than adjusting comprehensive income to offset the funding status adjustment 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.

Retirement Plan Discount Rate

The valuation of the current and prior year PBO was determined using discount rates of 3.20% and 4.20% for December 31, 2019 and 2018, respectively, as determined from the Mercer Pension Discount Yield Curve reflecting projected pension cash flows. A 1.0% increase in the discount rate would decrease the projection of the pension PBO by approximately $91.6 million. Central Hudson accounts for pension activity in accordance with PSC-prescribed provisions, which among other things, requires a ten-year amortization of actuarial gains and losses.

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

Retirement Plan Expected Long-Term Rates of Return

The expected long-term rate of return on the Retirement Plan assets utilized in the calculation of the net periodic benefit cost, net of investment expense for December 31, 2019 and 2018 is 5.33% and 5.19%, respectively. In determining the expected long-term rate of return on plan assets, Central Hudson considered forward-looking estimated returns evaluated in light of current economic conditions and based on internally consistent economic models. The expected long-term rate of return is a weighted average based on each plan's investment mix and the forward-looking estimated returns for each investment class. Central Hudson monitors actual performance against target asset allocations and adjusts actual allocations and targets in accordance with the Retirement Plan strategy. A 1.0% decrease in the expected long-term rate of return would have increased the 2019 net periodic benefit cost by approximately $6.0 million.

Retirement Plan Policy and Strategy

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

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

Asset Class	Minimum	Target Average	Maximum	December 31, 2019	December 31, 2018
Equity Securities	45%	50%	55%	51.9%	47.5%
Debt Securities	45%	50%	55%	47.1%	51.0%
Other[1]	0%	0%	10%	1.0%	1.5%

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

Retirement Plan Investment Valuation

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

Below is a listing of the major categories of plan assets held as of December 31, 2019 and 2018, that are reported at net asset value or fair value, as indicated (Dollars in Thousands):

Investment Type	Value at 12/31/19	% of Total	Value at 12/31/18	% of Total
At Net Asset Value:				
Investment Funds - Equities	$ 380,919	51.9%	$ 294,078	47.5%
Investment Funds - Fixed Income[1]	119,524	16.3	109,920	17.7
At Fair Value:				
Level 2:				
Cash Equivalents	6,094	0.8	7,505	1.2
Investment Funds - Fixed Income[1]	225,965	30.8	206,049	33.3
Other Investments	1,968	0.2	2,018	0.3
	$ 734,470	100.0%	$ 619,570	100.0%

[1] Certain balances reported for the period ended December 31, 2018 have been reclassified to conform with the December 31, 2019 presentation.

Other Post-Retirement Benefits

Central Hudson also provides certain health care and life insurance benefits for certain retired employees through its post-retirement benefit plans. Substantially all of Central Hudson's unionized employees and managerial, professional and supervisory employees ("non-union") hired prior to January 1, 2008, may become eligible for these benefits if they reach retirement age while employed by

Central Hudson. Central Hudson amended its OPEB programs for existing non-union and certain retired employees effective January 1, 2008, which eliminated post-retirement benefits for non-union employees hired on or after January 1, 2008. OPEB plans were also amended to eliminate post-retirement benefits for union employees hired on or after May 1, 2008. Benefits for retirees and active employees are provided through insurance companies whose premiums are based on the benefits paid during the year.

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

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

Central Hudson's asset (i.e. the over-funded status) for OPEB was $12.5 million and $0.9 million at December 31, 2019 and 2018, respectively. The increase in the over-funded status of approximately $11.6 million resulted from a $22.7 million increase in plan assets partially offset by a increase in plan liabilities of approximately $11.1 million. The increase in plan assets was primarily driven by the investment gain on plan assets and the increase in plan liabilities was primarily driven by a decrease in the discount rate. The cumulative amount of net periodic benefit cost in excess of employer contributions at December 31, 2019 and December 31, 2018 was $15.0 million and $22.3 million, respectively. The difference between these amounts and the over-funded asset balance of $27.5 million at December 31, 2019 and $23.2 million at December 31, 2018 will be recognized as a credit in Central Hudson's future expense and has been recorded as a regulatory liability in accordance with the 1993 PSC Policy.

Central Hudson's contributions to the OPEB plans totaled $1.0 million, $1.3 million and $1.5 million for the years ended December 31, 2019, 2018 and 2017, respectively. Contribution levels are determined by various factors including the discount rate, expected return on plan assets, medical claims assumptions used, mortality assumptions used, benefit changes, corporate resources and regulatory considerations.

OPEB Healthcare Cost Trend Rate

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

	One Percentage Point	
	Increase	Decrease
Effect on total of service and interest cost components for 2019	$ 836	$ (672)
Effect on year-end 2019 post-retirement benefit obligation	$ 13,911	$ (11,327)

OPEB Discount Rate

The PBO for Central Hudson's obligation for OPEB costs was determined using a discount rate of 3.18% and 4.19% for December 31, 2019 and 2018, respectively. This rate was determined using the Mercer Pension Discount Yield Curve reflecting projected cash flows. A 1.0% increase in the discount rate for 2019 would have decreased the projection of the OPEB obligation by approximately $16.4 million.

OPEB Expected Long-Term Rates of Return

The expected long-term rate of return on OPEB assets utilized in the calculation of the net periodic benefit cost for 2019 was 5.62%, net of investment expense. In determining the expected long-term rate of return on plan assets, Central Hudson considered forward-looking estimated returns for each asset class evaluated in light of current economic conditions. The expected long-term rate of return is a weighted average based on each plan's investment mix and the forward-looking estimated returns for each investment class. A 1.0% decrease in the expected long-term rate of return would have increased the 2019 net periodic benefit cost by $1.2 million. Central Hudson monitors actual performance against target asset allocations and adjusts actual allocations and targets as deemed appropriate in accordance with the OPEB plan's strategy.

OPEB Policy and Strategy

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

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

Asset Class	Minimum	Target Average	Maximum	December 31, 2019	December 31, 2018
Equity Securities	55%	65%	75%	66.5%	64.4%
Debt Securities	25%	35%	45%	32.6%	34.8%
Other	- %	- %	- %	0.9%	0.8%

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

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

OPEB Investment Valuation

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

Below is a listing of the major categories of plan assets held as of December 31, 2019 and 2018, that are reported at net asset value or fair value, as indicated (Dollars in Thousands)
:

401(h) Plan Assets

Investment Type	Value at 12/31/19	% of Total	Value at 12/31/18	% of Total
At Net Asset Value:				
Investment Funds - Equities	$ 14,667	51.9%	$ 11,256	47.5%
Investment Funds - Fixed Income[1]	4,602	16.3	4,207	17.7
At Fair Value:				
Level 2:				
Cash Equivalents	235	0.8	287	1.2
Investment Funds - Fixed Income[1]	8,700	30.8	7,887	33.3
Other Investments	76	0.2	77	0.3
	$ 28,280	100.0%	$ 23,714	100.0%

Union VEBA Plan Assets

Investment Type	Market Value at 12/31/19	% of Total	Market Value at 12/31/18	% of Total
At Fair Value:				
Level 1:				
Cash Equivalents	$ 1,047	0.9 %	$ 845	0.8 %
Investment Funds - Equities	79,311	66.5	65,054	64.4
Investment Funds - Fixed Income	38,820	32.6	35,112	34.8
	$ 119,178	100.0 %	$ 101,011	100.0 %

(1) Certain balances reported for the period ended December 31, 2018 have been reclassified to conform with the December 31, 2019 presentation.

Detail of the change in Central Hudson's pension and other post-retirement plans' benefit obligations, fair value of plan assets and funded status as of and for the period ended December 31, 2019 and 2018 is as follows (In Thousands):

	Pension Benefits[1]		Other Post Retirement Benefits	
	2019	2018	2019	2018
Change in Benefit Obligation:				
Benefit Obligation at beginning of year	$ 653,385	$ 703,320	$ 123,867	$ 135,065
Service cost	11,244	13,059	1,528	1,865
Interest cost	27,123	25,042	5,059	4,728
Participant contributions	-	-	1,121	1,080
Benefits paid	(33,020)	(32,775)	(7,153)	(8,318)
Actuarial (gain)/loss	88,042	(55,261)	10,521	(10,553)
Benefit Obligation at end of year	$ 746,774	$ 653,385	$ 134,943	$ 123,867
Change in Value of Plan Assets:				
Fair Value of Plan Assets at beginning of year	$ 619,570	$ 682,099	$ 124,725	$ 137,849
Actual return(loss) on plan assets	148,899	(40,015)	27,940	(7,064)
Employer contributions	1,051	12,194	1,001	1,302
Participant contributions	-	-	1,121	1,080
Benefits paid	(33,020)	(32,775)	(7,153)	(8,318)
Administrative expenses paid	(2,030)	(1,933)	(176)	(124)
Fair Value of Plan Assets at end of year	$ 734,470	$ 619,570	$ 147,458	$ 124,725
Funded Status at end of year	$ (12,304)	$ (33,815)	$ 12,515	$ 858

(1) The plan assets as presented in this chart do not include approximately $26.5 million and $26.9 million of SERP trust assets at December 31, 2019 and 2018.

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

	Pension Benefits[(1)]		Other Post Retirement Benefits	
	2019	2018	2019	2018
Amounts Recognized on Balance Sheet:				
Noncurrent assets	$ -	$ -	$ 12,515	$ 858
Current liabilities	(1,076)	(1,050)	-	-
Noncurrent liabilities	(11,228)	(32,765)	-	-
Funded Status at end of year	$ (12,304)	$ (33,815)	$ 12,515	$ 858
Regulatory asset:				
Net actuarial (gain)/loss	$ (13,565)	$ 18,658	$ (24,710)	$ (17,675)
Prior service costs (credit)	$ 2,504	$ 3,009	$ (2,763)	$ (5,442)
Other comprehensive income:				
Net actuarial loss, net of tax	$ 158	$ 81	$ -	$ -
Prior service costs, net of tax	$ 233	$ 349	$ 8	$ -

(1) The funded status in this chart does not reflect approximately $26.5 million and $26.9 million of SERP trust assets at December 31, 2019 and 2018.

Central Hudson's net periodic benefit costs for its Pension and OPEB plans for the periods ended December 31, 2019 and 2018 are as follows (In Thousands):

	Pension Benefits		Other Post Retirement Benefits	
	2019	2018	2019	2018
Components of Net Periodic Benefit Cost:				
Service cost	$ 11,244	$ 13,059	$ 1,528	$ 1,865
Interest cost	27,123	25,042	5,059	4,728
Expected return on plan assets	(31,101)	(34,033)	(6,778)	(7,571)
Amortization of prior service cost (credit)	664	1,026	(2,691)	(5,069)
Amortization of recognized actuarial net (gain)/loss	4,391	18,245	(3,138)	(924)
Net Periodic (Benefit) Cost	$ 12,321	$ 23,339	$ (6,020)	$ (6,971)

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

	Pension Benefits[(1)]		Other Post Retirement Benefits	
	2019	2018	2019	2018
Other Changes in Plan Assets and Benefit Obligation Recognized in Regulatory Assets/Liabilities:				
Net (gain)/loss	$ (27,726)	$ 20,720	$ (10,174)	$ 4,583
Amortization of actuarial net (loss) gain	(4,391)	(18,245)	3,138	924
Amortization of prior service (cost) credit	(664)	(1,026)	2,691	5,069
Total recognized in regulatory asset	$ (32,781)	$ 1,449	$ (4,345)	$ 10,576
Total recognized in net periodic benefit cost and regulatory asset	$ (20,460)	$ 24,788	$ (10,365)	$ 3,605
Weighted-average assumptions used to determine benefit obligations:				
Discount rate	3.20%	4.20%	3.18%	4.19%
Rate of compensation increase (average)	4.00%	4.00%	4.00%	4.00%
Measurement date	12/31/19	12/31/18	12/31/19	12/31/18

Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:				
Discount rate	4.20%	3.59%	4.19%	3.58%
Expected long-term rate of return on plan assets	5.33%	5.19%	5.62%	5.64%
Rate of compensation increase (average)	4.00%	4.00%	4.00%	4.00%
Assumed health care cost trend rates at December 31:				
Health care cost trend rate assumed for next year	N/A	N/A	5.84%	6.16%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	N/A	N/A	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	N/A	N/A	2038	2038
Pension plans with accumulated benefit obligations in excess of plan assets:				
Projected Benefit Obligation	$ 746,774	$ 653,385	N/A	N/A
Accumulated Benefit Obligation	$ 692,347	$ 607,076	N/A	N/A
Fair Value of Plan Assets	$ 734,470	$ 619,570	N/A	N/A

(1) The fair value of plan assets presented in this chart does not include approximately $26.5 million and $26.9 million of SERP trust assets at December 31, 2019 and 2018.

Estimated net loss of $1.6 million and prior service cost of $0.7 million for the defined benefit pension plans will be amortized from regulatory liabilities and OCI into net periodic benefit cost over the next fiscal year. Estimated net gain of $3.9 million and prior service credit of $0.5 million for the other defined benefit post-retirement plans will be amortized from regulatory assets and OCI into net periodic benefit cost over the next fiscal year. The amount of transitional obligation to be amortized from regulatory liabilities and OCI is immaterial.

Estimated Future Benefit Payments

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

Year	Pension Benefits - Gross	Other Benefits - Gross	Other Benefits - Net(1)
2020	$ 34,632	$ 6,730	$ 6,169
2021	35,649	7,057	6,484
2022	37,064	7,360	6,776
2023	37,808	7,674	7,077
2024	38,691	7,930	7,317
2025 - 2029	203,825	41,635	38,206

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

401(k) Retirement Plan

Central Hudson sponsors a 401(k) plan for its employees. The 401(k) plan provides for employee tax-deferred salary deductions for participating employees and employer matches. The matching benefit varies by employee group. Central Hudson's matching contributions for the years ended December 31, 2019, 2018 and 2017 were $5.2 million, $4.9 million, and $4.6 million, respectively. Central Hudson also provided an additional contribution of 4% for 2019, 2018 and 2017 to the 401(k) plan of annualized base salary for eligible employees who do not qualify for Central Hudson's Retirement Income Plan.

NOTE 13 – Equity-Based Compensation

Share Unit Plan Units

In January 2019, officers of Central Hudson were granted 47,074 Units under the Central Hudson 2019 Share Unit Plan ("2019 SUP"), representing the officers' long-term incentives. Two-thirds of the issued

2019 SUP Units granted are performance based and vest at the end of the three-year performance period upon achievement of specified cumulative performance goals. The remaining 2019 SUP Units that were granted are time-based and vest at the end of the three-year period without regard to performance. Each 2019 SUP Unit granted has an underlying value equivalent to the value of one common share of Fortis and if earned and vested is paid in cash. The foreign exchange rate utilized for cash payout in the US dollar equivalent for each plan corresponds to the exchange rate on the business day prior to the date of that 2019 SUP Unit grant. Each 2019 SUP Unit accrues notional dividend equivalents equal to the dividends declared by the Fortis Board of Directors on Fortis common shares.

In January 2019, CH Energy Group granted 35,352 Units to an officer of CH Energy Group under a 2019 Share Unit Plan ("2019 PSUP"). Of the issued 2019 PSUP Units granted 26,514 Units are performance based and vest upon achievement of specified performance goals over the applicable three-year performance period. The remaining 8,838 Units granted under the 2019 PSUP are time-based and vest at the end of the three-year period without regard to performance. Each 2019 PSUP Unit has an underlying value equivalent to the value of one common share of Fortis and if earned and vested is paid in cash. The foreign exchange rate utilized for cash payout in the US dollar equivalent corresponds to the exchange rate on the business day prior to the date of the 2019 PSUP Unit grant. Each 2019 PSUP Unit accrues notional dividend equivalents equal to the dividends declared by the Fortis Board of Directors on Fortis common shares.

In prior periods, CH Energy Group granted Units to an officer of CH Energy Group under Performance Share Unit Plans, the ("2018 PSUP") in 2018, the ("2017 PSUP") in 2017 and in 2016 the ("2016 PSUP"), (collectively "PSUP"). The PSUP Units granted under these plans are performance based and vest upon achievement of specified performance goals over the applicable three-year performance period. Each PSUP Unit has an underlying value equivalent to the value of one common share of Fortis and if earned and vested is paid in cash. The foreign exchange rate utilized for cash payout in the US dollar equivalent corresponds to the exchange rate on the business day prior to the date of the PSUP Unit grant. Each PSUP Unit accrues notional dividend equivalents equal to the dividends declared by the Fortis Board of Directors on Fortis common shares.

Officers of Central Hudson were granted Units under the Central Hudson 2018 ("2018 SUP") and 2017 ("2017 SUP") Share Unit Plans, and Officers of CH Energy Group and Central Hudson were granted Units under the Central Hudson 2016 ("2016 SUP") Share Unit Plan, collectively the ("SUP plans"); representing the officers' long-term incentives. Two-thirds of the SUP Units granted under the SUP plans are performance based and vest at the end of the respective three-year performance period upon achievement of specified cumulative performance goals. The remaining SUP Units that were granted under the SUP plans are time-based and vest at the end of the respective three-year period without regard to performance. For all grants issued, each SUP Unit is equivalent to the value of one common share of Fortis and if earned and vested is paid in cash. The foreign exchange rate utilized for cash payout in the US dollar equivalent for each plan corresponds to the exchange rate on the business day prior to the date of that SUP Unit grant. Each SUP Unit accrues notional dividend equivalents equal to the dividends declared by the Fortis Board of Directors on Fortis common shares.

Awards granted under the 2016 PSUP and 2016 SUP Plans vested and were paid out during the first quarter of 2019.

CH Energy Group:		Grant Date	Time Based		Performance Based	
	Grant Date	Fair Value	Granted	Outstanding(5)	Granted	Outstanding(5)
2019 PSUP	January 1, 2019	$ 33.10	8,838	9,158	26,514	27,474
2018 PSUP	January 1, 2018	$ 36.59	-	-	29,514	31,829
2017 PSUP	January 1, 2017	$ 30.85	-	-	30,085	33,633
2016 PSUP(1)(3)	April 1, 2016	$ 31.00	-	-	18,806	-

Central Hudson:			Grant Date	Time Based		Performance Based	
	Grant Date		Fair Value	Granted	Outstanding[4][5]	Granted	Outstanding[4][5]
2019 SUP	January 1, 2019	$	33.10	15,691	15,208	31,383	30,416
2018 SUP	January 1, 2018	$	36.59	16,337	16,376	32,675	32,752
2017 SUP	January 1, 2017	$	30.85	18,359	19,067	36,717	38,134
2016 SUP[1][2][3]	January 1, 2016	$	27.26	23,352	-	46,704	-

[1]Upon establishing the CH Energy Group 2016 PSUP on April 1, 2016, Central Hudson rescinded 16,356 Performance Units issued under Central Hudson's 2016 SUP, resulting in a reduction in the total number of units outstanding under the Central Hudson 2016 SUP from 70,056 to 53,700 Units.
[2]In the third quarter of 2016, per the 2016 SUP agreement, 1,231 time based units were paid out related to an Officer who retired, at $27.47 per unit.
[3]In the first quarter of 2019, 58,788 units under the 2016 SUP and 21,066 units under the 2016 PSUP vested and were paid out at $32.62 per unit for a total of approximately $2.6 million.
[4]In the second quarter of 2019, 3,337 2017 SUP units, 2,814 2018 SUP units, and 3,075 2019 SUP units were forfeited following the resignation of an Officer.
[5]Includes notional dividends accrued as of December 31, 2019.

Compensation Expense

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

	Year Ended December 31,					
	2019		2018		2017	
CH Energy Group (1)	$	3,023	$	1,299	$	2,974
Central Hudson (1)	$	3,012	$	1,299	$	2,940

(1) Included in compensation expense for 2018 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.

Employee Share Purchase Plan

Effective May 17, 2017, the Company adopted the Fortis Amended and Restated 2012 Employee Share Purchase Plan ("ESPP"). Fortis authorized 600,000 of its common shares to be offered under the ESPP. The ESPP allows eligible employees of Fortis and adopting subsidiaries to contribute during any investment period an amount not less than 1% and not more than 10% of their eligible compensation to purchase Fortis' common shares. Under the ESPP, employees are entitled to fund contributions through interest free loans from the Company. At December 31, 2019 and 2018, employee loans due to the Company related to the ESPP were approximately $0.2 million and $0.1 million, respectively.

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

NOTE 14 – Commitments and Contingencies

Electricity Purchase Commitments

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

In June 2014, Central Hudson entered into a contract to purchase available installed capacity from the Danskammer Generating Facility from October 2014 through July 2018. This contract expired on July 31, 2018 and was not renewed.

Energy Credit Purchase Obligations

In August 2016, the PSC issued Order 15-E-0302 adopting a Clean Energy Standard that includes Renewable Energy Credits ("RECs") and Zero-Emissions Credit ("ZECs") requirements. Beginning in 2017, LSEs, which include Central Hudson, are required to obtain RECs and ZECs in amounts determined by the PSC. LSEs may satisfy their REC obligation by either purchasing RECs acquired through central procurement by NYSERDA, by self-supply through direct purchase of tradable RECs, through value stack payments, or by making alternative compliance payments. Through March 21, 2020 LSEs will purchase ZECs from NYSERDA at tranche prices approved by the PSC based on qualifying in-state nuclear plant output and Central Hudson's full-service customer New York Control Area load-ratio share. Starting April 1 2020, Central Hudson's obligation will be comprised of an administratively determined ZEC price, NYISO monthly load volume, as defined and a load modifier adjustment factor. The actual obligation will be determined and is contingent upon actual load served. At December 31, 2019, based on Central Hudson's estimated annual load to be served through March 31, 2021, the total obligation to procure ZECs is estimated to be approximately $12.5 million and for RECs the purchase obligation through December 31, 2022 is estimated to be approximately $10.0 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.

Natural Gas Commitments

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

Commitments

The following is a summary of commitments for CH Energy Group and its affiliates as of December 31, 2019 (In Thousands):

		Projected Payments Due By Period						
		Less than 1 year	Year Ending 2021	Year Ending 2022	Year Ending 2023	Year Ending 2024	Thereafter	Total
Recorded Contractual Obligations:								
Operating Leases		$ 667	$ 457	$ 460	$ 465	$ 423	$ 2,483	$ 4,955
Repayments of Long-Term Debt		41,718	45,987	25,364	2,100	32,245	611,801	759,215
Stock-based compensation obligations		4,420	2,198	2,284	-	-	-	8,902
Unrecorded Contractual Obligations:								
Purchased Electric Contracts	(1)	21,325	12,073	2,681	150	150	602	36,981
Energy Credit Purchase Agreements		11,646	5,452	5,434	-	-	-	22,532
Purchased Natural Gas Contracts	(1)	29,385	16,111	14,602	12,113	9,044	5,471	86,726
Interest Obligations on Long-Term Debt		32,416	30,175	28,737	28,206	27,394	446,135	593,063
Total		$ 141,577	$ 112,453	$ 79,562	$ 43,034	$ 69,256	$ 1,066,492	$ 1,512,374

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

The following is a summary of commitments for Central Hudson as of December 31, 2019 (In Thousands):

		Projected Payments Due By Period						
		Less than 1 year	Year Ending 2021	Year Ending 2022	Year Ending 2023	Year Ending 2024	Thereafter	Total
Recorded Contractual Obligations:								
Operating Leases		$ 667	$ 457	$ 460	$ 465	$ 423	$ 2,483	$ 4,955
Repayments of Long-Term Debt		40,000	44,150	23,400	-	30,000	609,400	746,950
Stock-based compensation obligations		2,427	1,442	1,792	-	-	-	5,661
Unrecorded Contractual Obligations:								
Purchased Electric Contracts	(1)	21,325	12,073	2,681	150	150	602	36,981
Energy Credit Purchase Agreements		11,646	5,452	5,434	-	-	-	22,532
Purchased Natural Gas Contracts	(1)	29,385	16,111	14,602	12,113	9,044	5,471	86,726
Interest Obligations on Long-Term Debt		31,611	29,489	28,177	27,782	27,116	446,012	590,187
Total		$ 137,061	$ 109,174	$ 76,546	$ 40,510	$ 66,733	$ 1,063,968	$ 1,493,992

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

Other Commitments

Capital Expenditures

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

Pension Benefit and Other Post Retirement Benefit Funding Contributions

Central Hudson is subject to certain contractual benefit payment obligations. Decisions about how to fund the Retirement and OPEB Plans to meet these obligations are made annually and are primarily affected by the discount rate used to determine benefit obligations, current asset values, corporate resources and the projection of Retirement and OPEB Plan assets. Based on the funding requirements of the Pension Protection Act of 2006, Central Hudson plans to make contributions that maintain the target funded percentage for the Retirement Plan at 80% or higher. At December 31, 2019 the Retirement and VEBA Plans were fully funded for 2019. Actual contributions could vary significantly based upon economic growth, projected investment returns, inflation and interest rate assumptions. Actual funded status could vary significantly based on asset returns and changes in the discount rate used to estimate the present value of future obligations. In January 2020, Central Hudson is expected to make a contribution of $1.1 million to the 401(h) Plan to fund the management OPEB liabilities, in accordance with Central Hudson's OPEB policy and strategy. See Note 19 – "Subsequent Events" for details of the January payment.

Supplemental Executive Retirement Plan

As a result of the acquisition of CH Energy Group, Inc. by Fortis on June 27, 2013, in accordance with the terms of the Trust agreement for the SERP, Central Hudson is required to maintain a funding level at 110% of the present value of the accrued benefits payable under the Plan on an annual basis. Annual contributions to the SERP could vary based on investment returns, discount rates, and participant demographics. Central Hudson is expected to make a contribution to the SERP for 2019 of $7.0 million in March 2020, resulting in a funding status that achieves the requirements of the Trust agreement.

Parental Guarantee

CHET was established to be an investor in Transco, which was created to develop, own and operate electric transmission projects in New York State. In December 2014, Transco filed an application with the FERC for the recovery through a formula rate, 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 December 31, 2019, CHET's investment in Transco was approximately $7.9 million.

CH Energy Group issued a parental guarantee to Transco to assure the payment of CHET's maximum commitment of $182 million. As of December 31, 2019, CH Energy Group is not aware of any existing condition that would require any payments under this guarantee.

Contingencies

Environmental Matters

Central Hudson

- Site Investigation and Remediation Program

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

Central Hudson accrues for remediation costs based on the amounts that can be reasonably estimated at a point in time. At December 31, 2019, Central Hudson has accrued $57.0 million with respect to all SIR activities, including operation, maintenance and monitoring costs ("OM&M"), of which $20.4 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.
     - 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 commenced in December 2019 and are anticipated to continue into first quarter of 2020 during the heating season.
     - On July 22, 2019 the DEC requested additional investigation to be performed. The requested research regarding potable drinking water wells surrounding the site commenced in November 2019 and on site groundwater sampling was completed in December 2019. Remedial Investigation Work Plan is anticipated to be submitted in first quarter 2020 with activities commencing in the first half 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. These amounts represent a significant portion of the total costs to remediate and are subject to change based on further investigations, final remedial design and associated engineering estimates, regulatory comments and requests, remedial design changes/negotiations and changed or unforeseen conditions during the remediation or additional requirements following the remediation. Prior to the completion of the RAA, management cannot reasonably estimate what cost will be incurred for remediation or post-remediation activities.

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

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

➢ **Site #5 – North Water Street** – Remediation in Progress
   - Central Hudson worked 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. Violations and associated penalties of $0.1 million have been assessed by the DEC and an Order on Consent was executed on December 12, 2019.
   - The Water Supply Protection and Contingency Plan ("WSP&CP") was submitted to the DEC, New York State Department of Health ("NYSDOH") and Poughkeepsie Joint Water Project Board ("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 NYSDOH and Poughkeepsie Water Treatment Facility ("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. A comprehensive response to all comments received from the various parties was provided on October 22, 2019.
   - Central Hudson and the DEC attended the PJWB meeting on October 1, 2019. Additionally, Central Hudson, and other interested parties met on October 9, 2019 to discuss the WSP&CP as well as additional potential mitigative alternatives that could be assessed for feasibility. A letter was received on October 28, 2019 from the PJWB offering several additional comments for consideration. Central Hudson responded to the comments on November 14, 2019.
   - The DEC approved commencement of a moon pool start-up test pending submittal of a revised WSP&CP and baseline sampling of the Dutchess County Water and Wastewater Authority's Hyde Park intake and the Town of Lloyd's Highland Water District intake. A baseline sampling at the intakes was completed on October 31, 2019 and a revised WSP&CP along with a requested evaluation of treatment options for the moon pool water were submitted to the DEC on November 6, 2019. On November 19, 2019 Central Hudson submitted a response to the collective comments received from the NYSDOH.
   - 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.
   - As a result of several issues relating to fabrication of the moon pool, remedial activities for the season were halted in December 2019. Demobilization and winterization of equipment was completed in January 2020. A root cause analysis of the issues encountered in the installation of the moon pool was completed in January 2020. The report concluded that there were several factors that likely contributed to this circumstance, which result in uncertainty as to the use of the moon pool as currently designed during subsequent seasons. Given the apparent uncertainty, a preliminary Remediation Alternatives Assessment was prepared to determine the potential viability and estimated costs of the current approach with modifications in comparison to other potential approaches. Central Hudson has also engaged another third-party environmental engineering firm to perform an independent evaluation of potential alternative remedial approaches. The alternatives identified to date indicate a potential increase in cost of $5 million to $30 million, which will

also increase the associated regulatory asset. Management cannot predict which alternatives will be pursued at this time or ultimately accepted by the other regulatory agencies involved.

- Approximately $52.2 million has been accrued as of December 31, 2019, of which approximately $19.8 million is expected to be spent in the next twelve months. The Company will continue to update the accrual, related disclosures and expected timing of expenditures as additional information becomes available.

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 of 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 December 31, 2019, based on the scope of work and cost estimate developed for remediation and OM&M activities, of which $0.1 million is expected to be spent in the next twelve months.

➢ **Site #3 – Laurel Street** – Post-Remediation In Progress

- 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, and approved, as amended, in June 2019.
- Approximately $0.4 million has been accrued as of December 31, 2019, based on the scope of work and cost estimate developed for remediation and OM&M activities, of which $0.1 million is expected to be spent in the next twelve months.

➢ **Site #4 – Catskill** – Post-Remediation In Progress

- 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 December 31, 2019, based on the scope of work and cost estimate developed for remediation and OM&M activities.

- **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, with a 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 December 31, 2019, based on the scope of work and estimated costs for OM&M activities, of which $0.1 million is expected to be spent over the next twelve months.

- **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. As required, the first annual report was submitted to the DEC in December 2019.
  - Approximately $0.1 million has been accrued as of December 31, 2019, based on the scope of work and cost estimate developed for remediation and OM&M activities.

– *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 $12.5 million recovered through December 31, 2019.
- The total spent related to site investigation and remediation for the years ended December 31, 2019 and 2018 was approximately $9.0 million and $8.8 million.
- The regulatory asset balance as of December 31, 2019 and 2018 was $62.7 million and $53.6 million, respectively, which represents the cumulative difference between amounts spent or currently accrued as a liability and the amounts recovered to date through rates or insurance recoveries.

Central Hudson has put its insurers on notice and intends to seek reimbursement from its insurers for its costs. Certain of these insurers have denied coverage. There was $0.2 million of insurance recoveries during the year ended December 31, 2019 and no insurance recoveries for the year ended December 31, 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 December 31, 2019, of the 3,380 asbestos cases brought against Central Hudson, 1,170 remain pending. Of the cases no longer pending against Central Hudson, 2,049 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 2015 and 2018 Rate Order is 80% for electric and 20% for natural gas.

CH Energy Group Segment Disclosure
(In Thousands)

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

CH Energy Group Segment Disclosure
(In Thousands)

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

CH Energy Group Segment Disclosure

(In Thousands)

	Year Ended December 31, 2017				
	Segments		Other Businesses and Investments	Eliminations	Total
	Central Hudson				
	Electric	Natural Gas			
Revenues from external customers	$ 528,277	$ 143,192	$ -	$ -	$ 671,469
Intersegment revenues	28	237	-	(265)	-
Total operating revenues	528,305	143,429	-	(265)	671,469
Energy supply costs	155,135	45,041	-	(265)	199,911
Operating expenses [1]	245,522	60,789	407	-	306,718
Depreciation and amortization	38,992	11,524	-	-	50,516
Operating income (loss)	88,656	26,075	(407)	-	114,324
Other income(expense), net [1]	2,635	(221)	1,313	-	3,727
Finance charges	23,113	7,386	1,114	-	31,613
Income (loss) before income taxes	68,178	18,468	(208)	-	86,438
Income tax expense (benefit)	32,712 [2]	(1,102) [2]	1,076	-	32,686
Net Income (Loss) Attributable to CH Energy Group	$ 35,466	$ 19,570	$ (1,284)	$ -	$ 53,752
Segment Assets at December 31, 2017	$ 1,527,908	$ 550,074	$ 13,192	$ (1,287)	$ 2,089,887
Capital Expenditures	$ 113,094	$ 56,548	$ -	$ -	$ 169,643

(1) Effective January 2018, the Company adopted ASU 2017-07 which required the non-service cost component of pension cost to be reported outside income from operation and under other income, net. Non-service cost component includes $2.1 million and $0.5 million for electric and gas, respectively, for the year ended December 31, 2017 has been reclassified to conform to 2018 presentation.

(2) Includes reclassification of $9.7 million in deferred taxes between electric and gas segments due to prior year allocation change within the segments.

NOTE 16 – Accounting for Derivative Instruments and Hedging Activities

Purpose of Derivatives

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

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

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

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

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

Energy Contracts Subject to Regulatory Deferral

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

The percentage of Central Hudson's electric and natural gas requirements covered with fixed price forward purchases at December 31, 2019 are as follows:

Central Hudson	% of Requirement Hedged [(1)]
Electric Derivative Contracts:	0.6 million MWh
January 2020 – September 2020	22.5%
Natural Gas Derivative Contracts:	1.0 million Dth
January 2020 – March 2020	26.2%

[(1)] Projected coverage as of December 31, 2019.

In 2019, OTC derivative contracts covered approximately 45.6% of Central Hudson's total electricity supply requirements as compared to 36.4% in 2018.

Cash Flow Hedges

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

Derivative Risks

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

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

To help limit the credit exposure of derivatives, Central Hudson enters into master netting agreements with counterparties whereby contracts in a gain position can be offset against contracts in a loss position. Of the 26 total agreements held by Central Hudson, 11 agreements contain credit risk contingent features. As of December 31, 2019, 13 open contracts with credit risk contingent features were in a liability position. The aggregate fair value of the open derivative contracts that contain contingent features and the amount that would be required to settle these instruments on December 31, 2019 if the contingent features were triggered, are described below.

Contingent Contracts
(Dollars In Thousands)

	As of December 31, 2019		
Triggering Event	# of Contracts in a Liability Position Containing the Triggering Feature	Gross Fair Value of Contract	Cost to Settle if Contingent Feature is Triggered (net of collateral)
Central Hudson:			
Credit Rating Downgrade	11	$ (1,922)	$ (1,922)
Adequate Assurance	2	(1,675)	(1,675)
Total Central Hudson	13	$ (3,597)	$ (3,597)

Derivative Contracts

CH Energy Group and Central Hudson have elected gross presentation for their derivative contracts under master netting agreements and collateral positions. On December 31, 2019 and December 31, 2018, Central Hudson did not have collateral posted against the fair value amount of derivatives.

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

				Gross Amounts Not Offset in the Statement of Financial Position		
Description	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amount of Assets Presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Received	Net Amount
As of December 31, 2019[(1)]						
Derivative Contracts:						
Central Hudson - electric	$ -	$ -	$ -	$ -	$ -	$ -
Central Hudson - natural gas	-	-	-	-	-	-
Total CH Energy Group and Central Hudson Assets	$ -	$ -	$ -	$ -	$ -	$ -
As of December 31, 2018[(1)]						
Derivative Contracts:						
Central Hudson - electric	$ 711	$ -	$ 711	$ 711	$ -	$ -
Central Hudson - natural gas	171	-	171	-	-	171
Total CH Energy Group and Central Hudson Assets	$ 882	$ -	$ 882	$ 711	$ -	$ 171

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

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Description	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amount of Liabilities Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position: Financial Instruments	Cash Collateral Received	Net Amount
As of December 31, 2019[(1)]						
Derivative Contracts:						
Central Hudson - electric	$ 5,542	$ -	$ 5,542	$ -	$ -	$ 5,542
Central Hudson - natural gas	720	-	720	-	-	720
Total CH Energy Group and Central Hudson Liabilities	$ 6,262	$ -	$ 6,262	$ -	$ -	$ 6,262
As of December 31, 2018[(1)]						
Derivative Contracts:						
Central Hudson - electric	$ 2,135	$ -	$ 2,135	$ 711	$ -	$ 1,424
Total CH Energy Group and Central Hudson Liabilities	$ 2,135	$ -	$ 2,135	$ 711	$ -	$ 1,424

(1) Interest rate cap agreements are not shown in the above chart. As of December 31, 2019 and 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 December 31, 2019 and 2018, CH Energy Group's and Central Hudson's derivative assets and liabilities by category and hierarchy level are as follows (In Thousands):

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

Liabilities:				
Derivative Contracts:				
Central Hudson - electric	$ 5,542	$ -	$ 5,542	$ -
Central Hudson - natural gas	720	720	-	-
Total CH Energy Group and Central Hudson Liabilities	$ 6,262	$ 720	$ 5,542	$ -
As of December 31, 2018[1]				
Assets:				
Derivative Contracts:				
Central Hudson - electric	$ 711	$ -	$ 711	$ -
Central Hudson - natural gas	171	171	-	-
Total CH Energy Group and Central Hudson Assets	$ 882	$ 171	$ 711	$ -
Liabilities:				
Derivative Contracts:				
Central Hudson - electric	$ 2,135	$ -	$ 2,135	$ -
Total CH Energy Group and Central Hudson Liabilities	$ 2,135	$ -	$ 2,135	$ -

(1) Interest rate cap agreements are not shown in the above chart. These are classified as Level 2 in the fair value hierarchy using SIFMA Municipal Swap Curves and 3 month US Dollar Libor rate forward curves. As of December 31, 2019 and 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 years ended December 31, 2019, 2018 and 2017, neither CH Energy Group nor Central Hudson had derivatives designated as hedging instruments. The following table summarizes the effects of CH Energy Group's and Central Hudson's derivatives on the Statements of Income (In Thousands):

	Amount of Gain(Loss) Recognized as Increase/(Decrease) in the Statements of Income			
	Year Ended December 31,			
	2019	2018	2017	Location of Gain (Loss)
Central Hudson:				
Electricity swap contracts	$ (15,145)	$ (2,670)	$ (14,425)	Deferred purchased electric costs[1]
Natural gas swap contracts	(23)	287	93	Deferred purchased natural gas costs[1]
Total CH Energy Group and Central Hudson	$ (15,168)	$ (2,383)	$ (14,332)	

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

Other Hedging Activities

Central Hudson – Electric

In October 2019, Central Hudson entered into a weather option for the period December 1, 2019 through March 31, 2020, to hedge the effect of significant variances in weather conditions on electricity costs. For Central Hudson, this transaction will impact purchased electric expense and revenue, but will not have a net income impact due to the full deferral authority over commodity costs through its electric cost adjustment charge mechanisms. The aggregate limit on the contract is $5 million. This contract will be accounted for in accordance with guidance specific to accounting for weather derivatives. The $1.5 million premium paid will be amortized to purchased electricity over the term of the contract and all payouts will be recorded as a reduction to purchased electricity in the Statements of Income. The unamortized premium at December 31, 2019 is $1.1 million and is included in the "special deposits and prepayments" line item of CH Energy Group's and Central Hudson's Balance Sheets.

In 2018 and 2017, Central Hudson entered into similar weather options for the periods of December 1, 2018 through March 31, 2019 and December 1, 2017 through March 31, 2018, respectively, with an aggregate limit of $5 million per contract. Premiums paid were amortized to purchased electricity over the term of the agreements. The respective payouts earned of $0.7 million and $2.2 million on the 2018 and 2017 contracts were recorded as a reduction to purchased electricity in the Statements of Income.

Based on Central Hudson's valuation model, the fair value of the weather option purchased for the December 1, 2019 through March 31, 2020 period, as of December 31, 2019 was approximately $1.4 million. The fair value of the December 1, 2018 through March 31, 2019 weather option was approximately $1.1 million as of December 31, 2018. The valuations were based on significant unobservable inputs, including short term temperature forecast and historical temperature fluctuations in winter and, as such, would be a Level 3 valuation.

Central Hudson – Natural Gas

In October 2019, Central Hudson entered into a weather option for the period December 1, 2019 through March 31, 2020, to hedge the effect of significant variances in weather conditions and price on natural gas costs. For Central Hudson, this transaction will impact purchased natural gas expense and revenue, but will not have a net income impact due to the full deferral authority over commodity costs through its natural gas cost adjustment charge mechanisms. The aggregate limit on the contract is $5 million. The terms of this contract included both a weather and natural gas price trigger. However, management believes weather was the predominant trigger for any payout that would have been earned under the contract. Therefore, this contract was accounted for in accordance with guidance specific to accounting for weather derivatives. The $2.2 million premium paid will be amortized to purchased natural gas over the term of the contract and all payouts will be recorded as a reduction to purchased natural gas in the Statement of Income. The unamortized premium at December 31, 2019 was $1.6 million and is reflected in the "special deposits and prepayments" line item of CH Energy Group's and Central Hudson's Balance Sheets.

In 2018 and 2017, Central Hudson entered into similar weather options for the periods of December 1, 2018 through March 31, 2019 and December 1, 2017 through March 31, 2018, respectively. The aggregate limit per contract was $5 million. Premiums paid were amortized to purchased natural gas over the term of the related agreement. The respective payouts of $0.5 million and $3.8 million on the 2018 and 2017 contracts were recorded as a reduction to purchased natural gas in the Statements of Income.

Based on Central Hudson's valuation model, the fair value of the weather options purchased for the December 1, 2019 through March 31, 2020 and December 1, 2018 through March 31, 2019 period was approximately $2.2 million as of December 31, 2019 and $1.8 million as of December 31, 2018, respectively. The valuations were based on an analysis, which includes significant unobservable inputs, specifically short-term weather forecasts, historical temperature fluctuations and correlation between daily temperature fluctuations and natural gas prices in winter and, as such, would be a Level 3 valuation.

NOTE 17 – Other Fair Value Measurements

Other Assets Recorded at Fair Value

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

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2019:				
Other Investments	$ 8,865	$ 8,865	$ -	$ -
As of December 31, 2018:				
Other Investments	$ 9,479	$ 9,479	$ -	$ -

As of December 31, 2019 and 2018, a portion of the trust assets for the funding of the SERP and Deferred Compensation Plan were invested in mutual funds and money market accounts, which are measured at fair value on a recurring basis. These investments are valued at quoted market prices in active markets and, as such, are Level 1 investments as defined in the fair value hierarchy. These amounts are included in "Other investments" within the Deferred Charges and Other Assets section of the CH Energy Group's and Central Hudson's Balance Sheets.

The remaining amount reported in "Other investments" represents trust assets for the funding of the SERP and Deferred Compensation Plan held in trust-owned life insurance policies, which are recorded at cash surrender value. As of December 31, 2019 and 2018, the total cash surrender value of trust-owned life insurance held by these trusts was approximately $31.6 million and $29.3 million. The change in the cash surrender value is reported in "Other – net" income in the CH Energy Group's and Central Hudson's Income Statements.

Other Fair Value Disclosure

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

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

Cash and Cash Equivalents: Carrying amount.

Short-Term Borrowings: Carrying amount.

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

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

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

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

CH Energy Group

	Fixed Rate		Variable Rate		Total Debt Outstanding	
Expected Maturity Date	Amount	Estimated Effective Interest Rate	Amount	Estimated Effective Interest Rate	Amount	Estimated Effective Interest Rate
As of December 31, 2019:						
2020	$ 41,718	3.20%	$ -	-%		
2021	45,987	4.30%	-	-%		
2022	25,364	3.69%	-	-%		
2023	2,100	6.91%	-	-%		
2024	2,245	6.91%	30,000	2.98%		
Thereafter	578,101	4.58%	33,700	2.41%		
Total	$ 695,515	4.46%	$ 63,700	2.68%	$ 759,215	4.31%
Fair Value	$ 790,711		$ 63,700		$ 854,411	
As of December 31, 2018:						
2019	$ 28,607	5.21%	$ -	-%		
2020	41,718	3.20%	-	-%		
2021	45,987	4.30%	-	-%		
2022	25,364	3.69%	-	-%		
2023	2,100	6.89%	-	-%		
Thereafter	480,346	4.73%	63,700	3.51%		
Total	$ 624,122	4.58%	$ 63,700	3.51%	$ 687,822	4.48%
Fair Value	$ 665,815		$ 63,700		$ 729,515	

Central Hudson

Expected Maturity Date	Fixed Rate Amount	Fixed Rate Estimated Effective Interest Rate	Variable Rate Amount	Variable Rate Estimated Effective Interest Rate	Total Debt Outstanding Amount	Total Debt Outstanding Estimated Effective Interest Rate
As of December 31, 2019:						
2020	$ 40,000	3.04%	$ -	-%		
2021	44,150	4.19%	-	-%		
2022	23,400	3.42%	-	-%		
2023	-	-%	-	-%		
2024	-	-%	30,000	2.98%		
Thereafter	575,700	4.57%	33,700	2.41%		
Total	$ 683,250	4.42%	$ 63,700	2.68%	$ 746,950	4.27%
Fair Value	$ 777,318		$ 63,700		$ 841,018	
As of December 31, 2018:						
2019	$ 27,000	5.11%	$ -	-%		
2020	40,000	3.04%	-	-%		
2021	44,150	4.19%	-	-%		
2022	23,400	3.42%	-	-%		
2023	-	-%	-	-%		
Thereafter	475,700	4.70%	63,700	3.51%		
Total	$ 610,250	4.53%	$ 63,700	3.51%	$ 673,950	4.43%
Fair Value	$ 651,215		$ 63,700		$ 714,915	

NOTE 18 – Related Party Transactions

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

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

	Year Ended December 31, 2019	2018	2017
CH Energy Group (Thompson Hine LLP)	$ 2,096	$ 2,199	$ 2,203
Central Hudson (Thompson Hine LLP)	$ 2,055	$ 2,158	$ 2,151
Central Hudson (The Chazen Companies)	$ 829	$ 596	$ 538

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

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

	December 31, 2019	December 31, 2018
CH Energy Group[(1)]	Fortis	Fortis
Accounts Receivable	$ 982	$ 862
Accounts Payable	$ -	$ -

	December 31, 2019			December 31, 2018		
Central Hudson[(1)]	CHEG	Fortis	Other Affiliates	CHEG	Fortis	Other Affiliates
Accounts Receivable	$ 109	$ 23	$ 4	$ 92	$ 5	$ 7
Accounts Payable	$ 574	$ -	$ -	$ 810	$ -	$ -

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

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

	December 31, 2019		December 31, 2018		December 31, 2017	
	CHEG	Fortis[(1)]	CHEG	Fortis[(1)]	CHEG	Fortis[(1)]
CH Energy Group	$ -	$ 3,121	$ -	$ 2,799	$ -	$ 2,269
Central Hudson	$ 3,545	$ -	$ 3,107	$ -	$ 2,698	$ -

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

NOTE 19 – Subsequent Events

An evaluation of subsequent events through February 12, 2020, the date these 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 Consolidated Financial Statements as of December 31, 2019.

On January 30, 2020, Central Hudson made a contribution of $1.1 million to the 401(h) Plan to fund the management OPEB liabilities.

MANAGEMENT'S DISCUSSION and ANALYSIS of FINANCIAL CONDITION and RESULTS of OPERATIONS
For the Year Ended December 31, 2019

This Management Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the 2019 Financial Statements and the notes thereto.

Overview

CH Energy Group is the holding company parent corporation of four principal, wholly owned subsidiaries, Central Hudson Gas & Electric Corporation ("Central Hudson" or the "Company"), Central Hudson Enterprises Corporation ("CHEC"), Central Hudson Electric Transmission LLC ("CHET") and Central Hudson Gas Transmission LLC ("CHGT"). Central Hudson is a regulated electric and natural gas transmission and distribution utility. CH Energy Group formed CHET to hold its 6.1% ownership interest in New York Transco LLC ("Transco"). Transco is a partnership with affiliates of other investor owned utilities in New York State which was created to develop, own and operate electric transmission projects in New York State. CHGT was formed to hold CH Energy Group's ownership stake in possible gas transmission pipeline opportunities in New York State. All of CH Energy Group's common stock is indirectly owned by Fortis Inc. ("Fortis"), a leader in the North American regulated electric and gas utility industry, with 2019 revenue of CAD$8.8 billion and total assets of approximately CAD$53 billion. Fortis and its subsidiaries' 9,000 employees serve 3.3 million utility customers in five Canadian provinces, nine U.S. states and three Caribbean countries.

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

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 invested approximately $239 million in 2019, and its 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, resiliency and automation of 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. 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. At December 31, 2019, CHET's investment in Transco was approximately $7.9 million.

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

Central Hudson
Business Description and Strategy

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

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

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

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

- Upgrading electric transmission and distribution lines, including support for statewide transmission upgrades to deliver renewable energy sources to areas of high electric 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.

Opportunities and Risks

Central Hudson invests significant capital on an annual basis. Central Hudson's investments enhance safety and reliability through solutions which are intended to improve customer satisfaction and reduce risk. Opportunities to enhance transmission and distribution systems and information systems technologies are evaluated and prioritized based on their expected benefits, projected costs and estimated risks. Central Hudson's proposed capital expenditures were approved by the PSC in the 2018 Rate Order.

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

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

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

Regulatory/Compliance Risks:

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

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

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

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

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

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

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

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

Operations Risks:

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

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

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

Environmental Risks:

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

CH Energy Group - Regulated Operations - Central Hudson

Financial Highlights

Period Ended December 31

	Year to Date		
	2019	**2018**	**Change**
Electricity Sales (GWh)	4,963	5,118	(155)
Natural Gas Sales (PJ)	21.9	23.8	(1.9)
(In millions)			
Revenues	$ 691.7	$ 724.6	$ (32.9)
Energy Supply Costs - Matched to Revenues	191.5	255.1	(63.6)
Operating Expenses - Matched to Revenues	76.8	74.0	2.8
Operating Expenses - Other	262.7	241.0	21.7
Depreciation and Amortization	59.4	54.5	4.9
Other Income, net	11.4	4.6	6.8
Interest Charges	33.5	31.2	2.3
Income Taxes	14.3	15.2	(0.9)
Net income	$ 64.9	$ 58.2	$ 6.7

Earnings: Central Hudson achieved year over year earnings growth of $6.7 million. 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. A higher level of incentives earned in 2019 associated with Earnings Adjustment Mechanisms ("EAM") for meeting certain energy efficiency targets and improved reliability performance compared to 2018 also favorably impacted year over year earnings results. Additionally, a higher number of billed gas customers generated revenues above the amount provided in delivery rates, which are not deferred under the current RDM structure. The impact of these items was partially offset by a change in gas rate design in the 2018 Rate Order 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 and negatively impacted year over year results for the first two quarters of 2019, but have no earnings impact on a full rate 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 2019 were 3.0% lower than 2018 primarily due to milder than normal weather.

Natural Gas Sales

Year over year natural gas sales were 8.0% lower due to lower firm and interruptible sales to electric generators as a result of a cooler summer in 2019 in comparison to that of 2018, coupled with a reduction in sales for resale stemming from a warmer than normal heating season in 2019.

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

Other Income, net: Other income, net, increased from 2018 to 2019 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 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 decreased as a result of the recovery of incremental storm restoration costs via the RAM effective July 1, 2019 as per the 2018 Rate Order.

Interest Charges: The year over year increase in interest charges reflect higher interest on long-term debt and an increase in carrying charges on balances collected under Orders for the Clean Energy Fund ("CEF") 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 billed in current delivery revenues rather than recorded in Interest Charges.

Income Taxes: The decrease in the combined effective tax rate from 20.8% to 18.6% was driven by an increase in the amortization of the protected tax liability, in accordance with tax normalization rules.

Central Hudson Revenues - Electric

Period Ended December 31

(In millions)

	Year to Date		
	2019	**2018**	**Change**
Revenues with Matching Expense Offsets:[(1)]			
Recovery of commodity purchases	$ 133.9	$ 182.2	$ (48.3)
Sales to others for resale	8.2	9.3	(1.1)
Impact of Tax Cuts and Jobs Act	-	(7.4)	7.4
Other revenues with matching offsets	62.3	67.0	(4.7)
Subtotal	204.4	251.1	(46.7)
Revenues Impacting Earnings:			
Customer sales	326.8	316.6	10.2
RDM and other regulatory mechanisms	(12.7)	(15.2)	2.5
Revenue requirement of bonus depreciation	-	(1.1)	1.1
Incentives earned	2.5	1.5	1.0
System Average Interruption Frequency Index ("SAIFI") deferral	-	(1.9)	1.9
Net plant & depreciation targets	(2.5)	(3.5)	1.0
Other revenues	11.0	11.0	-
Subtotal	325.1	307.4	17.7
Total Electric Revenues	$ 529.5	$ 558.5	$ (29.0)

(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.

Central Hudson Revenues - Natural Gas

Period Ended December 31

(In millions)

	Year to Date		
	2019	**2018**	**Change**
Revenues with Matching Expense Offsets:[(1)]			
Recovery of commodity purchases	$ 41.4	$ 53.8	$ (12.4)
Sales to others for resale	8.1	10.0	(1.9)
Impact of Tax Cuts and Jobs Act	-	(2.9)	2.9
Other revenues with matching offsets	7.5	8.2	(0.7)
Subtotal	57.0	69.1	(12.1)
Revenues Impacting Earnings:			
Customer sales	98.9	92.7	6.2
RDM and other regulatory mechanisms	0.6	1.3	(0.7)
Incentives earned	0.8	0.8	-
Revenue requirement of bonus depreciation	-	(0.5)	0.5
Net plant & depreciation targets	(1.2)	(1.4)	0.2
Other revenues	6.1	4.1	2.0
Subtotal	105.2	97.0	8.2
Total Natural Gas Revenues	$ 162.2	$ 166.1	$ (3.9)

(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.

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:

The year over year decrease in electric revenues is primarily a result of lower recovery of commodity costs driven by both a decrease in price and sales due to milder weather when compared to 2018. Excluding the impacts of commodity costs, revenues increased year over year primarily due to the increase in customer delivery rates effective July 1, 2018 and July 1, 2019, which incorporated the impacts of bonus depreciation and the Tax Cuts and Jobs Act. Revenues also include a higher level of EAM incentives earned in 2019 compared to 2018 for achieving certain energy efficiency targets as provided in the 2018 Rate Order. Additionally, in 2018 a reduction to revenue was recorded for not achieving SAIFI electric service interruption targets per the 2018 Rate Order.

Natural Gas Revenues:

Natural gas revenues decreased year over year primarily as a result of lower recovery of commodity costs due to a decrease in natural gas prices and sales volumes resulting from warmer weather. The decrease was partially offset by the increase in customer delivery rates effective July 1, 2018 and July 1, 2019, which incorporated the impacts of bonus depreciation and the Tax Cuts and Jobs Act.

Central Hudson Operating Expenses

Period Ended December 31

(In millions)	**Year to Date**		
	2019	**2018**	**Change**
Expenses Currently Matched to Revenues:[(1)]			
Purchased electricity	$ 142.1	$ 191.5	$ (49.4)
Purchased natural gas	49.7	63.8	(14.1)
Pension & OPEB	6.0	6.7	(0.7)
New York States energy efficiency programs	37.9	42.7	(4.8)
Major storm reserve	6.8	1.1	5.7
Low income programs	9.8	6.5[(3)]	3.3
Other matched expenses	16.0	16.8[(3)]	(0.8)
Subtotal	268.3	329.1	(60.8)
Other Operating Expense Variations:			
Tree trimming	23.1	20.9[(3)]	2.2
Property and school taxes[(2)]	53.6	52.1	1.5
Weather related service restoration	5.4	9.4	(4.0)
Distribution maintenance	5.4	4.6[(3)]	0.8
Uncollectible accounts and reserve	7.2	4.8	2.4
Information technology	8.8	7.3[(3)]	1.5
Labor and related benefits	91.5	83.3[(3)]	8.2

Regulatory commission expense	2.3	1.0 (3)	1.3
Employee training and safety	2.2	1.5 (3)	0.7
Equity based compensation	3.0	1.3 (3)	1.7
Depreciation and amortization	59.4	54.5	4.9
Other expenses	60.2	54.8 (3)	5.4
Subtotal	322.1	295.5	26.6
Total Operating Expenses	$ 590.4	$ 624.6	$ (34.2)

(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 period ended December 31, 2018 have been reclassified to conform to the current period presentation.

Operating Expenses:

The year over year decrease in operating expenses is primarily attributed to lower purchased commodity cost for both electric and natural gas, driven by lower prices and sales volumes. 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 depreciation, taxes and information technology associated with increased capital invested in the business, tree trimming costs associated with enhancing reliability, and labor and related benefits, employee training and safety and other expenses to effectively operate the business. Additionally, a change in estimate associated with the reserve for future uncollectible expense resulted in an additional $1.4 million of expense recognized in 2019.

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

Financial Position

CH Energy Group – Regulated – Central Hudson
Significant Changes in the Balance Sheets
as of December 31, 2019

(In millions)

Balance Sheet Account	**Increase (Decrease)**	**Explanation**
Other Receivables	(7.2)	Decrease is primarily due to the collection of costs related to mutual aid provided for hurricane restoration efforts in Puerto Rico.
Regulatory assets - current	19.3	Increase is primarily due to lower collections of commodity costs driven by lower sales volumes as a result of milder weather, higher unrealized losses on electric and gas derivatives, an increase in the current portion to be billed for the RAM and EAMs.
Fair value of derivative instruments, net	(5.0)	Decrease due to higher unrealized mark-to-market losses related to open electric and gas derivative contracts primarily as a result of lower fuel costs.
Regulatory assets - related to deferred pension plan costs	(29.3)	Decrease is primarily attributed to the increase in the funded status of the pension plans resulting from the investment gains on retirement income plan assets during 2019 partially offset by an increase in projected benefit obligation due to a decrease in the discount rate.

Regulatory assets - long term	11.7	Increase primarily reflects a $11.0 million increase in amounts accrued for future environmental remediation costs at North Water Street manufactured gas plant ("MGP") site as well as higher deferred taxes recoverable through future rates attributable to plant offset by derivative related timing differences.
Prefunded OPEB costs	11.7	Increase is the result of significant investment gains on the OPEB plan assets which was only partially offset by an increase in the projected benefit obligation due to a decrease in the discount rate.
Other assets - long term	6.3	Increase is primarily due to the recording of the right of use assets as a result of the implementation of the Lease Standard (ASC 842). Amount is offset for the most part with the corresponding liability in Other liabilities – long term.
Long term debt, including current maturities	73.0	The increase is due to the issuance of $100.0 million in long-term debt during 2019, partially offset by the repayment of $27.0 million of maturing debt in November 2019.
Accrued income and other taxes	(8.5)	Decrease primarily relates to the payment of 2018 federal income taxes in 2019.
Accrued environmental remediation costs, net	10.0	Net increase is primarily due to higher estimated remediation costs related to the North Water Street MGP site as a result of New York State DEC requirements related to sheen dispersion control in the Hudson River.
Accrued pension costs	(21.5)	Decrease is primarily due to investment gains on retirement plan assets partially reduced by an increase in the projected benefit obligation due to a decrease in the discount rate.
Other liabilities - long term	11.0	Increase is primarily due to the recording of lease liabilities as a result of the implementation of the Lease Standard (ASC 842) coupled with a new contractual obligation for a cloud servicing agreement.
Accumulated deferred income tax	27.3	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 December 31,

(In millions)	Year to Date	
	2019	**2018**
Cash, cash equivalents and restricted cash - beginning of period	$ 43.8	$ 17.1
Cash from operations pre-working capital	126.9	103.0
Working capital	4.5	25.0
Operating Activities	131.4	128.0
Investing Activities	(237.8)	(189.1)
Financing Activities	83.7	87.8
Cash, cash equivalents and restricted cash - end of period	$ 21.1	$ 43.8
Dividends paid on Common Stock - CH Energy Group	$ (16.5)	$ (22.0)

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

Investing Activities: Cash used in investing activities was $237.8 million for 2019, as compared to $189.1 million for the prior year. Capital work performed in the current year increased due to electric transmission, distribution and substation infrastructure replacement programs, continuation of the leak prone pipe replacement program, facility upgrades and continued investment in Information Technology and network strategy systems. Capital expenditures for the year ending December 31, 2020 are estimated to be in excess of $220 million.

Financing Activities: Cash generated from financing activities decreased $4.1 million for 2019 compared to 2018. During 2019, Central Hudson issued $100 million in Senior Notes, as compared to $105 million in the prior year, coupled with lower repayments of long term debt in 2019.

Anticipated Sources and Uses of Cash

CH Energy Group's cash flow is primarily generated by the operations of its utility subsidiary, Central Hudson. Generally, the subsidiary does not accumulate significant amounts of cash but rather 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 2020 or the foreseeable future.

CH Energy Group believes cash generated from operations and funds obtained from its financing program will be sufficient in 2020 and the foreseeable future to meet working capital needs, pay dividends on its Common Stock, fund Central Hudson's capital program 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 December 31, 2019 and 2018 was $250 million.

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

Uncommitted Credit

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

Central Hudson's Bond Ratings

	December 31, 2019		December 31, 2018	
	Rating(1)	Outlook	Rating(1)	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 used 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 strong investment-grade credit ratings help facilitate access to long-term debt; however, management can make no assurance that future financing will be available or economically viable.

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

CH Energy Group

	December 31, 2019		December 31, 2018	
		%		%
Long-term Debt[(1)]	$ 759.2	49.6	$ 687.8	49.7
Common Equity	772.6	50.4	695.1	50.3
Total	$ 1,531.8	100.0	$ 1,382.9	100.0

(1) Includes current maturities of long term debt.

Central Hudson

	December 31, 2019		December 31, 2018	
		%		%
Long-term Debt[(1)]	$ 747.0	49.2	$ 674.0	49.2
Common Equity	772.2	50.8	696.3	50.8
Total	$ 1,519.2	100.0	$ 1,370.3	100.0

(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%.

Critical Accounting Estimates

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

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

- Depreciation and amortization is based on estimates of the useful lives and estimated net salvage value of properties.
- Estimates for uncollectible accounts are based on customer accounts receivable aging data as well as consideration of various quantitative and qualitative factors, including special collection issues.
- The tax reserve recorded by Central Hudson relates to a change in 2010 to its tax return methodology for claiming deductions for incidental repair and maintenance expenditures on its utility assets. Although management believes that its methodology for claiming the deduction is consistent with the Internal Revenue Code and case law, management cannot

predict whether the Internal Revenue Service will accept the entirety of the deduction claimed.

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

Changes in Internal Controls over Financial Reporting

There have been no material changes in CH Energy Group's or Central Hudson's internal control over financial reporting during the year ended December 31, 2019.

Regulatory Proceedings

2018 Rate Order

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

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

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

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

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

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

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

On 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.

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, 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.

FERC Proceeding

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

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. The Joint Utilities ("JU") believe that a demand-based rate structure will more accurately reflect utility cost causation, deliver efficient price signals and lead to distributed energy resource investment decisions that appropriately reflect grid impacts and support REV goals.

In December 2018, the PSC Staff filed three whitepapers on Standby and Buyback Service Rate Design and Residential Voluntary Demand Rates as well as Future Value Stock Compensation, including for Avoided Distribution Costs. 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 JU on 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 demands 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.

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

Hybrid Storage Energy Systems

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

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.

Consolidated Billing for Community Distributed Generation
On December 12, 2019, the PSC initiated a new proceeding under Case 19-M-0463 in the Matter of Consolidated Billing for Distributed Energy Resources to evaluate consolidated billing. Following a notice and comment period addressing 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 Commission issued an Order adopting implementation of consolidated billing for CDG through a net crediting model. The program will be available to all CDG projects, both existing and new. The Order requires CDG sponsors to guarantee a minimum CDG savings rate of 5.0% for participants, requires the net member credit to appear on customers' bills, requires the utility to provide the CDG sponsor with a sponsor payment which is equal to the total generation value less the net credits provided to subscribers, less a discount retained by the utility to recover costs for performing the consolidated billing function which the Order initially set at 1.0%. Central Hudson filed a Consolidated Billing Implementation Plan on February 3, 2020 that included an anticipated timeline for implementation of net crediting as well as a cost estimate. The Commission directed each utility to make all reasonable efforts to develop a timeline that allows for the implementation by January 1, 2021 and to specifically explain why implementation by January 1, 2021 is not feasible. The Order also directs utilities to file a Sponsor Net Crediting Agreement, Net Crediting Manual, tariff leaves and a Billing Upgrade Report over the next several months. Since net crediting meets the objectives of the Low-Income Bill Discount Pledge ("BDP"), the Commission concluded implementation of the previous BDP program under Cases 15-E-0751 and 15-E-0082 is no longer necessary.

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

On April 18, 2019 the Commission released its 2018 Winter and Spring Storms Investigation Report ("Report") following its investigation. The Report has 94 recommendations that cover 18 topics, detailing actions to be taken to improve future storm preparation and restoration performance. The most significant recommendations address road clearing, damage assessments, estimated restoration times and communications with customers during the event. Utilities are directed to review each of the 94 recommendations and file a response with the Commission identifying whether the Commission should mandate, reject, or modify, in whole or in part, such recommendations. The Report cited Central Hudson's alleged failure to comply with a section of its 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 ("OSW") Standard and Framework for Phase 1 Procurement under Case 18-E-0071, in order to comply with NYSERDA's New York State Offshore Wind Master Plan, a comprehensive roadmap that encourages the development of at least 2,400 MW of offshore wind capacity to be operational by 2030. Project eligibility requires that offshore wind electric generation facilities must be located in the ocean waters of the United States, must have become operational on or after January 1, 2015, must deliver their electric energy directly into the New York Control Area ("NYCA") or directly into an adjacent control area with transmission into the NYCA and must have obtained a lease from the Bureau of Ocean Energy Management. NYSERDA's project evaluation criteria reflect the following weighting: viability 10%, price 70%, and economic benefits 20%. The generator is responsible for transmission in Phase 1. NYSERDA will serve as the procurement agent for OSW.

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 November 27, 2019, the Commission granted an additional four month extension to April 30, 2020 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.

Cybersecurity Protocols Proceeding

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

On February 4, 2019, the JU filed a Petition for Approval of the Business-to-Business Process Used to Formulate a Data Security Agreement ("DSA") and for Affirming the JUs' Authority to Require and Enforce Execution of the DSA by Entities Seeking Access to the Utility Customer Data or Utility Systems. The JUs proposed cybersecurity standards that should be applicable to any entity that electronically exchanges data with the utility, including energy service companies, distributed energy resource suppliers, direct customers and their applicable contractors. On October 17, 2019 the Commission issued an Order Establishing Minimum Cybersecurity and Privacy Protections. The Order adopts minimum cybersecurity and data privacy requirements for entities that receive from, or exchange customer data with, utilities on an electronic basis other than by mail. The JUs filed a revised DSA and Self Attestation on January 9, 2020 in compliance with the Order and will send each Energy Service Entity a DSA requesting them to execute the agreement by January 31, 2020. The Commission granted a request for an extension until February 14, 2020 to file a DSA for State entities. The Commission will continue to develop cybersecurity and data privacy requirements and modify or expand upon them in the future, as appropriate.

Energy Storage System Proceeding

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

On December 13, 2018 the Commission issued its Order Establishing Energy Storage Goal and Deployment Policy. The Commission Order ensures compliance with PSL 74 by establishing a statewide energy goal for 2030, along with a deployment policy to support that goal. The Commission adopted many of the recommendations from the Roadmap that the Commission believes address barriers impeding energy storage technologies from competing with other resources in a technology-neutral manner. In the Order, the Commission adopts statewide energy storage deployment goals of 1,500 MW by 2025 and 3,000 MW by 2030. Beginning in 2020 and each third year thereafter, the Commission will conduct a review of the progress towards achieving the energy storage deployment goals and effectiveness of the energy storage deployment policies and actions in meeting those goals. The Commission will also develop an annual report.

The Order agreed with the Joint Utilities that resolution of storage rate design issues and potential reforms will be addressed in the VDER Rate Design Working Group process. Each utility is required to propose an EAM in its next rate case filing that addresses system efficiency. Individual utility targets may be either annual or cumulative with milestones, taking into account relevant benchmarks including peak reduction potential studies and targets established in other jurisdictions. Utilities were directed to maintain consistent reporting of each energy storage project, whether standalone or paired, that shall adhere to the national energy metrics set forth in the Order.

Each electric Investor Owned Utility was required to issue a Request for Proposal in 2019 to competitively procure dispatch rights for bulk-level energy storage systems sited within their service territory. On 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. The due date for proposals was extended from December 20, 2019 to January 31, 2020. Central Hudson received and is currently reviewing proposals for six projects.

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-propriety 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 1st after the completion of each program year with information regarding participation, geographic plug location, installation costs, energy usage details and technologies used to manage demand. On January 13, 2020, Staff issued its Whitepaper Regarding Electric Vehicle Supply Equipment and Infrastructure Deployment. A Commission notice and formal comment period is expected to follow.

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

On April 1, 2019, the JU filed the New Efficiency New York filing. Central Hudson accepted the Commission's provisional electric and gas energy efficiency targets but proposed a higher incremental budget of $18 million and $1.1 million for electric and 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 2019Q1, Q2 and Q3 ETIP Scorecards on May 30, August 30 and November 26, 2019, respectively.

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 its policy on this issue.

Clean Energy Standard Proceedings
In June 2015, Governor Cuomo announced NYS's 2015 State Energy Plan as a comprehensive roadmap to build a clean, resilient and affordable energy system for NYS. On March 15, 2018, the Commission ordered modifications to the existing Maintenance Tier program, which applies only to eligible, preexisting renewable facilities. The modifications include expanding the funding capability for already-built renewable energy projects under the program in cases of need, increasing the size threshold for eligible existing hydroelectric facilities from 5 MW up to 10 MW, and lowering regulatory burdens making it easier to participate in the program if the facility is under economic duress. This will

facilitate the State meeting its renewable targets by 2030. Additionally in 2018, NYSERDA awarded $1.4 billion for 26 new large-scale renewable energy projects from the 2017 Renewable Energy Standard Solicitation. The awarded projects are located throughout NYS and include 22 solar farms, three wind farms, and one hydroelectric project. These projects are expected to be operational by 2022 and, once operational, will add more than 1,380 MW of renewable capacity. NYSERDA expects these projects to create more than 3,000 short and long term jobs in construction, operations and maintenance. On December 13, 2018, the PSC issued an Order Approving Phase 3 Implementation Plan. The Order directs NYSERDA to offer expiring Renewable Energy Credits ("RECs") at a reduced rate to LSEs equal to the current year price.

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. Central Hudson provided NYSERDA with an executed copy of the Agreement for the Sale of Zero-Emission Energy Certificates on January 2, 2020.

Climate Leadership and Community Protection Act

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

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

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

FERC Notice of Pending Jurisdictional Inquiry

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

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

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

Gas Safety
On September 17, 2018, the Commission issued a Notice of Adoption of rulemaking changes to Chapter III, Gas Utilities, Subchapter C, Safety, Part 255, Transmission and Distribution of Gas, to ensure conformance with Title 49, Code of Federal Regulations, Part 192, Transportation of Natural and Other Gas by Pipeline. Changes are related to new requirements to offer more customers Excess Flow Valves and to notify Staff of a company's intent to convert from a non-jurisdictional fuel to gas or petroleum 60 days prior to conversion. The new rules also require welders to complete a weld in order to obtain welding certification.

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

to monitor this proceeding but does not believe that implementation costs will be material to Central Hudson's operations.

Central Hudson Management and Operations Audit

In a July 16, 2018 Order, the Commission approved Central Hudson's Revised Audit Implementation Plans filed on December 14, 2017 and June 26, 2018. The Company's implementation plans address the Overland Final Audit Report released October 24, 2017 that included 55 recommendations. Central Hudson rejected eight recommendations in its implementation plan. The Order directs the Company to file updates on its progress with the recommendations no less frequently than every four months. Central Hudson's most recent update was filed on November 15, 2019 and reported that it considers 45 of the 47 audit recommendations complete and continues to work on implementation of the remaining 2 recommendations. To date, forty recommendations have been accepted by Staff.

Uniform Statewide Customer Satisfaction Survey

On October 18, 2018 in Case 15-M-0566 the Commission issued an Order Authorizing Implementation of a Pilot Statewide Customer Satisfaction Survey. The Order adopted a pilot survey for statewide use and directed Staff to report on the results of the pilot survey after one year, including a recommendation for whether to establish the survey on a permanent basis. The pilot survey was implemented on January 1, 2019; however, Central Hudson also continued its existing customer satisfaction survey.

Changes to the Retail Access Energy Market

On December 12, 2019 the Commission issued Order Adopting Changes to the Retail Access Energy Market and Establishing Further Process. The provisions of the Order strengthen protections for residential and small commercial (mass-market) customers in the retail energy market. The Order increases Energy Services Companies ("ESCO") accountability by enhancing eligibility criteria, improves transparency of ESCO product and pricing information and prohibits ESCO product offerings that lack energy service-based values by restricting the types of products and services ESCOs are allowed to offer mass-market customers. Beginning in February 2020, any product marketed by an ESCO must meet one of the following criteria with limited exceptions: 1) it must guarantee savings compared to the utility; 2) it must be a fixed rate product with a price limit; or 3) it must be a renewably sourced product. The Order directs utilities to publish their 12-month trailing average utility supply rate within 15 days of the close of the quarter, starting with the quarter ended December 31, 2019. On January 14, 2020, the JUs filed for an extension to be granted through February 7, 2020. The Order also directs Staff and the utilities to develop individualized billing plans that set forth timely and cost-effective pathways towards maximizing the dissemination of useful price comparison information to customers. The Order requires ESCOs to submit a new application to serve customers within 90 days that provides information on marketing methods, categories of approved commodity products it will offer, complaint history, security breaches, history of bankruptcy, dissolution, merger or acquisition activities, proof of financial assurances and officer certification of compliance with applicable laws and regulations.

FORWARD-LOOKING STATEMENTS

Statements included in this Annual Financial Report, which are not historical in nature, are intended to be "forward-looking statements." Forward-looking statements may be identified by words such as "anticipates," "intends," "estimates," "believes," "projects," "expects," "plans," "assumes," "seeks," and other similar words and expressions. CH Energy Group is subject to risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements. The risks and uncertainties include, but are not limited to: deviations from normal seasonal temperatures and storm activity, changes in energy and commodity prices, availability of energy supplies, changes in interest rates, poor operating performance, legislative, tax and regulatory developments, the outcome of litigations, and the resolution of current and future environmental issues. Additional information concerning risks and uncertainties may be found in the "Management's Discussion and Analysis of

Financial Condition and Results of Operations" section of CH Energy Group's Quarterly and Annual Financial Reports. These reports are available in the Financial Information section of the website of CH Energy Group, at www.CHEnergyGroup.com. CH Energy Group undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

ANNUAL FINANCIAL REPORT SUPPLEMENT

Holding Company Regulation

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

Central Hudson

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

Central Hudson serves a territory comprising of approximately 2,600 square miles in the Hudson Valley. Electric service is available throughout the territory, and natural gas service is provided in and about the cities of Poughkeepsie, Beacon, Newburgh, and Kingston, New York, and in certain outlying and intervening territories. The number of Central Hudson employees at December 31, 2019 was 1,065.

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

Regulation

Central Hudson is subject to regulation as follows:

- PSC – services rendered (including the rates charged), major transmission facility siting, accounting treatment of certain items, and issuance of securities. See Note 4 – "Regulatory Matters" of the Company's 2019 Annual Financial Report.

- FERC (under the Federal Power Act) – accounting and the acquisition and disposition of certain property.

- North American Electric Reliability Corporation – ownership, operation and use of a bulk power system.

- DEC – ownership, operation and use of hydroelectric facilities and environmental site investigation and remediation activities.

- Pipeline and Hazardous Materials Safety Administration – ownership, operation and use of gas pipeline system.

- NYISO – Daily activities, such as purchases and sales of energy and energy-related products, are subject to compliance monitoring and enforcement by the NYISO in accordance with the Market Services Tariff.

- United States Army Corps of Engineers – Construction, repair, replacement of gas or electric lines or facilities that may cross or are located within a federally protected wetland or water body.

Environmental Quality Regulation

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

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

The principal environmental areas relevant to Central Hudson (air, water and industrial and hazardous wastes) are described below. Unless otherwise noted, all required permits and certifications have been obtained by the applicable company. Management believes that Central Hudson was in material compliance with these permits and certifications during 2019. For further discussions related to environmental matters see Note 14 – “Commitments and Contingencies”.

Air Quality

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

Water Quality

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

Industrial & Hazardous Substances and Wastes

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

Rates

PSC – Costs of service, both for electric and natural gas delivery service and supply costs, are recovered from customers through PSC approved tariffs, subject to a standard of prudency. For further information, see Note 1 – “Summary of Significant Accounting Policies” under the caption “Rates, Revenues, and Cost Adjustment Mechanisms” and Note 4 – “Regulatory Matters” under the caption “2018 Rate Order” of the Company’s 2019 Annual Report.

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

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

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

During 2019, the average price of electricity for full service customers was 15.67 cents per kWh, which includes commodity and surcharges, as compared to an average of 17.02 cents per kWh in 2018. The average delivery only price in 2019 was 7.39 cents per kWh compared with 7.31 cents per kWh in 2018. The increase in delivery price was primarily due to an increase in base delivery revenue and collection of specified accumulated deferred balances, both pursuant to the 2018 Rate Order, offset by an increase in the refund of base delivery revenue in excess of the regulatory target.

During 2019, the average price of natural gas for full-service customers was $14.32 per Mcf, which includes commodity and surcharges, as compared to an average of $14.90 per Mcf in 2018. The average delivery only price for natural gas for retail and full service in 2019 was $7.57 per Mcf compared with $7.05 per Mcf in 2018. The increase in delivery price was primarily due to an increase in the base delivery revenue pursuant to the 2018 Rate Order and an increase in revenue per customer resulting from the interaction of slightly lower sales, fixed customer charges and an inverted rate structure.

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

Electric

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

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

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

Central Hudson owns substations having an aggregate transformer capacity of 5.7 million kilovolt amperes. Central Hudson's electric transmission system consists of 599 pole miles of line. The electric distribution system consists of approximately 7,200 pole miles of overhead lines and 1,600 trench miles of underground lines, as well as customer service lines and meters.

Electric Load and Capacity

Central Hudson's maximum one-hour demand for electricity within its own territory for the year ended December 31, 2019, occurred on July 20, 2019, and amounted to 1,109 MW. Central Hudson's all-time highest peak electric demand reached 1,295 MW on August 2, 2006. Central Hudson's current maximum one-hour demand for electricity within its own territory for the 2019-2020 winter capability occurred to date on December 19, 2019, and amounted to 828 MW.

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

Natural Gas

Central Hudson’s natural gas system consists of 165 miles of transmission pipelines and 1,300 miles of distribution pipelines, as well as customer service lines and meters. For the year ended December 31, 2019, the total amount of natural gas purchased by Central Hudson from all sources was 10,831,623 Mcf.

The peak daily demand for natural gas of Central Hudson’s customers for the year ended December 31, 2019, occurred on January 31, 2019 and was 136,276 Mcf. The all-time highest winter period daily peak for Central Hudson of 141,141 Mcf occurred on January 6, 2018. Current peak demand for the 2019-2020 heating season occurred to date on December 19, 2019 and was 113,119 Mcf. Central Hudson’s firm peak day natural gas capability in 2019-2020 heating season was 154,537 Mcf.

Purchased Power and Generation Costs

For the year ended December 31, 2019, the sources and related costs of purchased electricity and electric generation for Central Hudson were as follows (In Thousands):

Sources of Energy	Aggregate Percentage of Energy Requirements	Costs in 2019	
Purchased Electricity	97.1%	$	148,372
Hydroelectric and Other	2.9%		134
Deferred Electricity Cost			(6,421)
Total	100.0%	$	142,085

Other Central Hudson Matters

Labor Relations: Central Hudson has four agreements with Local 320 of the International Brotherhood of Electrical Workers for its 610 unionized employees. These agreements cover construction and maintenance employees, customer service representatives, service workers, clerical and system operation employees (excluding persons in managerial, professional, or supervisory positions). Three agreement are in effect through March 31, 2021 while the other agreement is in effect through April 30, 2022.

Property Additions: During the three-year period ended December 31, 2019, Central Hudson made gross property additions of $592.2 million and property retirements and adjustments of $77.3 million, resulting in a net increase (including construction work in progress) in gross utility plant of $514.9 million, or 25.2%.

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

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

Environmental Expenditures

2019 actual and 2020 estimated expenditures attributable in whole or in substantial part to environmental considerations are detailed in the table below (In Millions):

	2019	2020
Central Hudson	$ 9.7	$ 21.1

The decrease in 2020 estimated expenditures relates primarily to ongoing remediation activities at the North Water Street site. For further discussion of these activities, see Note 14 – “Commitments and Contingencies” under caption “Site Investigation and Remediation Program”.