

CENTRAL HUDSON GAS & ELECTRIC CORP
Form 10-Q
November 09, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number	Registrant, State of Incorporation Address and Telephone Number	IRS Employer Identification No.
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0-30512	CH Energy Group, Inc. (Incorporated in New York) 284 South Avenue Poughkeepsie, New York 12601-4839 (845) 452-2000	14-1804460
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1-3268	Central Hudson Gas & Electric Corporation (Incorporated in New York) 284 South Avenue Poughkeepsie, New York 12601-4839 (845) 452-2000	14-0555980
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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

CH Energy Group, Inc. Yes No
Central Hudson Gas & Electric Corporation Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

CH Energy Group, Inc. Yes No
Central Hudson Gas & Electric Corporation Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

CH Energy Group, Inc.	Central Hudson Gas & Electric Corporation
Large Accelerated Filer <input checked="" type="checkbox"/>	Large Accelerated Filer <input type="checkbox"/>
Accelerated Filer <input type="checkbox"/>	Accelerated Filer <input type="checkbox"/>
Non-Accelerated Filer <input type="checkbox"/>	Non-Accelerated Filer <input checked="" type="checkbox"/>
Smaller Reporting Company <input type="checkbox"/>	Smaller Reporting Company <input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

CH Energy Group, Inc. Yes No
Central Hudson Gas & Electric Corporation Yes No

As of the close of business on October 31, 2012 (i) CH Energy Group, Inc. had outstanding 14,948,216 shares of Common Stock (\$0.10 per share par value) and (ii) all of the outstanding 16,862,087 shares of Common Stock (\$5 per share par value) of Central Hudson Gas & Electric Corporation were held by CH Energy Group, Inc.

CENTRAL HUDSON GAS & ELECTRIC CORPORATION MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTIONS (H)(1)(a) AND (b) OF FORM 10-Q AND IS THEREFORE FILING THIS FORM WITH THE REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTIONS (H)(2)(a), (b) AND (c).

FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2012

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FILING FORMAT

This Quarterly Report on Form 10-Q is a combined quarterly report being filed by two different registrants: CH Energy Group, Inc. ("CH Energy Group") and Central Hudson Gas & Electric Corporation ("Central Hudson"), a wholly owned subsidiary of CH Energy Group. Except where the content clearly indicates otherwise, any reference in this report to CH Energy Group includes all subsidiaries of CH Energy Group, including Central Hudson. Central Hudson makes no representation as to the information contained in this report in relation to CH Energy Group and its subsidiaries other than Central Hudson.

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PART I – FINANCIAL INFORMATION

ITEM 1 – Financial Statements (Unaudited)

CH ENERGY GROUP CONSOLIDATED
STATEMENT OF INCOME (UNAUDITED)
(In Thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Operating Revenues				
Electric	\$ 148,916	\$ 149,706	\$ 393,617	\$ 418,511
Natural gas	18,306	18,462	100,276	127,941
Competitive business subsidiaries:				
Petroleum products	47,168	47,951	182,939	194,612
Other	4,680	4,636	13,880	13,730
Total Operating Revenues	219,070	220,755	690,712	754,794
Operating Expenses				
Operation:				
Purchased electricity and fuel used in electric generation	57,177	60,734	139,600	168,797
Purchased natural gas	5,873	6,337	37,977	63,425
Purchased petroleum	42,930	43,564	158,659	167,558
Other expenses of operation - regulated activities	56,015	55,480	174,737	181,460
Other expenses of operation - competitive business subsidiaries	10,519	10,986	34,307	34,841
Merger related costs	1,037	-	9,499	-
Depreciation and amortization	10,626	10,064	31,793	30,250
Taxes, other than income tax	12,776	11,760	38,372	36,687
Total Operating Expenses	196,953	198,925	624,944	683,018
Operating Income	22,117	21,830	65,768	71,776
Other Income and Deductions				
Income from unconsolidated affiliates	(59)	25	43	644
Interest on regulatory assets and other interest income	1,594	1,037	5,236	4,334
Impairment of investments	-	(3,582)	-	(3,582)
Regulatory adjustments for interest costs	326	319	976	1,032
Business development costs	(2)	(529)	(65)	(1,027)
Other - net	(402)	340	(886)	(550)
Total Other Income	1,457	(2,390)	5,304	851
Interest Charges				
Interest on long-term debt	6,201	6,620	18,638	20,090
Penalty for early retirement of debt	-	2,982	-	2,982
Interest on regulatory liabilities and other interest	1,665	1,553	4,952	4,568
Total Interest Charges	7,866	11,155	23,590	27,640
Income before income taxes, non-controlling interest and preferred dividends of subsidiary	15,708	8,285	47,482	44,987
Income Taxes	6,548	3,478	21,345	16,998
Net Income from Continuing Operations	9,160	4,807	26,137	27,989

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Discontinued Operations				
Income from discontinued operations before tax	-	166	-	987
Gain from sale of discontinued operations	-	2,070	-	1,527
Income tax expense from discontinued operations	-	(1,527)	-	(1,454)
Net Income from Discontinued Operations	-	3,763	-	3,968
Net Income	9,160	8,570	26,137	31,957
Net Income attributable to non-controlling interest:				
Dividends declared on Preferred Stock of subsidiary	103	242	521	727
Preferred Stock Redemption Premium	-	-	342	-
Net Income Attributable to CH Energy Group	9,057	8,328	25,274	31,230
Dividends declared on Common Stock	-	8,263	16,572	25,021
Change in Retained Earnings	\$9,057	\$65	\$8,702	\$6,209

The Notes to Financial Statements are an integral part hereof.

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CH ENERGY GROUP CONSOLIDATED
 STATEMENT OF INCOME (CONT'D)
 (UNAUDITED)
 (In Thousands, except per share amounts)

	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2012	
	2011	2011	2011	2011
Common Stock:				
Average shares outstanding - Basic	14,920	15,126	14,903	15,416
Average shares outstanding - Diluted	15,127	15,314	15,110	15,604
Income from continuing operations attributable to CH Energy Group common shareholders:				
Earnings per share - Basic	\$0.61	\$0.30	\$1.70	\$1.77
Earnings per share - Diluted	\$0.60	\$0.30	\$1.67	\$1.75
Income from discontinued operations attributable to CH Energy Group common shareholders:				
Earnings per share - Basic	\$-	\$0.25	\$-	\$0.26
Earnings per share - Diluted	\$-	\$0.24	\$-	\$0.25
Amounts attributable to CH Energy Group common shareholders:				
Earnings per share - Basic	\$0.61	\$0.55	\$1.70	\$2.03
Earnings per share - Diluted	\$0.60	\$0.54	\$1.67	\$2.00
Dividends Declared per Share	\$-	\$0.54	\$1.11	\$1.64

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

	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2012	
	2011	2011	2011	2011
Net Income	\$9,160	\$8,570	\$26,137	\$31,957
Other Comprehensive Loss:				
Net unrealized gains/(losses) on investments held by equity method investees - net of tax of (\$56) and (\$17) in 2012 and (\$37) and (\$10) in 2011, respectively	84	56	26	15
Other comprehensive income	84	56	26	15

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Comprehensive Income	9,244	8,626	26,163	31,972
Comprehensive income attributable to non-controlling interest	103	242	863	727
Comprehensive income attributable to CH Energy Group	\$9,141	\$8,384	\$25,300	\$31,245

The Notes to Financial Statements are an integral part hereof.

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

	Nine Months Ended September 30,	
	2012	2011
Operating Activities:		
Net income	\$26,137	\$31,957
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	28,302	28,614
Amortization	3,491	3,120
Deferred income taxes - net	24,055	15,061
Bad debt expense	4,996	6,049
Impairment of investments	-	3,582
Undistributed equity in earnings of unconsolidated affiliates	(42)	(644)
Pension expense	17,909	20,725
Other post-employment benefits ("OPEB") expense	5,210	5,203
Regulatory liability - rate moderation	(1,107)	(7,849)
Revenue decoupling mechanism recorded	(2,405)	4,956
Regulatory asset amortization	3,535	3,524
Gain on sale of assets	(71)	(897)
Changes in operating assets and liabilities - net of business acquisitions:		
Accounts receivable, unbilled revenues and other receivables	3,451	2,380
Fuel, materials and supplies	963	(843)
Special deposits and prepayments	5,267	2,779
Income and other taxes	255	(1,773)
Accounts payable	(5,020)	(18,092)
Accrued interest	2,211	1,566
Customer advances	5,440	(508)
Pension plan contribution	(28,494)	(32,536)
OPEB contribution	(3,269)	(1,184)
Revenue decoupling mechanism (refunded) collected	141	2,388
Regulatory asset - storm deferral	(942)	(3,441)
Regulatory asset - manufactured gas plant ("MGP") site remediation	2,920	3,761
Regulatory asset - Temporary State Assessment	(3,568)	(2,169)
Deferred natural gas and electric costs	3,498	22,164
Other - net	19,713	6,895
Net cash provided by operating activities	112,576	94,788
Investing Activities:		
Proceeds from federal grants	-	14,744
Proceeds from sale of assets	111	42,234
Additions to utility and other property and plant	(80,372)	(61,755)
Acquisitions made by competitive business subsidiaries	(550)	(2,255)

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Other - net	(3,681)	(3,022)
Net cash used in investing activities	(84,492)	(10,054)
Financing Activities:		
Redemption of long-term debt	(36,495)	(20,464)
Proceeds from issuance of long-term debt	48,000	33,400
(Repayments) borrowings of short-term debt - net	(6,500)	5,000
Dividends paid on Common Stock	(24,841)	(25,290)
Redemption of Preferred Stock	(12,180)	-
Dividends paid on Preferred Stock of subsidiary	(764)	(727)
Shares repurchased	(2,993)	(48,612)
Other - net	(593)	(647)
Net cash used in financing activities	(36,366)	(57,340)
Net Change in Cash and Cash Equivalents	(8,282)	27,394
Cash and Cash Equivalents at Beginning of Period	15,281	29,420
Cash and Cash Equivalents at End of Period	\$6,999	\$56,814

The Notes to Financial Statements are an integral part hereof.

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

	Nine Months Ended September 30,	
	2012	2011
Supplemental Disclosure of Cash Flow Information:		
Interest paid	\$16,866	\$22,276
Federal and state income taxes paid	\$118	\$1,037
Additions to plant included in liabilities	\$4,856	\$3,997
Merger related transaction costs in liabilities	\$956	\$-

The Notes to Financial Statements are an integral part hereof.

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CH ENERGY
GROUP
CONSOLIDATED
BALANCE SHEET
(UNAUDITED)
(In Thousands)

	September 30, 2012	December 31, 2011	September 30, 2011
ASSETS			
Utility Plant			
Electric	\$1,045,949	\$1,008,394	\$988,319
Natural gas	311,841	305,664	301,989
Common	157,878	147,286	142,201
Gross Utility Plant	1,515,668	1,461,344	1,432,509
Less: Accumulated depreciation	401,966	388,784	385,198
Net	1,113,702	1,072,560	1,047,311
Construction work in progress	67,415	58,847	63,996
Net Utility Plant	1,181,117	1,131,407	1,111,307
Non-Utility Property & Plant			
Griffith non-utility property & plant	32,535	31,669	30,795
Other non-utility property & plant	524	524	6,181
Gross Non-Utility Property & Plant	33,059	32,193	36,976
Less: Accumulated depreciation - Griffith	22,896	22,006	21,656
Less: Accumulated depreciation - other	-	-	1,121
Net Non-Utility Property & Plant	10,163	10,187	14,199
Current Assets			
Cash and cash equivalents	6,999	15,281	56,814
Accounts receivable from customers - net of allowance for doubtful accounts of \$6.8 million, \$7.0 million and \$6.5 million, respectively	85,542	90,937	90,155
Accrued unbilled utility revenues	12,071	15,299	11,320
Other receivables	6,881	9,512	8,618
Fuel, materials and supplies	24,151	25,114	25,530
Regulatory assets	36,454	49,526	43,407
Income tax receivable	-	432	2,822
Fair value of derivative instruments	760	349	42
Unamortized debt expense	407	407	407
Special deposits and prepayments	16,588	21,795	19,836
Accumulated deferred income tax	987	5,895	12,956
Total Current Assets	190,840	234,547	271,907
Deferred Charges and Other Assets			
Regulatory assets - pension plan	140,702	159,020	121,238

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Regulatory assets - other	109,887	114,980	105,899
Fair value of derivative instruments	1,120	931	-
Goodwill	37,752	37,512	36,538
Other intangible assets - net	11,590	13,173	12,682
Unamortized debt expense	4,444	4,128	4,610
Investments in unconsolidated affiliates	2,427	2,777	3,043
Other investments	17,677	14,461	14,422
Other	5,468	6,989	6,175
Total Deferred Charges and Other Assets	331,067	353,971	304,607
Total Assets	\$1,713,187	\$1,730,112	\$1,702,020

The Notes to Financial Statements are an integral part hereof.

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

	September 30, 2012	December 31, 2011	September 30, 2011
CAPITALIZATION AND LIABILITIES			
Capitalization			
CH Energy Group Common Shareholders' Equity			
Common Stock (30,000,000 shares authorized; \$0.10 par value; 16,862,087 shares issued) 14,947,899 shares, 14,894,964 shares and 14,885,037 shares outstanding, respectively	\$1,686	\$1,686	\$1,686
Paid-in capital	349,136	351,053	350,693
Retained earnings	251,093	242,391	236,551
Treasury stock - 1,914,188 shares, 1,967,123 shares and 1,977,050 shares, respectively	(90,417)	(92,908)	(93,210)
Accumulated other comprehensive income	380	354	474
Capital stock expense	(166)	(328)	(328)
Total Equity	511,712	502,248	495,866
Preferred Stock of subsidiary	9,027	21,027	21,027
Long-term debt	493,473	446,003	446,466
Total Capitalization	1,014,212	969,278	963,359
Current Liabilities			
Current maturities of long-term debt	1,041	37,006	70,373
Notes payable	-	6,500	5,000
Accounts payable	34,094	43,904	47,915
Accrued interest	8,544	6,333	7,964
Dividends payable	-	8,511	8,505
Accrued vacation and payroll	7,208	6,702	6,956
Customer advances	27,967	22,527	18,801
Customer deposits	7,473	6,647	6,651
Regulatory liabilities	7,732	11,161	12,444
Fair value of derivative instruments	5,181	19,791	12,778
Accrued environmental remediation costs	10,130	6,652	5,227
Accrued income and other taxes	891	-	-
Deferred revenues	3,860	4,801	3,699
Other	19,466	17,905	14,565
Total Current Liabilities	133,587	198,440	220,878
Deferred Credits and Other Liabilities			
Regulatory liabilities - OPEB	12,139	6,988	12,038
Regulatory liabilities - other	105,109	108,887	110,280
Operating reserves	3,633	3,383	3,414
Fair value of derivative instruments	154	-	3,193
Accrued environmental remediation costs	8,238	11,036	11,937
Accrued OPEB costs	51,700	53,055	46,426
Accrued pension costs	99,869	121,911	76,414
Tax reserve	1,988	3,172	9,668

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Other	20,418	18,802	18,831
Total Deferred Credits and Other Liabilities	303,248	327,234	292,201
Accumulated Deferred Income Tax	262,140	235,160	225,582
Commitments and Contingencies			
Total Capitalization and Liabilities	\$1,713,187	\$1,730,112	\$1,702,020

The Notes to Financial Statements are an integral part hereof.

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Table of ContentsCH ENERGY GROUP CONSOLIDATED
STATEMENT OF EQUITY (UNAUDITED)

(In Thousands, except share amounts)

	CH Energy Group Common Shareholders		Paid-In Capital	Capital Stock Expense	Retained Earnings	Accumulated Other Comprehensive Income		Controlling Interest	Totaling Equity
	Common Stock Shares Issued	Treasury Stock Shares Repurchased Amount				(Loss)	Interest		
Balance at December 31, 2010	16,862,087	\$1,686 (1,062,825)	\$(44,887)	\$350,360	\$(328) \$230,342	\$459	\$172		\$537,804
Comprehensive income:									
Net income					31,957				31,957
Dividends declared on Preferred Stock of subsidiary					(727)				(727)
Change in fair value:									
Investments						15			15
Reclassification to liabilities held for sale								(172)	(172)
Dividends declared on common stock					(25,021)				(25,021)
Treasury shares activity - net		(914,225)	(48,323)	333					(47,990)
Balance at September 30, 2011	16,862,087	\$1,686 (1,977,050)	\$(93,210)	\$350,693	\$(328) \$236,551	\$474	\$-		\$495,866
Balance at December 31, 2011	16,862,087	\$1,686 (1,967,123)	\$(92,908)	\$351,053	\$(328) \$242,391	\$354	\$-		\$502,248
Comprehensive income:									
Net income					26,137				26,137
Preferred Stock Redemption					162 (342)				(180)
Dividends declared on Preferred Stock					(521)				(521)

of subsidiary										
Change in fair value:										
Investments								26		26
Dividends declared on common stock								(16,572)		(16,572)
Treasury shares activity - net		52,935	2,491	(1,917)						574
Balance at September 30, 2012	16,862,087	\$1,686	(1,914,188)	\$(90,417)	\$349,136	\$(166)	\$251,093	\$380	\$-	\$511,712

The Notes to Financial Statements are an integral part hereof.

Table of ContentsCENTRAL HUDSON
STATEMENT OF
INCOME
(UNAUDITED)
(In Thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Operating Revenues				
Electric	\$148,916	\$149,706	\$393,617	\$418,511
Natural gas	18,306	18,462	100,276	127,941
Total Operating Revenues	167,222	168,168	493,893	546,452
Operating Expenses				
Operation:				
Purchased electricity and fuel used in electric generation	57,177	60,734	139,600	168,797
Purchased natural gas	5,873	6,337	37,977	63,425
Other expenses of operation	56,015	55,480	174,737	181,460
Depreciation and amortization	9,466	8,909	28,336	26,790
Taxes, other than income tax	12,701	11,644	38,034	36,303
Total Operating Expenses	141,232	143,104	418,684	476,775
Operating Income	25,990	25,064	75,209	69,677
Other Income and Deductions				
Interest on regulatory assets and other interest income	1,581	1,023	5,197	4,310
Regulatory adjustments for interest costs	326	319	976	1,032
Other - net	(313)	513	(697)	(300)
Total Other Income	1,594	1,855	5,476	5,042
Interest Charges				
Interest on long-term debt	5,719	5,872	17,177	17,668
Interest on regulatory liabilities and other interest	1,666	1,529	4,898	4,517
Total Interest Charges	7,385	7,401	22,075	22,185
Income Before Income Taxes	20,199	19,518	58,610	52,534
Income Taxes	7,840	7,853	22,847	20,858
Net Income	12,359	11,665	35,763	31,676
Preferred Stock Redemption Premium	-	-	342	-
Dividends Declared on Cumulative Preferred Stock	103	242	521	727
Income Available for Common Stock	\$12,256	\$11,423	\$34,900	\$30,949

CENTRAL HUDSON
 STATEMENT OF
 COMPREHENSIVE
 INCOME
 (UNAUDITED)
 (In Thousands)

	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2011	
Net Income	\$12,359	\$11,665	\$35,763	\$31,676
Other Comprehensive Income	-	-	-	-
Comprehensive Income	\$12,359	\$11,665	\$35,763	\$31,676

The Notes to Financial Statements are an integral part hereof.

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CENTRAL
HUDSON
STATEMENT OF
CASH FLOWS
(UNAUDITED)
(In Thousands)

	Nine Months Ended September 30,	
	2012	2011
Operating Activities:		
Net income	\$35,763	\$31,676
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	26,728	25,463
Amortization	1,608	1,328
Deferred income taxes - net	24,096	19,975
Bad debt expense	4,501	5,075
Pension expense	17,909	20,725
OPEB expense	5,210	5,203
Regulatory liability - rate moderation	(1,107)	(7,849)
Revenue decoupling mechanism recorded	(2,405)	4,956
Regulatory asset amortization	3,535	3,524
Changes in operating assets and liabilities - net:		
Accounts receivable, unbilled revenues and other receivables	(2,468)	1,690
Fuel, materials and supplies	866	(2,550)
Special deposits and prepayments	5,583	1,563
Income and other taxes	(339)	(682)
Accounts payable	(4,220)	(10,420)
Accrued interest	1,730	1,346
Customer advances	985	(3,597)
Pension plan contribution	(28,494)	(32,536)
OPEB contribution	(3,269)	(1,184)
Revenue decoupling mechanism collected	141	2,388
Regulatory asset - storm deferral	(942)	(3,441)
Regulatory asset - MGP site remediation	2,920	3,761
Regulatory asset - Temporary State Assessment	(3,568)	(2,169)
Deferred natural gas and electric costs	3,498	22,164
Other - net	17,293	10,658
Net cash provided by operating activities	105,554	97,067
Investing Activities:		
Additions to utility plant	(78,792)	(57,434)
Other - net	(4,058)	(3,705)
Net cash used in investing activities	(82,850)	(61,139)
Financing Activities:		
Redemption of long-term debt	(36,000)	-
Proceeds from issuance of long-term debt	48,000	33,400
Borrowings of short-term debt - net	(1,500)	-

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Redemption of Preferred Stock	(12,180)	-
Dividends paid to parent - CH Energy Group	(22,000)	(33,000)
Dividends paid on cumulative Preferred Stock	(764)	(727)
Other - net	(622)	(647)
Net cash used in financing activities	(25,066)	(974)
Net Change in Cash and Cash Equivalents	(2,362)	34,954
Cash and Cash Equivalents - Beginning of Period	2,521	9,622
Cash and Cash Equivalents - End of Period	\$ 159	\$44,576
Supplemental Disclosure of Cash Flow Information:		
Interest paid	\$ 15,795	\$ 17,036
Federal and state income taxes paid	\$-	\$-
Additions to plant included in liabilities	\$4,856	\$3,997
Regulatory asset - storm deferral costs in liabilities	\$-	\$9,396

The Notes to Financial Statements are an integral part hereof.

Table of ContentsCENTRAL HUDSON
BALANCE SHEET
(UNAUDITED)
(In Thousands)

	September 30, 2012	December 31, 2011	September 30, 2011
ASSETS			
Utility Plant			
Electric	\$1,045,949	\$1,008,394	\$988,319
Natural gas	311,841	305,664	301,989
Common	157,878	147,286	142,201
Gross Utility Plant	1,515,668	1,461,344	1,432,509
Less: Accumulated depreciation	401,966	388,784	385,198
Net	1,113,702	1,072,560	1,047,311
Construction work in progress	67,415	58,847	63,996
Net Utility Plant	1,181,117	1,131,407	1,111,307
Non-Utility Property and Plant	524	524	681
Less: Accumulated depreciation	-	-	36
Net Non-Utility Property and Plant	524	524	645
Current Assets			
Cash and cash equivalents	159	2,521	44,576
Accounts receivable from customers - net of allowance for doubtful accounts of \$5.1 million, \$5.2 million and \$5.2 million, respectively	62,225	61,610	66,859
Accrued unbilled utility revenues	12,071	15,299	11,320
Other receivables	3,075	5,301	4,679
Fuel, materials and supplies - at average cost	20,171	21,037	22,577
Regulatory assets	36,454	49,526	43,407
Fair value of derivative instruments	711	320	-
Unamortized debt expense	407	407	407
Special deposits and prepayments	12,735	18,258	15,697
Accumulated deferred income tax	-	-	6,593
Total Current Assets	148,008	174,279	216,115
Deferred Charges and Other Assets			
Regulatory assets - pension plan	140,702	159,020	121,238
Regulatory assets - other	109,887	114,980	105,899
Fair value of derivative instruments	1,120	931	-
Unamortized debt expense	4,444	4,128	4,610
Other investments	17,205	14,047	14,008
Other	2,274	3,065	2,217
Total Deferred Charges and Other Assets	275,632	296,171	247,972

Total Assets	\$1,605,281	\$1,602,381	\$1,576,039
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The Notes to Financial Statements are an integral part hereof.

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CENTRAL HUDSON BALANCE SHEET

(CONT'D) (UNAUDITED)

(In Thousands, except share amounts)

	September 30, 2012	December 31, 2011	September 30, 2011
CAPITALIZATION AND LIABILITIES			
Capitalization			
Common Stock (30,000,000 shares authorized: \$5 par value; 16,862,087 shares issued and outstanding)	\$84,311	\$84,311	\$84,311
Paid-in capital	199,980	199,980	199,980
Retained earnings	178,865	165,965	162,847
Capital stock expense	(4,799)	(4,961)	(4,961)
Total Equity	458,357	445,295	442,177
Cumulative Preferred Stock not subject to mandatory redemption	9,027	21,027	21,027
Long-term debt	465,950	417,950	417,903
Total Capitalization	933,334	884,272	881,107
Current Liabilities			
Current maturities of long-term debt	-	36,000	69,400
Notes payable	-	1,500	-
Accounts payable	26,721	35,731	42,229
Accrued interest	7,913	6,183	7,313
Dividends payable - Preferred Stock	-	242	242
Accrued vacation and payroll	5,786	5,556	5,568
Customer advances	15,589	14,604	10,157
Customer deposits	7,408	6,582	6,587
Regulatory liabilities	7,732	11,161	12,444
Fair value of derivative instruments	5,181	19,791	12,778
Accrued environmental remediation costs	9,675	6,117	4,552
Accrued income and other taxes	2,003	1,274	1,184
Accumulated deferred income tax	5,373	156	-
Other	17,285	14,855	11,481
Total Current Liabilities	110,666	159,752	183,935
Deferred Credits and Other Liabilities			
Regulatory liabilities - OPEB	12,139	6,988	12,038
Regulatory liabilities - other	105,109	108,887	110,280
Operating reserves	2,444	2,120	2,235
Fair value of derivative instruments	154	-	3,193
Accrued environmental remediation costs	7,174	9,726	10,483
Accrued OPEB costs	51,700	53,055	46,426
Accrued pension costs	99,869	121,911	76,414
Tax reserve	1,988	3,172	9,668
Other	19,466	17,955	17,884
Total Deferred Credits and Other Liabilities	300,043	323,814	288,621

Accumulated Deferred Income Tax	261,238	234,543	222,376
Commitments and Contingencies			
Total Capitalization and Liabilities	\$1,605,281	\$1,602,381	\$1,576,039

The Notes to Financial Statements are an integral part hereof.

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Table of ContentsCENTRAL HUDSON STATEMENT OF
EQUITY (UNAUDITED)

(In Thousands, except share amounts)

	Central Hudson Common Shareholders		Treasury		Paid-In Amount	Capital Stock Expense	Retained Earnings	Accumulated Other Comprehensive Income / Total Equity	
	Common Stock	Shares Issued	Stock	Shares Repurchased				Amount	(Loss)
Balance at December 31, 2010	16,862,087	\$84,311	-	\$ -	\$199,980	\$(4,961)	\$164,898	\$ -	\$444,228
Net income							31,676		31,676
Dividends declared:									
On cumulative Preferred Stock							(727)		(727)
On Common Stock to parent - CH Energy Group							(33,000)		(33,000)
Balance at September 30, 2011	16,862,087	\$84,311	-	\$ -	\$199,980	\$(4,961)	\$162,847	\$ -	\$442,177
Balance at December 31, 2011	16,862,087	\$84,311	-	\$ -	\$199,980	\$(4,961)	\$165,965	\$ -	\$445,295
Net income							35,763		35,763
Preferred Stock Redemption						162	(342)		(180)
Dividends declared:									
On cumulative Preferred Stock							(521)		(521)
On Common Stock to parent - CH Energy Group							(22,000)		(22,000)
Balance at September 30, 2012	16,862,087	\$84,311	-	\$ -	\$199,980	\$(4,799)	\$178,865	\$ -	\$458,357

The Notes to Financial Statements are an integral part hereof.

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NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 – Summary of Significant Accounting Policies

Basis of Presentation

This Quarterly Report on Form 10-Q is a combined report of CH Energy Group, Inc. ("CH Energy Group") and its regulated electric and natural gas subsidiary, Central Hudson Gas & Electric Corporation ("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 and CH Energy Group's non-utility subsidiary, Central Hudson Enterprises Corporation ("CHEC"). Operating results of CHEC include its wholly owned subsidiary, Griffith Energy Services, Inc. ("Griffith"). Discontinued operations on CH Energy Group's Consolidated Statements of Income include the operating results of CHEC's subsidiaries which were sold in 2011, including Lyonsdale Biomass, LLC ("Lyonsdale"), Shirley Wind, LLC ("Shirley Wind"), CH-Auburn, LLC ("CH-Auburn") and CH-Greentree, LLC ("CH-Greentree"). Intercompany balances and transactions have been eliminated in consolidation. See Note 5 – "Acquisitions, Divestitures and Investments" for further information.

The Financial Statements were prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), which for regulated public utilities, includes specific accounting guidance for regulated operations. For additional information regarding regulatory accounting, see Note 2 – "Regulatory Matters."

Pending Acquisition by Fortis Inc.

On February 21, 2012, CH Energy Group announced that it had entered into an agreement and plan of merger under which it agreed, subject to shareholder approval and the approval of applicable regulatory authorities, to be acquired by Fortis Inc. ("Fortis") for \$65 per share of common stock in cash. On June 19, 2012, shareholders of CH Energy Group approved the proposed acquisition of the Company by Fortis. On July 3, 2012, the Federal Energy Regulatory Commission approved the acquisition of CH Energy Group by Fortis. On July 17, 2012, the Committee on Foreign Investment in the United States approved the acquisition of CH Energy Group by Fortis. On October 2, 2012, the Federal Trade Commission permitted the 30-day waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 with respect to the acquisition of the Company by Fortis to expire. The transaction remains subject to review by the New York State Public Service Commission ("PSC"). On April 20, 2012 Fortis and Central Hudson jointly filed a petition requesting approval of the proposed transaction under Section 70 of the Public Service Law. Pursuant to a procedure schedule established by the Administrative Law Judges, the PSC Staff and other parties to the proceeding filed testimony and comments on October 12, 2012. Management continues to believe that PSC approval will be obtained and the transaction will close during the first quarter of 2013.

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Unaudited Financial Statements

The accompanying Consolidated Financial Statements of CH Energy Group and Financial Statements of Central Hudson are unaudited but, in the opinion of management, reflect adjustments (which include normal recurring adjustments) necessary for a fair statement of the results for the interim periods presented. These unaudited quarterly Financial Statements do not contain all footnote disclosures concerning accounting policies and other matters which would be included in annual Financial Statements and, accordingly, should be read in conjunction with the audited Financial Statements (including the Notes thereto) included in the combined CH Energy Group/Central Hudson Annual Report on Form 10-K for the year ended December 31, 2011 (the "Corporations' 10-K Annual Report").

CH Energy Group's and Central Hudson's balance sheets as of September 30, 2011 are not required to be included in this Quarterly Report on Form 10-Q; however, these balance sheets are included for supplemental analysis purposes.

Reclassification

Certain amounts in the 2011 Financial Statements have been reclassified to conform to the 2012 presentation. For more information regarding reclassification of discontinued operations, see Note 5 – "Acquisition, Divestitures and Investments."

Revenue Recognition

CH Energy Group's deferred revenue balances as of September 30, 2012, December 31, 2011 and September 30, 2011 were \$3.9 million, \$4.8 million and \$3.7 million, respectively. The deferred revenue balance will be recognized in CH Energy Group's operating revenues over the 12-month term of the respective customer contract.

As required by the PSC, Central Hudson records gross receipts tax revenues and expenses on a gross income statement presentation basis (i.e., included in both revenue and expenses). Sales and use taxes for both Central Hudson and Griffith are accounted for on a net basis (excluded from revenue).

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Fuel, Materials & Supplies

The following is a summary of CH Energy Group's and Central Hudson's inventories (In Thousands):

	CH Energy Group			Central Hudson		
	September 30, 2012	December 31, 2011	September 30, 2011	September 30, 2012	December 31, 2011	September 30, 2011
Natural gas	\$8,889	\$ 11,711	\$ 13,106	\$8,889	\$ 11,711	\$ 13,106
Petroleum products and propane	2,882	3,422	2,177	-	494	494
Fuel used in electric generation	286	285	287	286	285	287
Materials and Supplies	12,094	9,696	9,960	10,996	8,547	8,690
Total	\$24,151	\$ 25,114	\$ 25,530	\$20,171	\$ 21,037	\$ 22,577

Depreciation and Amortization

Current accounting guidance related to asset retirements precludes the recognition of expected future retirement obligations as a component of depreciation expense or accumulated depreciation. Central Hudson, however, is required to use depreciation methods and rates approved by the PSC under regulatory accounting. These depreciation rates include a charge for the cost of future removal and retirement of fixed assets. In accordance with current accounting guidance for regulated operations, Central Hudson continues to accrue for the future cost of removal for its rate-regulated natural gas and electric utility assets. In accordance with current accounting guidance related to asset retirements, Central Hudson has classified \$53.0 million, \$52.6 million, and \$52.6 million of cost of removal as regulatory liabilities as of September 30, 2012, December 31, 2011, and September 30, 2011, respectively. This liability represents the portion of the cost of removal charge in excess of the amount reported as an Asset Retirement Obligation under GAAP.

See Note 6 - "Goodwill and Other Intangible Assets" for further discussion of amortization of intangibles (other than goodwill).

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Earnings Per Share

In the calculation of earnings per share (basic and diluted) of CH Energy Group's Common Stock, earnings for CH Energy Group are reduced by the Preferred Stock dividends of Central Hudson.

The average dilutive effect of CH Energy Group's stock options, performance shares and restricted shares are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Shares	207,160	188,177	207,160	187,931

Certain stock options can be excluded from the calculation of diluted earnings per share because the exercise prices of those options were greater than the average market price per share of Common Stock. There were no options excluded during the three and nine months ended September 30, 2012 or 2011.

Parental Guarantees

CH Energy Group and CHEC have issued guarantees to counterparties to assure the payment, when due, of certain obligations incurred by CH Energy Group subsidiaries, in physical and financial transactions.

Transaction Description	September 30, 2012 Maximum Potential Outstanding Payments Liabilities ⁽¹⁾	
Heating oil, propane, other petroleum products, weather and commodity hedges (In Thousands)	\$ 26,250	\$ 6,579

(1)Balance included in CH Energy Group's Consolidated Balance Sheet.

Management is not aware of any existing condition that would require payment under the guarantees.

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Common Stock Dividends

On October 4, 2012, the Board of Directors of CH Energy Group declared a quarterly dividend of 55.5 cents per share payable November 1, 2012, to shareholders of record as of October 15, 2012. Although this dividend was declared at the beginning of the fourth quarter, it represents the third quarter 2012 dividend declaration.

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 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 payment of \$44.6 million in dividends to CH Energy Group for the year ended December 31, 2011. Central Hudson's dividend 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 any downgrades below this level. CH Energy Group's other subsidiaries do not have express restrictions on their ability to pay dividends.

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NOTE 2 – Regulatory Matters

Summary of Regulatory Assets and Liabilities

The following table sets forth Central Hudson's regulatory assets and liabilities (In Thousands):

	September 30, 2012	December 31, 2011	September 30, 2011
Regulatory Assets (Debits):			
Current:			
Deferred purchased electric and natural gas costs	\$ 7,277	\$ 10,775	\$ 8,155
Deferred unrealized losses on derivatives	5,181	19,791	12,778
PSC General and Temporary State Assessment and carrying charges	10,823	8,123	12,481
RDM and carrying charges	3,123	791	-
Residual natural gas deferred balances	4,554	4,554	4,554
Deferred debt expense on re-acquired debt	601	625	600
Deferred and accrued costs - MGP site remediation and carrying charges	4,605	4,577	4,549
Other	290	290	290
	36,454	49,526	43,407
Long-term:			
Deferred pension costs	140,702	159,020	121,238
Deferred unrealized losses on derivatives	154	-	3,193
Carrying charges - pension reserve	8,278	4,986	4,055
Deferred and accrued costs - MGP site remediation and carrying charges	12,371	14,260	14,086
Deferred debt expense on re-acquired debt	4,887	5,332	5,071
Deferred Medicare Subsidy taxes	7,725	7,307	7,171
Residual natural gas deferred balances and carrying charges	6,466	9,829	10,810
Income taxes recoverable through future rates	40,067	42,997	37,716
Energy efficiency incentives	2,719	2,719	-
Deferred storm costs and carrying charges	13,282	15,416	12,838
Other	13,938	12,134	10,959
	250,589	274,000	227,137
Total Regulatory Assets	\$ 287,043	\$ 323,526	\$ 270,544
Regulatory Liabilities (Credits):			
Current:			
Excess electric depreciation reserve	\$ -	\$ 1,107	\$ 2,008
RDM and carrying charges	-	-	3,520
Deferred unrealized gains on derivatives	711	-	-
Income taxes refundable through future rates	4,836	5,062	4,938
Deferred unbilled gas revenues	2,185	4,992	1,978
	7,732	11,161	12,444
Long-term:			
Customer benefit fund	2,321	2,623	3,139
Deferred cost of removal	52,986	52,565	52,630
Rate Base impact of tax repair project and carrying charges	8,260	9,413	10,170
Excess electric depreciation reserve and carrying charges	1,586	2,678	2,653
Deferred unrealized gains on derivatives	1,120	931	-

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Income taxes refundable through future rates	20,312	29,648	24,189
Deferred OPEB costs	12,139	6,988	12,038
Carrying charges - OPEB reserve	8,740	5,405	4,379
Other	9,784	5,624	13,120
	117,248	115,875	122,318
Total Regulatory Liabilities	\$ 124,980	\$ 127,036	\$ 134,762
Net Regulatory Assets	\$ 162,063	\$ 196,490	\$ 135,782

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The significant new regulatory assets and liabilities include:

Storm Costs: Central Hudson is authorized to request and the PSC has historically approved deferral accounting for incremental storm restoration costs which meet the following criteria: (1) the expense must be incremental to the amount provided in rates, (2) the incremental costs must be material and extraordinary in nature, and (3) the utility's earnings are below the authorized rate of return on common equity. The balance shown for storm costs as of September 30, 2012 relates to the impacts of Tropical Storm Irene as well as a significant snow storm event in late October 2011. These amounts are based on actual rate year results for the rate year ended June 30, 2012.

Management believes the costs deferred as of September 30, 2012 are probable of future recovery. See Other Regulatory Matters and PSC Proceedings for further details on these storm events.

2010 Rate Order

From July 1, 2010 through June 30, 2013, Central Hudson is operating under the terms of the 2010 Rate Order, which provides for the following:

Description	2010 Rate Order
Electric delivery revenue increases	\$11.8 million ⁽¹⁾ 7/1/10 \$9.3 million ⁽¹⁾ 7/1/11 \$9.1 million 7/1/12
Natural gas delivery revenue increases	\$5.7 million 7/1/10 \$2.4 million 7/1/11 \$1.6 million 7/1/12
ROE	10.0%
Earnings sharing	Yes ⁽²⁾
Capital structure – common equity	48%
Targets with true-up provisions - % of revenue requirement to defer for shortfalls	
Net plant balances	100%
Transmission and distribution ROW maintenance	100%
RDMs – electric and natural gas ⁽³⁾	Yes
New deferral accounting for full recovery	
Fixed debt costs	Yes ⁽⁴⁾
Transmission sag mitigation	Yes
New York State Temporary Assessment	Yes
Material regulatory actions ⁽⁵⁾	Yes ⁽⁵⁾
Property taxes – Deferral for 90% of excess/deficiency relative to revenue requirement	Yes ⁽⁶⁾

(1) Moderated by \$12 million and \$4 million bill credits, respectively.

(2) ROE > 10.5%, 50% to customers, > 11.0%, 80% to customers, > 11.5%, 90% to customers.

(3) Electric is based on revenue dollars; gas is based on usage per customer.

(4) Deferral authorization in RY2 and RY3 only.

(5) Legislative, governmental or regulatory actions with individual impacts greater than or equal to 2% of net income of the applicable department.

(6) The Company's pre-tax gain or loss limited to \$0.7 million per rate year.

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Other PSC Proceedings

In late August 2011, Central Hudson's service territory was affected by Tropical Storm Irene, disrupting service to approximately 180,000 customers. On November 28, 2011, Central Hudson filed a petition with the PSC seeking to defer for future recovery with carrying charges \$11.4 million of incremental electric storm restoration expense above the respective rate allowance during the twelve months ended June 30, 2012, which is the second rate year established by the PSC in its approval of a Joint Proposal in Case 09-E-0588. These incremental costs represent the amount Central Hudson deferred on its books as of October 31, 2011 based on actual costs incurred, bills received and an estimate for bills outstanding. The Company believes the incremental costs associated with this storm meet the PSC's criteria for deferral. As of September 30, 2012, the deferred balance related to this storm event was \$11.0 million based on final bills received.

On October 29, 2011, Central Hudson experienced an unusual fall storm with snow accumulations of up to 20 inches in the service territory, resulting in electric service outages to over 150,000 customers, extensive damage to the electric system and significant restoration costs. Following Tropical Storm Irene, the October snowstorm represented the second extraordinary storm event that occurred within the second rate year established by the PSC in its Rate Plan adopting the terms of a Joint Proposal in Case 09-E-0588. On April 24, 2012, Central Hudson filed a petition with the PSC to defer for future recovery with carrying charges \$8.6 million of total incremental electric storm restoration expense. The Company believes that it is entitled to fully recover all of these incremental expenses and has filed its petition with the PSC to reflect that position. However, because the petition requests the PSC to deviate from its prior precedents, the amount the PSC may grant could be lower. Accordingly, management deferred only the portion of the incremental costs that strictly follows Commission practice used in the Company's previous requests to defer incremental storm costs. Approximately \$3.7 million, \$1.1 million, \$2.1 million and \$0.1 million of incremental restoration expense associated with this storm was expensed in December 2011, March 2012, June 2012 and July 2012, respectively, so that the return on common equity for the twelve months ending June 30, 2012 does not exceed the authorized rate of return of 10%. As of September 30, 2012, the deferred balance related to this storm event was \$1.6 million.

On April 20, 2012, CH Energy Group, Central Hudson, Fortis, FortisUS Inc. ("FortisUS"), and Cascade Acquisition Sub Inc. ("Petitioners"), submitted a joint petition to the PSC for approval of the acquisition of CH Energy Group by Fortis and related transactions. The petition describes how the acquisition of Central Hudson by Fortis will produce benefits for constituencies that include customers, employees and communities in Central Hudson's service territory as well as positive public benefits. The petition categorizes the public benefits into three major areas: 1) FortisUS' commitments and intention to preserve and build on the existing strength of Central Hudson, 2) mitigation of any potential negative aspects of the merger consistent with the PSC's disposition of specific issues that have arisen in prior utility merger proceedings in New York State and 3) identifiable monetary benefits resulting from assignment of costs to shareholders and cost savings made possible by the merger. The petition includes proposals and commitments that effectively mitigate any potential risks to Central Hudson's customers from foreign holding company ownership and rate increase risk. The petitioners have quantified the economic value of the proposals in the merger to be in excess of \$20 million. Central Hudson believes the merger is in the public interest and should be approved on the basis of the proposals set forth in the petition. See Item 2 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the caption "Regulatory Matters – PSC Proceedings" for further discussion.

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NOTE 3 - New Accounting Guidance

Newly adopted and soon to be adopted accounting guidance is summarized below, including explanations for any new guidance issued in 2012 (except that which is not currently applicable) which is expected to have a material impact on CH Energy Group and its subsidiaries.

Impact	Category	Accounting Reference	Title	Issued Date	Effective Date
1	Comprehensive Income (Topic 220)	ASU No. 2011-05	Presentation of Comprehensive Income	Jun-11	Jan-12
1	Intangibles - Goodwill and Other (Topic 350)	ASU No. 2011-08	Testing Goodwill for Impairment	Sept-11	Jan-12
1	Comprehensive Income (Topic 220)	ASU No. 2011-12	Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income	Dec-11	Jan-12
1	Fair Value Measurements (Topic 820)	ASU No. 2011-04	Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in US GAAP and IFRS	May-11	Jan-12
2	Intangibles - Goodwill and Other (Topic 350)	ASU No. 2012-02	Amendments for Testing Indefinite-Lived Intangible Assets for Impairment	Jul-12	Sept-12
2	Balance Sheet (Topic 210)	ASU No. 2011-11	Disclosures about Offsetting Assets and Liabilities	Dec-11	Jan-13

Impact

Key:

- (1) No current impact on the financial condition, results of operations and cash flows of CH Energy Group and its subsidiaries when adopted on the effective date noted. Additional disclosures have been added or presentation of information modified

where
required.
No
anticipated
impact on
the financial
condition,
results of
operations
(2) and cash
flows of CH
Energy
Group and
its
subsidiaries
upon future
adoption.

In July 2012, the FASB issued ASU No. 2012-02 which was amended guidance to ASU No. 2011-08. The amendment simplifies how entities test indefinite-lived intangible assets other than goodwill for impairment. After an assessment of certain qualitative factors, if it is determined to be more likely than not that an indefinite-lived asset is impaired, entities must perform the quantitative impairment test. Otherwise, the quantitative test is optional. The amended guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted.

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NOTE 4 – Income Tax

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

In September 2012, Central Hudson filed corporate income tax returns for the year ended December 31, 2011. With that filing, the Company included an election to adopt the provisions of Revenue Procedure 2011-43 ("Rev Proc"), which provided IRS guidance related to the repair deduction previously taken on electric transmission and distribution property. Adoption of the provisions of the Rev Proc resulted in reduced federal and state net operating income tax loss ("NOL") carryforwards. The Company believes the remaining electric repair deduction meets and complies with the requirements included in the Rev Proc. As such, tax reserves related to the electric transmission and distribution repair deductions have been reclassified to deferred tax liability accounts.

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

Other than the uncertain tax position related to the Company's accounting method change for gas transmission and distribution repairs, there are no other uncertain tax positions. The following is a summary of activity related to uncertain tax positions (In Thousands):

	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2011	
Balance at the beginning of the period	\$3,178	\$10,934	\$3,172	\$11,486
Adjustments related to tax accounting method change	(1,190)	(1,266)	(1,184)	(1,818)
Balance at the end of the period	\$1,988	\$9,668	\$1,988	\$9,668

Jurisdiction	Tax Years Open for Audit
Federal ⁽¹⁾	2007 - 2011
New York State	2009 - 2011

(1) Federal tax filings for the years 2007 - 2010 are currently under audit.

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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):

	Three Months		Nine Months Ended	
	Ended		September 30,	
	September 30,		September 30,	
	2012	2011	2012	2011
Net income attributable to CH Energy Group	\$9,057	\$8,328	\$25,274	\$31,230
Preferred Stock dividends of Central Hudson	103	242	521	727
Preferred Stock Redemption Premium	-	-	342	-
Federal income tax	-	(524)	-	153
State income tax	(255)	17	(5)	289
Deferred federal income tax	5,818	1,927	19,136	13,998
Deferred state income tax	985	531	2,214	1,104
Income before taxes	\$15,708	\$10,521	\$47,482	\$47,501
Computed federal tax at 35% statutory rate	\$5,498	\$3,682	\$16,619	\$16,625
State income tax net of federal tax benefit	791	623	2,457	1,588
Depreciation flow-through	784	757	2,363	2,322
Cost of Removal	(600)	(458)	(1,796)	(1,373)
Merger Transaction Costs	412	-	3,400	-
Production tax credits	-	(51)	-	(149)
Federal grant	-	(2,580)	-	(2,580)
Other	(337)	(22)	(1,698)	(889)
Total income tax	\$6,548	\$1,951	\$21,345	\$15,544
Effective tax rate - federal	37.0 %	13.3 %	40.3 %	29.8 %
Effective tax rate - state	4.6 %	5.2 %	4.7 %	2.9 %
Effective tax rate - combined	41.6 %	18.5 %	45.0 %	32.7 %

Merger related transaction costs that are facilitative in nature are considered nondeductible for tax purposes. Merger related transaction costs incurred in the three and nine months ended September 30, 2012 totaling \$1.0 million and \$8.6 million have been determined to be facilitative and therefore nondeductible. Additionally, the effective rate for the three and nine months ended September 30, 2011 were impacted by the tax benefit related to federal grants received. These were the major reasons for the increase in the effective tax rate for the three and nine months ended September 30, 2012 as compared to the prior year.

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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):

	Three Months		Nine Months Ended	
	Ended September 30,		September 30,	
	2012	2011	2012	2011
Net income	\$12,359	\$11,665	\$35,763	\$31,676
Federal income tax	-	133	-	348
State income tax	-	218	-	535
Deferred federal income tax	6,934	6,739	19,928	18,020
Deferred state income tax	906	763	2,919	1,955
Income before taxes	\$20,199	\$19,518	\$58,610	\$52,534
Computed federal tax at 35% statutory rate	\$7,070	\$6,831	\$20,514	\$18,387
State income tax net of federal tax benefit	906	905	2,919	2,303
Depreciation flow-through	784	757	2,363	2,322
Cost of Removal	(600)	(458)	(1,796)	(1,373)
Other	(320)	(182)	(1,153)	(781)
Total income tax	\$7,840	\$7,853	\$22,847	\$20,858
Effective tax rate - federal	34.3 %	35.2 %	34.0 %	35.0 %
Effective tax rate - state	4.5 %	5.0 %	5.0 %	4.7 %
Effective tax rate - combined	38.8 %	40.2 %	39.0 %	39.7 %

NOTE 5 – Acquisitions, Divestitures and Investments

Acquisitions

During the nine months ended September 30, 2012, Griffith acquired fuel distribution companies as follows (Dollars in Thousands):

Quarter Ended	# of Acquired Companies	Purchase Price	Total Intangible Assets ⁽¹⁾	Goodwill	Total Tangible Assets
March 31, 2012	1	\$ 275	\$ 265	\$ 240	\$ 10
June 30, 2012	-	-	-	-	-
September 30, 2012	1	275	275	-	-
Total	2	\$ 550	\$ 540	\$ 240	\$ 10

(1) Including goodwill.

Amortizable intangible assets acquired in the current year consist of customer relationships, which will be amortized over a 15-year period, and covenants not to compete, which will be amortized over a 5-year period. The weighted average amortization period of amortizable intangible assets acquired in the current year is 14 years.

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Divestitures

In the first quarter of 2011, Griffith reduced its environmental reserve by \$0.6 million based on the completion of an environmental study. The reserve adjustment related to the 2009 divestiture of operations in certain geographic locations. In the second quarter of 2011, Griffith recorded an expense adjustment of \$0.1 million relating to divested operations. As such, income of \$0.3 million, net of tax, has been reflected in income from discontinued operations in the CH Energy Group Consolidated Income Statement for the nine months ended September 30, 2011.

During 2011, CHEC divested four of its renewable energy investments. The results of operations of Lyonsdale, Shirley Wind, CH-Auburn and CH-Greentree for the prior period are presented in discontinued operations in the CH Energy Group Consolidated Statement of Income. Management has elected to include cash flows from discontinued operations of those investments with those from continuing operations in the CH Energy Group Consolidated Statement of Cash Flows. The details of each of the sales transactions by investment are as follows (In Thousands):

Date of Sale	CH-Auburn 9/16/2011	Shirley Wind 8/11/2011	Lyonsdale 5/1/2011	CH-Greentree 12/29/2011
Assets:				
Current Assets	\$ 174	\$ 623	\$ 2,099	\$ -
Other Assets	-	461	-	-
Property, Plant and Equipment:				
Property, plant and equipment	4,667	32,564	10,670	5,500
Less: Accumulated depreciation	626	657	4,191	1,205
Total property, plant and equipment, net	4,041	31,907	6,479	4,295
Assets sold	\$ 4,215	\$ 32,991	\$ 8,578	\$ 4,295
Liabilities:				
Current Liabilities	\$ 85	\$ 6	\$ 322	\$ -
Other Liabilities	1,736	-	-	-
Liabilities sold	\$ 1,821	\$ 6	\$ 322	\$ -
Net Assets Sold	\$ 2,394	\$ 32,985	\$ 8,256	\$ 4,295

Proceeds from these sales were used primarily for the repurchase of outstanding Common Stock of CH Energy Group. Additionally, a portion of the proceeds from the sale of Shirley Wind were used to pay down private placement debt at CH Energy Group, which provided corporate financing for the construction of this project.

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The table below provides additional detail of the financial results of the discontinued operations (In Thousands):

	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Revenues from discontinued operations	\$- \$1,112	\$- \$6,654
Income from discontinued operations before tax	- 166	- 987
Gain from sale of discontinued operations	- 2,070	- 1,527
Income tax benefit from discontinued operations	- (1,527)	- (1,454)

Investments

The value of CHEC's investments as of September 30, 2012 is as follows (In Thousands):

CHEC Investment	Description	Intercompany Debt	Equity Investment	Total
Griffith Energy Services	100% controlling interest in a fuel distribution business	\$ 24,500	\$ 34,765	\$ 59,265
Cornhusker Holdings	12% equity interest plus subordinated debt investment in an operating corn-ethanol plant	-	-	-
CH-Community Wind	50% equity interest in a joint venture that owns 18% interest in two operating wind projects	-	-	-
Other	Partnerships and an energy sector venture capital fund	-	2,426	2,426
		\$ 24,500	\$ 37,191	\$ 61,691

These investments are not considered a part of the core business; however, management intends to retain these investments at this time.

NOTE 6 – Goodwill and Other Intangible Assets

Goodwill, customer relationships and covenants not to compete associated with acquisitions are included in intangible assets. In accordance with current accounting guidance related to goodwill and other intangible assets, goodwill and other intangible assets that have indefinite useful lives are not amortized, but instead are periodically reviewed for impairment.

In the fourth quarter of 2011, management performed a qualitative assessment of any potential impairment of Griffith's goodwill. The last quantitative analysis of impairment was performed as of September 30, 2010, which reflected that the fair value of Griffith exceeded its carrying value by approximately \$34.2 million. Additionally, management believes that no event has occurred which would trigger impairment since the last quantitative test performed. Based on these factors and other factors considered in its qualitative analysis, management believes that it is more likely than not that the fair market value of Griffith is more than the carrying value and, therefore, the first and second steps of the impairment test prescribed in guidance were not necessary.

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The components of amortizable intangible assets of CH Energy Group are summarized as follows (In Thousands):

	September 30, 2012		December 31, 2011		September 30, 2011	
	Gross		Gross		Gross	
	Carrying Amount	Accumulated Amortization	Carrying Amount	Accumulated Amortization	Carrying Amount	Accumulated Amortization
Customer relationships	\$36,781	\$ 25,407	\$36,517	\$ 23,571	\$35,516	\$ 22,978
Covenants not to compete	397	181	361	134	267	123
Total Amortizable Intangibles	\$37,178	\$ 25,588	\$36,878	\$ 23,705	\$35,783	\$ 23,101

	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2011	
Intangibles Amortization Expense (In Thousands)	\$625	\$598	\$1,883	\$1,792

The estimated annual amortization expense for each of the next five years, assuming no new acquisitions or divestitures, is as follows (In Thousands):

	2013	2014	2015	2016	2017
Estimated Amortization Expense	\$2,515	\$2,506	\$2,251	\$887	\$583

NOTE 7 – Short-Term Borrowing Arrangements

CH Energy Group and Central Hudson borrowings under its committed and uncommitted short-term borrowing arrangements are as follows (In Thousands):

	September 30, 2012	December 31, 2011	September 30, 2011
CH Energy Group Holding Company Short-term borrowings	\$ -	\$ 5,000	\$ 5,000
Central Hudson Short-term borrowings	-	1,500	-
Total CH Energy Group	\$ -	\$ 6,500	\$ 5,000
Total CH Energy Group Weighted Average Interest Rate	1.08 %	0.72 %	0.56 %

NOTE 8 – Capitalization – Common and Preferred Stock

For a schedule of activity related to common stock, paid-in capital and capital stock, see the Consolidated Statement of Equity for CH Energy Group and Central Hudson.

Effective July 31, 2007, CH Energy Group's Board of Directors extended and amended the Common Stock Repurchase Program of the Company (the "Repurchase Program"), which was originally authorized in 2002. As amended, the Repurchase Program authorized the repurchase of up to 2,000,000 shares (excluding shares repurchased before July 31, 2007) or approximately 13% of CH Energy Group's outstanding Common Stock, from time to time, through July 31, 2012. As of September 30, 2012, CH Energy Group had purchased 948,676 shares under the Repurchase Program.

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As part of this Repurchase Program, on August 16, 2011, CH Energy Group implemented an accelerated share repurchase program ("ASR") through which, CH Energy Group paid \$30 million and received 554,017 shares.

Following the announcement of the proposed acquisition of CH Energy Group by Fortis on February 21, 2012, the agent elected to terminate the agreement. As a result of the termination, CH Energy Group paid an additional \$2.6 million to the agent in final settlement of the ASR program. There was no change in the number of shares purchased.

Subsequent to February 21, 2012, CH Energy Group is prohibited from purchasing additional shares under the merger agreement with Fortis. The shares repurchased prior to that date under this repurchase agreement have not been retired or cancelled, and the repurchases accordingly have been presented as an increase to treasury stock in CH Energy Group's Consolidated Balance Sheet.

Effective July 1, 2011, employer matching contributions to an eligible employee's Savings Incentive Plan ("SIP") account could be paid in either cash or in CH Energy Group Common Stock, and CH Energy Group initially chose to meet its matching obligation in Common Stock. Since March 1, 2012, the Company has been providing cash for all of its matching obligations, except for matching contributions associated with classified employees of Central Hudson.

The classified employees will continue to receive matching contributions in CH Energy Group Common Stock. As of September 30, 2012, 45,567 shares had been issued from treasury related to employer matching contributions, of which 26,011 shares were issued in 2012 with 3,953 shares issued during the third quarter of 2012.

On May 18, 2012, Central Hudson redeemed two of its four outstanding series of preferred stock. Registered holders of Cumulative Preferred Stock, Series D (4.35%) received \$102.00 per share plus accrued and unpaid dividends.

Registered holders of 4.96% Cumulative Preferred Stock, Series E received \$101.00 per share plus accrued and unpaid dividends. The redemption was funded from the proceeds of the sale of Medium Term Notes on March 30, 2012. See Note 9 – "Capitalization – Long-Term Debt" for further information. The premium paid in connection with the redemption of the preferred stock was recorded as a reduction of Retained Earnings on Central Hudson's Balance Sheet and as Premium on Preferred Stock Redemption on Central Hudson's Income Statement.

Through September 30, 2012, Central Hudson made \$22.0 million of dividend payments in 2012 to parent CH Energy Group, of which \$9.0 million was paid during the three months ended September 30, 2012. Central Hudson made \$33.0 million of dividend payments to parent CH Energy Group in the nine months ended September 30, 2011.

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NOTE 9 – Capitalization – Long-Term Debt

On March 30, 2012, Central Hudson issued \$48.0 million of its Series G registered unsecured Medium Term Notes. The notes bear interest at the rate of 4.776% per annum on a principal amount of \$48.0 million and mature on April 1, 2042.

The proceeds from the sale of the Notes were used by Central Hudson to refinance \$36.0 million of its 6.64% Series D Medium Term Notes that matured on March 28, 2012, and to redeem its Cumulative Preferred Stock, Series D, with an aggregate redemption price of \$6.1 million, and its 4.96% Cumulative Preferred Stock, Series E, with an aggregate redemption price of \$6.1 million. See Note 8 – "Capitalization – Common and Preferred Stock" for further information.

NYSERDA

Central Hudson's outstanding Series B NYSERDA Bonds total \$33.7 million at September 30, 2012. These bonds are tax-exempt multi-modal bonds that are currently in a variable rate mode. In its Orders, the PSC has authorized deferral accounting treatment for variations in the interest costs from these bonds. 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.

To mitigate the potential cash flow impact from unexpected increases in short-term interest rates on Series B NYSERDA Bonds, on March 28, 2012, Central Hudson purchased an interest rate cap based on an index of short-term tax-exempt debt. The rate cap is two years in length with a notional amount aligned with Series B and will expire on April 1, 2014. 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 5.0% for a given month.

The rate cap replaced an expiring rate cap with substantially similar terms. See Note 14 – "Accounting for Derivative Instruments and Hedging Activities" for fair value disclosures related to this instrument.

Central Hudson is currently evaluating what actions, if any, it may take in the future in connection with its Series B NYSERDA Bonds. Potential actions may include converting the debt to another interest rate mode or refinancing with taxable bonds.

NOTE 10 – Post-Employment Benefits

Central Hudson provides certain health care and life insurance benefits for retired employees through its post-retirement benefit plans. Central Hudson pension benefits include a Retirement Income Plan ("RIP") and a non-qualified Supplemental Executive Retirement Plan ("SERP").

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In its Orders, the PSC has authorized deferral accounting treatment for any variations between actual pension and other post-employment benefits ("OPEB") expense and the amount included in the current delivery rate structure. As a result, post-retirement benefit plans at Central Hudson do not have any impact on earnings. The following information is provided in accordance with current accounting requirements.

The following are the components of Central Hudson's net periodic benefit costs for its pension and OPEB plans for the three and nine months ended September 30, 2012 and 2011 (In Thousands):

Pension	
Benefits	OPEB ⁽¹⁾
Three	Three
Months	Months
Ended	Ended
September	September
30,	30,
2012	