CH ENERGY GROUP INC
Form 10-K
February 13, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007

OR

o 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.
0-30512	CH Energy Group, Inc. (Incorporated in New York) 284 South Avenue Poughkeepsie, New York 12601-4879 (845) 452-2000	14-1804460
1-3268	Central Hudson Gas & Electric Corporation (Incorporated in New York) 284 South Avenue Poughkeepsie, New York 12601-4879 (845) 452-2000	14-0555980

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
CH Energy Group, Inc. Common Stock, $0.10 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Title of each class

Central Hudson Gas & Electric Corporation Cumulative Preferred Stock

4.50% Series
4.75% Series

Indicate by check mark if CH Energy Group, Inc. (“CH Energy Group”) is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes x **No** o

Indicate by check mark if Central Hudson Gas & Electric Corporation (“Central Hudson”) is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes o **No** x

Indicate by check mark if CH Energy Group is not required to file reports pursuant to Section 13 or Section 15(d) of the Act

Yes o **No** x

Indicate by check mark if Central Hudson is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes o **No** x

Indicate by check mark whether the Registrants (1) have 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) have been subject to such filing requirements for the past 90 days.

Yes x **No** o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrants’ knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.o

Indicate by check mark whether CH Energy Group 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):

Large Accelerated Filer x **Accelerated Filer** o **Non-Accelerated Filer** o

Indicate by check mark whether Central Hudson 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):

Large Accelerated Filer o **Accelerated Filer** o **Non-Accelerated Filer** x

Indicate by check mark whether CH Energy Group is a shell company (as defined in Rule 12b-2 of the Act).

Yes o **No** x

Indicate by check mark whether Central Hudson is a shell company (as defined in Rule 12b-2 of the Act).

Yes o **No** x

The aggregate market value of the voting and non-voting common equity of CH Energy Group held by non-affiliates as of February 1, 2008, was $620,395,353 based upon the price at which CH Energy Group's Common Stock was last traded on that date, as reported on the New York Stock Exchange listing of composite transactions.

The aggregate market value of the voting and non-voting common equity of CH Energy Group held by non-affiliates as of June 30, 2007, the last business day of CH Energy Group's most recently completed second fiscal quarter, was $708,817,140 computed by reference to the price at which CH Energy Group's Common Stock was last traded on that date, as reported on the New York Stock Exchange listing of composite transactions.

The aggregate market value of the voting and non-voting common equity of Central Hudson held by non-affiliates as of June 30, 2007, was zero.

The number of shares outstanding of CH Energy Group's Common Stock, as of February 1, 2008, was 15,774,100.

The number of shares outstanding of Central Hudson's Common Stock, as of February 1, 2008, was 16,862,087. All such shares are owned by CH Energy Group.

CENTRAL HUDSON MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTIONS (I)(1)(a) AND (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM WITH THE REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION (I)(2).

DOCUMENTS INCORPORATED BY REFERENCE

CH Energy Group's definitive Proxy Statement to be used in connection with its Annual Meeting of Shareholders to be held on April 22, 2008, is incorporated by reference in Part III hereof. Information required by Part III hereof with respect to Central Hudson has been omitted pursuant to General Instruction (I)(2)(c) of Form 10-K of the Securities Exchange Act of 1934, as amended.

GLOSSARY OF TERMS

The following is a glossary of frequently used abbreviations or acronyms used herein.

CH Energy Group Companies, Segments, and Investments

CH-Auburn	CH-Auburn Energy, LLC (a wholly owned subsidiary of CHEC)
Central Hudson	Central Hudson Gas & Electric Corporation (the wholly owned regulated electric and natural gas subsidiary of CH Energy Group and parent company of Phoenix)
CH-Community Wind	CH-Community Wind Energy, LLC (a CHEC investee company)
CHEC	Central Hudson Enterprises Corporation (the unregulated parent company of Griffith and wholly owned subsidiary of CH Energy Group)
CH Energy Group	CH Energy Group, Inc. (the holding company parent corporation of Central Hudson and CHEC)
CH Resources	CH Resources, Inc. (a former CH Energy Group subsidiary, sold on May 31, 2002)
Cornhusker Holdings	Cornhusker Energy Lexington Holdings, LLC (a CHEC investee company)
Griffith	Griffith Energy Services, Inc. (a wholly owned subsidiary of CHEC)
JB Wind	JB Wind Holdings, LLC (a CH-Community Wind investee company)
Lyonsdale	Lyonsdale Biomass, LLC (a CHEC 75% owned subsidiary company)
Phoenix	Phoenix Development Company, Inc. (a wholly owned subsidiary of Central Hudson)

Regulators

FERC	Federal Energy Regulatory Commission
PSC	New York State Public Service Commission
PSC Staff	Staff of the New York State Department of Public Service
SEC	United States Securities and Exchange Commission

Terms Related to Business Operations Used by CH Energy Group

1993 PSC Policy	PSC's 1993 Statement of Policy regarding Central Hudson's pension and OPEB
2006 Rate Order	Order Establishing Rate Plan issued by the PSC to Central Hudson on July 24, 2006
2000 Plan	CH Energy Group's Long-Term Performance-Based Incentive Plan

2006 Plan	CH Energy Group's Long-Term Equity Incentive Plan (which replaced the 2000 Plan)
ABO	Accumulated (OPEB) Benefit Obligation
AFUDC	Allowance for Funds Used During Construction
ARS	Auction Rate Securities
Borrowing Agreement	CH Energy Group's Unsecured Credit Agreement with Several Commercial Banks (through April 2010)
Customer Benefit Fund	A Regulatory Liability Established Pursuant to the Settlement Agreement for the Benefit of Central Hudson's Customers
Danskammer Plant	Danskammer Point Steam Electric Generating Station
Distributed Generation	An electrical generating facility located at a customer's point of delivery which may be connected in parallel operation to the utility system
kWh	Kilowatt-hour(s)
Major Generating Assets	The Roseton Plant, the Danskammer Plant, and the Nine Mile 2 Plant
Mcf	Thousand Cubic Feet
Medicare Act	The Medicare Prescription Drug, Improvement and Modernization Act of 2003
MGP	Manufactured Gas Plant
MTBE	Methyl Tertiary Butyl Ether
MW	Megawatt(s)
MWh	Megawatt-hour(s)
Nine Mile 2 Plant	Unit No. 2 of the Nine Mile Point Nuclear Generating Station
OCI	Other Comprehensive Income
OPEB	Other Post-Employment Benefits
PBO	Projected (Pension) Benefit Obligation
PCBs	Polychlorinated Biphenyls
R&D	Research and Development
Rate Plan	As Approved by the PSC, Formal Framework to Implement Changes in Customer Rates and Special Regulatory Accounting
Rate Year	July 1 to June 30

Repurchase Program	CH Energy Group Common Stock Repurchase Program, effective August 1, 2002 and amended as of July 31, 2007
Retirement Plan	Central Hudson's Non-Contributory Defined Benefit Retirement Income Plan
ROE	Return on Equity
Roseton Plant	Roseton Electric Generating Plant
ROW	Right-of-Way
Settlement Agreement	Amended and Restated Settlement Agreement dated January 2, 1998, and thereafter amended, among Central Hudson, PSC Staff, and Certain Other Parties

Trust Fund	The Retirement Plan's Trust Fund
VRDN	Variable Rate Demand Note
Other	
10-K Annual Report	Annual Report on Form 10-K for the Fiscal Year ended December 31, 2007
Attorney General	New York State Attorney General
Clean Air Act Amendments	Clean Air Act Amendments of 1990
Constellation	Constellation, Inc.
CO	Carbon Monoxide
COSO	Committee of Sponsoring Organizations of the Treadway Commission
DEC	New York State Department of Environmental Conservation
Dynegy	Affiliates of Dynegy Power Corp., collectively
EITF	FASB Emerging Issues Task Force
Energy Act	Energy Policy Act of 2005
EPA	United States Environmental Protection Agency
Exchange Act	Securities Exchange Act of 1934
FASB	Financial Accounting Standards Board
FIN	FASB Interpretation Number
GAAP	Accounting Principles Generally Accepted in the United States of America
NO_x	Nitrogen Oxide
NYISO	New York Independent System Operator
NYSERDA	New York State Energy Research and Development Authority
OTC	Over-the-Counter
Pension Protection Act	Pension Protection Act of 2006
PUHCA 2005	Public Utility Holding Company Act of 2005
Registrants	CH Energy Group and Central Hudson

SAB	SEC Staff Accounting Bulletin
Sarbanes-Oxley Act	Sarbanes-Oxley Act of 2002
SFAS	Statement of Financial Accounting Standards
SPDES	State Pollution Discharge Elimination System
VIE	Variable Interest Entity

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PART I

FILING FORMAT

This 10-K Annual Report for the fiscal year ended December 31, 2007, is a combined report being filed by two different registrants: CH Energy Group and Central Hudson. Any references in this 10-K Annual Report to CH Energy Group include all subsidiaries of CH Energy Group, including Central Hudson, except where the context clearly indicates otherwise. CH Energy Group's subsidiaries are each directly or indirectly wholly owned by CH Energy Group. Central Hudson makes no representation as to the information contained in this 10-K Annual Report in relation to CH Energy Group and its subsidiaries other than Central Hudson. When this 10-K Annual Report is incorporated by reference into any filing with the SEC made by Central Hudson, the portions of this 10-K Annual Report that relate to CH Energy Group and its subsidiaries, other than Central Hudson, are not incorporated by reference therein.

FORWARD-LOOKING STATEMENTS

Statements included in this Annual Report on Form 10-K and any documents incorporated by reference which are not historical in nature are intended to be, and are hereby identified as, "forward-looking statements" for purposes of the safe harbor provided by Section 21E of the Exchange Act. Forward-looking statements may be identified by words including "anticipates," "intends," "estimates," "believes," "projects," "expects," "plans," "assumes," "seeks," and similar expressions. Forward-looking statements including, without limitation, those relating to Registrants' future business prospects, revenues, proceeds, working capital, liquidity, income, and margins, are subject to certain risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements, due to several important factors, including those identified from time-to-time in the forward-looking statements. Those factors include, but are not limited to: weather; fuel prices; corn and ethanol prices; plant capacity factors; energy supply and demand; interest rates; potential future acquisitions; legislative, regulatory, and competitive developments; market risks; electric and natural gas industry restructuring and cost recovery; the ability to obtain adequate and timely rate relief; changes in fuel supply or costs including future market prices for energy, capacity, and ancillary services; the success of strategies to satisfy electricity, natural gas, fuel oil, and propane requirements; the outcome of pending litigation and certain environmental matters, particularly the status of inactive hazardous waste disposal sites and waste site remediation requirements; and certain presently unknown or unforeseen factors, including, but not limited to, acts of terrorism. Registrants undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

Given these uncertainties, undue reliance should not be placed on the forward-looking statements.

ITEM 1 - BUSINESS
CORPORATE STRUCTURE

CH Energy Group is the holding company parent corporation of two principal, wholly owned subsidiaries, Central Hudson and CHEC. Central Hudson, the regulated electric and natural gas subsidiary, has one wholly owned subsidiary, Phoenix. CHEC, the parent company of CH Energy Group's unregulated businesses and investments, has two wholly owned subsidiaries, Griffith and CH-Auburn.

For a discussion of CH Energy Group's and its subsidiaries' capital structure and financing program, see Item 7 – "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this 10-K Annual Report under the subcaptions "Capital Structure" and "Financing Program" under the caption "Capital Resources and Liquidity." For a discussion of short-term borrowing, capitalization, and long-term debt, see Note 7 – "Short-Term Borrowing Arrangements," Note 8 – "Capitalization – Common and Preferred Stock," and Note 9 – "Capitalization – Long-Term Debt," respectively, to the financial statements contained in Item 8 – "Financial Statements and Supplementary Data" of this 10-K Annual Report (each Note being hereinafter called a "Note"). For information concerning revenues, certain expenses, earnings per share, and information regarding assets for Central Hudson's regulated electric and regulated natural gas segments and for Griffith, see Note 13 – "Segments and Related Information."

HOLDING COMPANY REGULATION

CH Energy Group is generally exempt from regulation under PUHCA 2005 under its intrastate exemption provisions, except for the requirement to obtain prior SEC approvals for certain direct or indirect acquisitions of the securities of any electric or gas utility company. CH Energy Group is a "holding company" under PUHCA 2005 because of its ownership interests in Central Hudson and CHEC and CH Energy Group's indirect ownership interests in Lyonsdale and JB Wind. 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. CH Energy Group will retain this exemption until such time as it derives more than 13% of its public utility revenues from businesses conducted outside of the State of New York. Under FERC's regulations implementing PUHCA 2005, revenues received from Lyonsdale, JB Wind and CH-Auburn are excluded from this determination because these entities are either a "qualifying facility" under the Public Utility Regulatory Policies Act of 1978, as amended, or an "exempt wholesale generator" under PUHCA 2005. In addition, qualified propane revenues derived from Griffith will continue to be excluded from this determination until such time as its qualified gross sales of propane exceed an average annual amount of $5 million calculated on a rolling basis over the preceding three calendar years. Griffith's qualified gross sales of propane are expected to exceed this threshold in 2008. Although Griffith's propane revenues may be considered public utility revenues in 2008, they would not cause CH Energy Group to derive more than 13% of its public utility revenues from outside of New York State. In 2007, CH Energy Group had no public utility revenues from outside of New York State. 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 or whether regulation under PUHCA 2005 would have a material impact on its financial condition.

SUBSIDIARIES OF CH ENERGY GROUP

CENTRAL HUDSON

Central Hudson is a New York State natural gas and electric corporation formed in 1926. Central Hudson purchases, sells at wholesale, 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 sold its interests in its major generating assets in 2001, pursuant to a PSC order.

Central Hudson serves a territory extending about 85 miles along the Hudson River and about 25 to 40 miles east and west of the Hudson River. The southern end of the territory is about 25 miles north of New York City and the northern end is about 10 miles south of the City of Albany. The territory, comprising approximately 2,600 square miles, has a population estimated at 690,000. 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, 2007, was 831.

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

Seasonality

Central Hudson's delivery revenues vary seasonally in response to weather. Sales of electricity are usually highest during the summer months, primarily due to the use of air-conditioning and other cooling equipment. Sales of natural gas are highest during the winter months, primarily due to space heating usage.

Competition

Central Hudson is a regulated utility with a legal obligation to deliver electricity and natural gas within its PSC-approved franchise territory. Central Hudson has no direct competitors in its electricity distribution business; indirect competitors may include distributed generation systems, including net metered systems, which could bypass the electric delivery system. To date, the primary source of penetration is solar power, which is capped at 10 MW, but could increase. Central Hudson is made whole for lost net revenues attributable to net metering under the 2006 Rate Order. Central Hudson's natural gas business competes with other fuels, especially fuel oil and propane.

The competitive marketplace continues to develop for electric and natural gas supply markets, and Central Hudson's electric and natural gas customers may purchase energy and related services from other providers.

Regulation

Central Hudson is subject to regulation by the PSC regarding, among other things, services rendered (including the rates charged), major transmission facility siting, accounting procedures, and issuance of securities. For certain restrictions imposed by the Settlement Agreement, see Note 2 – "Regulatory Matters".

Certain activities of Central Hudson, including accounting and the acquisition and disposition of property, are subject to regulation by the FERC under the Federal Power Act.

Central Hudson is not subject to the provisions of the Natural Gas Act. Central Hudson's hydroelectric facilities are not required to be licensed under the Federal Power Act.

Rates

Generally: The electric and natural gas rates collected by Central Hudson applicable to service supplied to retail customers within New York State are regulated by the PSC. Transmission rates and rates for electricity sold for resale in interstate commerce by Central Hudson are regulated by the FERC.

Central Hudson's retail electricity rate structure consists of various service classifications covering delivery service and full service (which includes electricity supply) for residential, commercial, and industrial customers. Retail rates for delivery and supply were separated to allow customers to see the costs associated with their fuel supply in order to facilitate retail competition. During 2007, the average price of electricity for full service customers was 11.86 cents per kWh as compared to an average of 11.15 cents per kWh for 2006. The average delivery price for 2007 was 3.26 cents per kWh and 2.93 cents per kWh for 2006. The majority of the increase in delivery price was due to the implementation of new rates as part of the 2006 Rate Order.

Central Hudson's retail natural gas rate structure consists of various service classifications covering transport, retail access service, and full service (which includes natural gas supply) for residential, commercial, and industrial customers. During 2007, the average price of natural gas for full service customers was $15.00 per Mcf as compared to an average of $15.05 per Mcf for 2006. The average delivery price for natural gas in 2007 was $4.19 per Mcf and $3.68 per Mcf for 2006. The increase in delivery price was due to the implementation of new rates as part of the 2006 Rate Order.

Rate Proceedings - Electric and Natural Gas: For information regarding Central Hudson's most recent electric and natural gas rate proceeding approved by the PSC in July 2006, see Note 2 – "Regulatory Matters" under the caption "2006 Rate Order".

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

Capital Expenditures and Financing

For estimates of future capital expenditures for Central Hudson, see the subcaption "Anticipated Sources and Uses of Cash" in Item 7 – "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this 10-K Annual Report under the caption "Capital Resources and Liquidity."

Central Hudson's Certificate of Incorporation and its various debt instruments do not contain any limitations upon the issuance of authorized, but unissued, preferred stock or unsecured short-term debt.

Central Hudson has in place certain credit facilities with financial covenants that limit the amount of indebtedness Central Hudson may incur. Additionally, Central Hudson's ability to issue debt securities is limited by authority granted by the PSC. Central Hudson believes these limitations will not impair its ability to issue any or all of the debt described under the subcaption "Financing Program" in Item 7 – "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this 10-K Annual Report under the caption "Capital Resources and Liquidity."

Purchased Power and Generation Costs

For the twelve-month period ended December 31, 2007, the sources and related costs of purchased electricity and electric generation for Central Hudson were as follows:

Sources of Energy	Aggregate Percentage of Energy Requirements	Costs in 2007 ($000)
Purchased Electricity	98.6%	$ 387,513
Hydroelectric and Other	1.4%	79
	100.0%	
Deferred Electricity Cost		(3,786)
Total		$ 383,806

Research and Development

Central Hudson is engaged in the conduct and support of R&D activities, which are focused on the improvement of existing energy technologies and the development of new technologies, including renewable energy sources, for the delivery and use of energy. Central Hudson's R&D expenditures were $3.5 million in 2007, $3.2 million in 2006, and $3.3 million in 2005. These expenditures were for internal research programs and for contributions to research administered by NYSERDA, the Electric Power Research Institute, and other industry organizations. Recovery of expenditures for R&D is provided for in Central Hudson's rates charged to customers for electric and natural gas delivery service. In addition, any differences between R&D expense and the rate allowances covering these costs are deferred, pursuant to PSC authorization, for future recovery from or return to customers.

Other Central Hudson Matters

Labor Relations: Central Hudson has an agreement with Local 320 of the International Brotherhood of Electrical Workers for its 530 unionized employees, representing construction and maintenance employees, customer service representatives, service workers, and clerical employees (excluding persons in managerial, professional, or supervisory positions). This agreement became effective on May 1, 2003, and remains effective through April 30, 2008. It provides for an average annual general wage increase of 3.5% and certain additional fringe benefits.

Subsidiary of Central Hudson - Phoenix: Phoenix, a New York corporation, is a wholly owned subsidiary of Central Hudson. Phoenix was incorporated in 1950 to hold or lease real property for future use by Central Hudson and to participate in energy-related ventures. Currently, Phoenix's assets are not significant.

CHEC AND ITS SUBSIDIARIES AND INVESTMENTS

CHEC, a New York corporation, is a wholly owned subsidiary of CH Energy Group. CHEC and its subsidiaries have been engaged in the business of marketing petroleum products and related services to retail and wholesale customers and providing service and maintenance of energy conservation measures and generation systems for private businesses, institutions, and government entities. CHEC has also participated in cogeneration, wind generation, biomass energy projects, and alternate fuel and energy production projects in Connecticut, New Jersey, New Hampshire, New York, and Pennsylvania, and a fuel ethanol production plant in Nebraska. For further discussion of certain of these energy-related projects, see Note 5 – "Acquisitions and Investments."

CHEC's subsidiaries and investments are shown below. Ownership interests are 100% unless otherwise noted.

Griffith, a New York Corporation, is an energy services company engaged in fuel distribution, including heating oil, gasoline, diesel fuel, kerosene, and propane, and the installation and maintenance of heating, ventilating, and air conditioning equipment in Virginia, West Virginia, Maryland, Delaware, Pennsylvania, Rhode Island, Washington, D.C., Connecticut, Massachusetts, New Jersey and New York.

Since being acquired by CHEC in November 2000, Griffith has acquired the assets of 40 regional fuel oil, propane, and related services companies.

The number of Griffith employees at December 31, 2007, was 728.

CH-Auburn, a New York limited liability company, plans to construct and operate a 3-megawatt electric generating plant that will burn gas derived from wastewater sludge and a landfill to supply a portion of the energy needs of the City of Auburn, NY with renewable energy.

Seasonality

A substantial portion of CHEC's revenues vary seasonally, as fuel deliveries are directly related to use for space heating and are highest during the winter months.

Competition

CHEC and Griffith participate in competitive industries that are subject to different risks than those found in the businesses of the regulated utility, Central Hudson. As an unregulated competitor in the fuel distribution business, Griffith faces competition from other fuel distribution companies and from companies supplying other fuels for heating, such as natural gas and propane. For a discussion of Griffith's operating revenues and operating income, see the caption "Results of Operations" in Item 7 – "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this 10-K Annual Report.

ENVIRONMENTAL QUALITY REGULATION

Central Hudson, Griffith, and Lyonsdale are subject to regulation by federal, state, and local authorities with respect to the environmental effects of their operations. Environmental matters may expose Central Hudson, Lyonsdale and/or Griffith 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.

Each of Central Hudson, Griffith and Lyonsdale monitor their activities in order to determine the impact of their activities on the environment and to comply with applicable environmental laws and regulations.

The principal environmental areas relevant to these companies are described in the table below. Each company was in compliance during 2007. Unless otherwise noted, all required permits and certifications have been obtained by the applicable company.

Air Quality – The Clean Air Act Amendments address attainment and maintenance of national air quality standards, including control of particulate emissions from fossil-fueled electric generating plants and emissions that affect “acid rain” and ozone. The impacted facilities are listed below.

Central Hudson	Griffith	Lyonsdale
Combustion turbines in South Cairo and Coxsackie, NY have Air State Facility permits regulating their NOx emissions		Title V Permit regulating certain gas emissions including CO and NOx

(A) See footnote below.

Water Quality – The Clean Water Act addresses the discharge of pollutants into waterways and ground water.

Central Hudson	Griffith	Lyonsdale
SPDES Permits – The following locations have permits regulating pollutant discharges.		
Eltings Corners, NY maintenance and warehouse facility	Bulk storage plants in Frederick, Westminster, and Edgewater, MD	Lyonsdale electric generating plant
Rifton, NY Training and Recreation Center	Cheverly, MD office	
Other Permits and Certifications – Griffith and Lyonsdale have additional permits and certifications regulating their water usage and pollutant discharges.		
	Storm Water Discharge Permits Bulk storage plants in Charlestown and Martinsburg, WV	Great Lakes Water Withdrawal Certificate Allows water withdrawal from the Moose River
	General Permit Allows discharge of groundwater remediation wastewater to the sanitary sewer. Winsted, CT bulk storage facility	
Other Requirements – Central Hudson is subject to water monitoring and reporting requirements at several facilities.		
Eltings Corners, NY maintenance and warehouse facility	Bulk storage plants in Frederick, Westminster, and Edgewater, MD	Lyonsdale electric generating plant
Rifton, NY Training and Recreation Center	Cheverly, MD office	
Kingston, NY District Office		

Toxic Substances and Industrial and Hazardous Wastes – Central Hudson, Lyonsdale, and Griffith are 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. Currently there are no permit or certification requirements for Lyonsdale and Griffith. The Central Hudson permitted facility is shown below.

Central Hudson	Griffith	Lyonsdale
Hazardous Waste Storage Facility at Eltings Corners (NYS Part 373 Permit)		
Waste Transportation Permits for certain vehicles		
Petroleum Bulk Storage Certificates		
South Cairo and Coxsackie combustion turbines		
Offices in Catskill, Poughkeepsie, Fishkill, Newburgh and Stanfordville, NY		
(B) See footnote below.		

Other Permits – Lyonsdale also has permits for the use of wood as fuel, and the use of ash as fertilizer.

Environmental Expenditures – 2007 actual, and 2008 estimated, expenditures attributable, in whole or in substantial part, to environmental considerations.

Central Hudson	Griffith	Lyonsdale
2007 – $6.4 million 2008 – $3.5 million	2007 – $0.3 million 2008 – $0.3 million	2007 – immaterial 2008 – immaterial

(A) See Note 12 – "Commitments and Contingencies" under the caption "Environmental Matters" regarding the investigation by the EPA into the compliance of a former major generating asset.

(B) See Note 12 – "Commitments and Contingencies" under the caption "Environmental Matters" regarding, among other things, former MGP facilities, Little Britain Road, and Newburgh Consolidated Iron Works.

In addition to the above areas, Central Hudson, Griffith and Lyonsdale, are also subject to regulation with respect to other environmental areas such as noise levels, protection of vegetation and wildlife, and limitations on land use, and are in compliance with regulations in these areas.

Regarding environmental matters, except as described in Note 12 – "Commitments and Contingencies" under the caption "Environmental Matters," neither

CH Energy Group, Central Hudson, Griffith, nor Lyonsdale 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.

AVAILABLE INFORMATION

CH Energy Group files annual, quarterly, and current reports, proxy statements, and other information with the SEC. Central Hudson files annual, quarterly, and current reports and other information with the SEC. The public may read and copy any of the documents each company files at the SEC's Public Reference Room at 100 F Street N.E., Room 1580, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. SEC filings are also available to the public from the SEC's Internet website at www.sec.gov.

CH Energy Group makes available free of charge on or through its Internet website at www.CHEnergyGroup.com its proxy statements, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the SEC. Central Hudson's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are also available on this site. CH Energy Group's governance guidelines, Code of Business Conduct and Ethics, and the charters of its Audit, Compensation, Governance and Nominating, and Strategy and Finance Committees are available on CH Energy Group's Internet website at www.CHEnergyGroup.com. The governance guidelines, the Code of Business Conduct and Ethics, and the charters may also be obtained by writing to the Corporate Secretary, CH Energy Group, Inc., 284 South Avenue, Poughkeepsie, New York 12601-4879.

Executive Officers

All executive officers of CH Energy Group are elected or appointed annually by its Board of Directors. There are no family relationships among any of the executive officers of CH Energy Group or its subsidiaries. The names of the current executive officers of CH Energy Group, their positions held and business experience during the past five years, and ages (at December 31, 2007) are as follows:

			Date Commenced		
Executive Officers of CH Energy Group	**Age**	***Current*** and Prior Positions	**CH Energy Group**	**Central Hudson**	**CHEC**
Steven V. Lant	50	***Chairman of the Board***	***April 2004***	***May 2004***	***May 2004***
		Chief Executive Officer	***July 2003***	***July 2003***	***July 2003***
		President	***July 2003***		***July 2003***
		Director	***February 2002***	***December 1999***	***December 1999***
		Chief Operating Officer	February 2002		February 2002
		Chief Financial Officer	May 2001	February 2002	February 2002
Carl E. Meyer	60	***President Director Chief Operating Officer***		***December 1999***	
		Executive Vice President	***November 1999***		
Joseph J. DeVirgilio, Jr.	56	***Director***		***March 2005***	***April 2003***
		Executive Vice President – Corporate Services and Administration	***January 2005***	***January 2005***	
		Executive Vice President			***January 2003***
		Senior Vice President	October 2002		October 2002
		Senior Vice President – Corporate Services and Administration		November 1998	

Christopher M. Capone	45	***Executive Vice President***	***December 2006***		
		Director		***March 2005***	
		Chief Financial Officer	***September 2003***	***September 2003***	***September 2003***
		Treasurer	April 2003 June 2001	June 2001	April 2003 June 2001
		Managing Director, Furman Selz/ING[i]			

Executive Officers of CH Energy Group	**Age**	***Current* and Prior Positions**	**Date Commenced** **CH Energy Group**	**Central Hudson**	**CHEC**
Donna S. Doyle	59	***Vice President – Accounting***		***October 2006***	
		Director			***June 2002***
		Vice President – Accounting and Controller	***November 1999***	November 1999	
Denise D. VanBuren	46	***Vice President – Public Affairs and Energy Efficiency***	***August 2007***	***August 2007***	
		Vice President – Corporate Communications and Community Relations	November 2000	November 2000	
Charles A. Freni, Jr.	48	***Senior Vice President – Customer Services***		***January 2005***	
		Vice President – Customer Services		February 2004	
		Vice President – Engineering and Environmental Affairs		November 2000	
W. Randolph Groft	46	***Executive Vice President***			***January 2003***
		Director			***January 2003***

(i) Mr. Capone was in this position March 2002 – March 2003 and managed fixed income portfolios for institutions and high net worth individuals.

ITEM 1A - RISK FACTORS

Storms and Other Events Beyond Central Hudson's and Griffith's Control May Interfere With Their Operations

Description and Sources of Risk: In order to conduct their businesses, (1) Central Hudson must have access to natural gas and electric supplies and be able to utilize its electric and natural gas infrastructure, and (2) Griffith needs access to petroleum supplies from storage facilities in its service territories. Central Hudson has designed its electric and natural gas and pipeline systems to serve customers under various contingencies in accordance with good utility practice.

However, any one or more of the following could impact either or both of the companies' ability to access supplies and/or utilize critical facilities:

- Storms, natural disasters, wars, terrorist acts, failure of major equipment and other catastrophic events occurring both within and outside Central Hudson's and Griffith's service territories.
- Unfavorable developments in the world oil markets that could impact Griffith
- Third-party facility owner financial distress.
- Unfavorable governmental actions or judicial orders.
- Bulk power system and gas transmission pipeline system capacity constraints (in the case of Central Hudson).

Potential Impacts: The companies could experience service disruptions leading to lower earnings and/or reduced cash flows if the situation is not resolved in a timely manner or the financial distress is not alleviated through insurance policies, regulated rate recovery for Central Hudson or higher sales prices for Griffith.

Unusual Temperatures in Central Hudson and Griffith's Service Territories Could Adversely Impact Earnings

Description and Sources of Risk: Central Hudson's service territory is the Mid-Hudson Valley region of New York State. Griffith serves the Mid-Atlantic region and northeastern United States. These areas experience seasonal fluctuations in temperature. A considerable portion of Central Hudson's and Griffith's earnings is derived directly or indirectly from the weather-sensitive end uses of space heating and air conditioning. As a result, sales volumes fluctuate and vary from normal expected levels based on variations in weather from historically normal seasonal levels. Such variations could significantly reduce sales volumes.

Potential Impacts: The companies could experience lower delivery volumes in periods of mild weather, leading to lower earnings and reduced cash flows.

Central Hudson's Rate Plans Limit its Ability to Recover Increased Costs from its Customers; If Central Hudson's Sales Are Below Rate Plan Levels or Its Rate Plans Are Modified by State Regulatory Authorities, Central Hudson's Earnings and Cash Flows May Be Lower Than Expected

Description and Sources of Risk: Central Hudson's retail rates are regulated by the PSC. Rate plans generally may not be changed during their respective terms. Therefore, rates cannot be modified for lower sales volumes and/or higher expenses than those assumed in the Rate plan, absent circumstances such as an increase in expenses that meet the PSC's threshold requirements for filing for approval of deferral accounting.

The following could unfavorably impact Central Hudson's financial results:

- Lower sales than forecasted in the current rate agreement. Lower sales can occur, for example, as a result of changes in usage patterns driven by customer responses to product prices, customer use of distributed generation, economic conditions, energy efficiency programs, or due to loss of major customers or addition of fewer new customers than projected.

- Higher expenses, including carrying costs on capital invested, than reflected in current rates. Higher expenses could result from, among other things, storm restoration expense or other expense components such as labor or health care benefits.

- Higher electric and natural gas capital project costs resulting from escalation of material and equipment prices, as well as potential delays in the siting and legislative and/or regulatory approval requirements associated with these projects.

Potential Impacts**:** Central Hudson could have lower earnings and/or reduced cash flows if cost management and/or other factors are not sufficient to alleviate the impact of such lower sales and/or higher costs.

Additional Information**:** See Note 2 – "Regulatory Matters" of this 10-K Annual Report.

Central Hudson Is Subject to Risks Relating to Asbestos Litigation and Manufactured Gas Plant Facilities

Description and Sources of Risk: Litigations have been commenced by third parties against Central Hudson arising from the use of asbestos at its previously owned major generating assets, and Central Hudson is involved in a number of matters arising from contamination at former MGP sites.

Potential Impacts: To the extent not covered by insurance or recovered through rates, court decisions and settlements resulting from these litigations could reduce earnings and cash flows.

Additional Information: See Note 12 – "Commitments and Contingencies" and in particular the subcaptions in Note 12 regarding "Asbestos Litigation" and "Former Manufactured Gas Plant Facilities" under the caption "Environmental Matters."

Significant Increases In Wholesale Fuel Oil Prices May Adversely Affect Griffith's Ability to Attract New Customers, Retain Existing Customers, Maintain Sales Volumes, and Maintain Margins

Description and Sources of Risk: Griffith's management believes that high wholesale fuel oil prices, such as those prices experienced in recent years, could result in customer attrition and/or reduced usage. Unfavorable activity in the domestic and/or foreign markets resulting in significant increases in these prices could cause current and/or prospective full service customers to decide to purchase fuel from discount distributors.

***Potential Impacts*:** Any one or more of the following could result from these events:

- An adverse impact on Griffith's ability to attract new full service residential customers and, to a lesser extent, retain existing full service residential customers resulting in lower earnings and reduced cash flows.
- Further sales volume reductions, and/or compressed margins resulting in lower earnings and reduced cash flows.

These events could materially reduce profitability which could, in turn, lead to an impairment of Griffith's goodwill.

Additionally, if customer attrition were to accelerate significantly, the remaining value of Griffith's customer list could be impaired or subject to faster amortization.

Commodity Price Changes May Adversely Impact the Profitability of CHEC's Investment in Cornhusker Holdings

***Description and Sources of Risk**:* CHEC's management believes that increases in wholesale corn prices and/or decreases in ethanol prices are caused by a variety of factors, including, but not limited to the following:

- Actions by the federal government that reduce the demand for, or increase the supply of, ethanol. Such actions could include, but are not limited to, a reduction in the required level of ethanol blending, decreases in tax credits to refiners and/or reductions in tariffs on imported ethanol.
- Imbalances in the supply of and demand for corn. This could be caused by, among other things (1) drought or other acts of nature, (2) increased

construction of new ethanol production facilities, (3) governmental actions that discourage raising corn for use in ethanol production (such as providing tax credits for corn grown for human consumption) or (4) changes in agricultural markets, technology or regulations.

- o Volatility in domestic and/or foreign markets may result in increased corn prices and/or lower ethanol prices.

Potential Impacts: Prolonged increases in corn prices and/or decreases in ethanol prices could have a material adverse impact on the earnings of Cornhusker Holdings that could, in turn, lead to an impairment of CHEC's investment in the company.

ITEM 1B - UNRESOLVED STAFF COMMENTS

None.

ITEM 2 - PROPERTIES

CH Energy Group has no significant properties other than those of Central Hudson and CHEC.

CENTRAL HUDSON

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

Type of Electric Generating Plant	Year Placed in Service/Rehabilitated	MW* Net Capability
Hydroelectric (3 stations)	1920-1986	23.0
Gas turbine (2 stations)	1969-1970	46.0
Total		69.0

* Reflects maximum one-hour net capability (winter rating as of December 31, 2007) 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 4.8 million kilovolt amps. Central Hudson's electric transmission system consists of 629 pole miles of line, and the electric distribution system consists of 8,009 pole miles of overhead lines and 1,317 trench miles of underground lines.

Electric Load and Capacity: Central Hudson's maximum one-hour demand for electricity within its own territory for the year ended December 31, 2007, occurred on August 8, 2007, and amounted to 1,185 MW. Central Hudson's maximum one-hour demand for electricity within its own territory for that part of the 2007-2008 winter capability period through January 15, 2008, occurred on December 13, 2007, and amounted to 925 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 12 – “Commitments and Contingencies.” Central Hudson entered into an agreement with Constellation to purchase capacity and energy from the Nine Mile 2 Plant for a ten-year period ending November 30, 2011. The agreement is “unit-contingent” in that Constellation is only required to supply electricity if the Nine Mile 2 Plant is operating. Capacity and energy are purchased at defined prices that escalate over the life of the contract. The capacity and energy supplied under the agreement with Constellation in 2007 was sufficient to supply approximately 12% of Central Hudson’s total system requirements, or 737,835 MWh. On November 12, 2002, Central Hudson entered into agreements with Entergy Nuclear Indian Point 2 LLC and Entergy Nuclear Indian Point 3 LLC to purchase energy (but not capacity) on a unit-contingent basis at defined prices for a period from January 1, 2005, to and including December 31, 2007. On March 6, 2007, Central Hudson entered into new agreements with Entergy Nuclear Power Marketing, LLC to purchase electricity (but not capacity) on a unit-contingent basis at defined prices from January 1, 2008 through December 31, 2010. On an annual basis, the electricity purchased through the Entergy contracts represents approximately 16% of Central Hudson’s full-service customer requirements, or 807,026 MWh. On January 30, 2008, Central Hudson entered into an 11-month agreement with Dynegy Power Marketing, Inc. to purchase 589,200 MWh of electricity on a unit-contingent basis at defined prices from February 11, 2008 through December 31, 2008.

Purchases under these contracts are supplemented by shorter-term contracts including contracts for differences, and by purchases from the NYISO, which oversees the bulk electricity transmission system and the capacity market in New York State, and other parties. Central Hudson must also acquire sufficient peak load capacity to meet the peak load requirements of its full service customers. This capacity is made up of its own generating capacity, contracts with capacity providers, and purchases from the NYISO capacity market.

Natural Gas: Central Hudson’s natural gas system consists of 164 miles of transmission pipelines and 1,156 miles of distribution pipelines. For the year ended December 31, 2007, the total amount of natural gas purchased by Central Hudson from all sources was 12,012,599 Mcf. Central Hudson owns two propane-air mixing facilities for emergency and peak-shaving purposes, one located in Poughkeepsie, New York, and the other in Newburgh, New York. These facilities, in aggregate, are capable of supplying 8,000 Mcf per day with propane storage capability adequate to provide maximum facility output for up to six consecutive days.

The peak daily demand for natural gas of Central Hudson’s customers for the year ended December 31, 2007, and for that part of the 2007-2008 heating season through January 18, 2008, occurred on January 3, 2008, and amounted to 110,981 Mcf. Central Hudson’s firm peak day natural gas capability in the 2007-2008 heating season was 138,183 Mcf, which excludes approximately 7,000 Mcf of transport customer deliveries.

Other Central Hudson Matters: Central Hudson's corporate headquarters is located in Poughkeepsie, New York. Central Hudson's electric generating plants and important property units are generally held by it in fee simple, except for certain ROW and a portion of the property used in connection with hydroelectric plants consisting of flowage or other riparian rights. Certain of the Central Hudson properties are subject to ROW and easements that do not interfere with Central Hudson's operations. In the case of certain distribution lines, Central Hudson owns only a partial interest in the poles upon which its wires are installed and the remaining interest is owned by various telecommunications companies. In addition, certain electric and natural gas transmission facilities owned by others are used by Central Hudson under long-term contracts.

During the three-year period ended December 31, 2007, Central Hudson made gross property additions of $221.7 million and property retirements and adjustments of $36.8 million, resulting in a net increase (including Construction Work in Progress) in gross utility plant of $184.9 million, or 17%.

CHEC

As of December 31, 2007, Griffith owned or leased several office, warehouse, and bulk petroleum storage facilities. These facilities are located throughout Connecticut, Delaware, Maryland, Pennsylvania, Rhode Island, Virginia, and West Virginia. The bulk petroleum storage facilities have capacities from 60,000 gallons up to in excess of 1.2 million gallons. Griffith's corporate headquarters is located in Columbia, Maryland.

As of December 31, 2007, CHEC owned a 100% interest in CH-Auburn, a 75% interest in Lyonsdale, a minority interest in Cornhusker Holdings and a 50% ownership interest in CH-Community Wind.

ITEM 3 - LEGAL PROCEEDINGS

For information about developments regarding certain legal proceedings, see Note 12 – "Commitments and Contingencies" of this 10-K Annual Report.

Central Hudson:

Former Manufactured Gas Plant Facilities
Little Britain Road
Asbestos Litigation

CHEC:

Griffith's remediation efforts at its Kable Oil bulk plant.

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year ended December 31, 2007.

PART II

ITEM 5 - MARKET FOR CH ENERGY GROUP'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

For information regarding the market for CH Energy Group's common stock and related stockholder matters, see Item 7 – "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this 10-K Annual Report under the captions "Capital Resources and Liquidity – Financing Program" and "Common Stock Dividends and Price Ranges" and Note 8 – "Capitalization – Common and Preferred Stock."

Under applicable statutes and their respective Certificates of Incorporation, CH Energy Group may pay dividends on shares of its common stock and Central Hudson may pay dividends on its common stock and its preferred stock, in each case only out of surplus.

The line graph set forth below provides a comparison of CH Energy Group's cumulative total shareholder return on its Common Stock with the Standard and Poor's 500 Index ("S&P 500") and as a Corporation-determined peer comparison with the EEI Index. Shareholder return is the sum of the dividends paid and the change in the market price of stock.

		INDEXED RETURNS Years Ending				
Company / Index	Base Period Dec 02	Dec 03	Dec 04	Dec 05	Dec 06	Dec 07
CH Energy Group, Inc.	100	105.72	113.57	113.64	136.60	120.57
S&P 500	100	128.68	142.69	149.70	173.34	182.86
EEI Index	100	123.48	151.68	176.03	212.56	247.76

ITEM 6 - SELECTED FINANCIAL DATA OF CH ENERGY GROUP AND ITS SUBSIDIARIES

FIVE-YEAR SUMMARY OF CONSOLIDATED OPERATIONS AND SELECTED FINANCIAL DATA* (CH ENERGY GROUP)

(In Thousands, except per share data)

	2007	2006	2005	2004	2003
Operating Revenues					
Electric	$ 616,839	$ 503,908	$ 520,994	$ 430,575	$ 457,395
Natural gas	165,449	155,272	155,602	125,230	123,306
Competitive business subsidiaries	414,469	334,253	295,910	235,707	225,983
Total	1,196,757	993,433	972,506	791,512	806,684
Operating Income	79,268	77,480	79,025	75,133	76,301
Cumulative preferred stock dividends of Subsidiary	970	970	970	970	1,387
Income from continuing operations	42,636	43,084	44,291	42,423	43,985
Net Income	42,636	43,084	44,291	42,423	43,985
Dividends Declared on Common Stock	34,052	34,046	34,046	34,046	34,093
Balance Retained in the Business	8,584	9,038	10,245	8,377	9,892
Retained Earnings - beginning of year	207,055	198,017	187,772	179,395	169,503
Retained Earnings - end of year	$ 215,639	$ 207,055	$ 198,017	$ 187,772	$ 179,395
Common Stock					
Average shares outstanding – basic	15,762	15,762	15,762	15,762	15,831
Average shares outstanding – diluted	15,779	15,779	15,767	15,771	15,835
Earnings per share on average shares outstanding – basic	$ 2.70	$ 2.73	$ 2.81	$ 2.69	$ 2.78
Earnings per share on average shares outstanding – diluted	$ 2.70	$ 2.73	$ 2.81	$ 2.69	$ 2.77
Dividends declared per share	$ 2.16	$ 2.16	$ 2.16	$ 2.16	$ 2.16
Book value per share (at year-end)	$ 33.19	$ 32.54	$ 31.97	$ 31.31	$ 30.80
Total Assets (at year-end)	$ 1,494,748	$ 1,460,532	$ 1,384,280	$ 1,287,807	$ 1,310,076
Long-term Debt (at year-end)**	403,892	337,889	343,886	319,883	278,880
Cumulative Preferred Stock (at year-end)	21,027	21,027	21,027	21,030	21,030
Common Shareholders' Equity (at year-end)	523,148	512,862	503,833	493,465	485,424

* This summary should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in Item 8 – “Financial Statements and Supplementary Data” of this 10-K Annual Report.

** Net of current maturities of long-term debt.

For additional information related to the impact of acquisitions and dispositions on the above, this summary should be read in conjunction with Item 7 – “Management Discussion and Analysis of Financial Condition and Results of Operations” of this 10-K Annual Report and Note 5 – “Acquisitions and Investments “ of Item 8 – “Financial Statements and Supplementary Data” of this 10-K Annual Report.

FIVE-YEAR SUMMARY OF CONSOLIDATED OPERATIONS AND SELECTED FINANCIAL DATA* (CENTRAL HUDSON)
(In Thousands)

	2007	2006	2005	2004	2003
Operating Revenues					
Electric	$ 616,839	$ 503,908	$ 520,994	$ 430,575	$ 457,395
Natural gas	165,449	155,272	155,602	125,230	123,306
Total	782,288	659,180	676,596	555,805	580,701
Operating Income	71,406	70,956	70,791	68,293	69,387
Net Income	33,436	34,871	35,635	38,648	38,875
Dividends Declared on Cumulative Preferred Stock	970	970	970	970	1,387
Income Available for Common Stock	32,466	33,901	34,665	37,678	37,488
Dividends Declared to Parent – CH Energy Group	8,500	8,500	17,000	25,500	34,162
Balance Retained in the Business	23,966	25,401	17,665	12,178	3,326
Retained Earnings - beginning of year	68,710	43,309	25,644	13,466	10,140
Retained Earnings - end of year	$ 92,676	$ 68,710	$ 43,309	$ 25,644	$ 13,466
Total Assets (at year-end)	$ 1,252,694	$ 1,215,823	$ 1,126,106	$ 1,029,442	$ 1,052,295
Long-term Debt (at year-end)**	403,892	337,889	343,886	319,883	278,880
Cumulative Preferred Stock (at year-end)	21,027	21,027	21,027	21,030	21,030
Common Shareholder's Equity (at year-end)	347,006	323,040	297,639	279,974	267,796

* This summary should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in Item 8 – "Financial Statements and Supplementary Data" of this 10-K Annual Report.

** Net of current maturities of long-term debt.

ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

The following Management's Discussion and Analysis of Financial Condition and Results of Operations is intended to help the reader understand CH Energy Group and Central Hudson.

Please note that the Executive Summary (below) is provided as a supplement to, and should be read together with, the remainder of this Item 7 – "Management's Discussion and Analysis of Financial Condition and Results of Operations," the Consolidated Financial Statements, including the Notes thereto, and the other information included in this 10-K Annual Report.

EXECUTIVE SUMMARY

Business Overview

CH Energy Group is a holding company with three business segments, and renewable energy and other investments:

(1) Central Hudson's regulated electric utility business;

(2) Central Hudson's regulated natural gas utility business;

(3) Griffith's fuel distribution business; and

(4) CHEC's investments in renewable energy supply, ethanol production, energy efficiency, an energy sector venture capital fund, and other investments of CH Energy Group, consisting primarily of investments in liquid short-term securities and inter-company interest income.

A breakdown of CH Energy Group's 2007 revenue and net income by segment is below.

CH Energy Group's long-term objective is to deliver shareholder value through a combination of quarterly dividend payments, and consistent earnings growth, which over time is expected to result in share price appreciation.

CH Energy Group consists of three segments and renewable energy and other investments. Each has growth opportunities and is expected to contribute to the overall earnings and dividend paying capability of CH Energy Group. The strategy and opportunities of each business unit are discussed in more detail below.

CH Energy Group believes managing risk is an important component of delivering shareholder value, and emphasizes creditworthiness and liquidity as strong fundamentals of long-term success. We also invest in a way that attempts to constrain earnings volatility to a level we believe is acceptable to our shareholders and is consistent with a relatively high dividend payout.

CH Energy Group has used the cash proceeds from its 2001 divestitures of major generating assets, and is now seeking to judiciously raise debt capital to lever its unregulated investments, which were 100% equity financed as of December 31, 2007.

Central Hudson

Central Hudson delivers electricity and natural gas to approximately 372,000 customers in a defined service territory in the Mid-Hudson Valley region of New York State. With costs consistently ranking below the average of electric utilities in New York State, Central Hudson's earnings are derived primarily from customer delivery charges. Central Hudson's rates are set by the PSC and designed to recover the cost of providing safe and reliable service to its customers and to provide a fair and reasonable return on the capital invested by shareholders. In addition to delivering electricity and natural gas, Central Hudson also procures supplies of electricity and natural gas for a majority of its customers. With authorization from the PSC, Central Hudson recovers these supply costs from customers without deriving profits from these activities.

In 2007, Central Hudson made progress on an important operational and customer initiative, improving electric reliability. The frequency of service interruptions was 20% lower in 2007 compared to the prior three-year average. Although favorable weather played a role, management believes that this reduction is also a result of expanded tree trimming and capital investments to improve reliability. In addition to providing safe and reliable service, management's attention remains focused on managing costs, and thus maintaining above average levels of customer satisfaction. These strategies promote high customer satisfaction and positive regulatory relations, which should translate into full cost recovery and reasonable returns for shareholders.

On July 24, 2006, the PSC issued the 2006 Rate Order authorizing increases in Central Hudson's electric and natural gas delivery rates over a three-year period ending June 30, 2009. During 2007, Central Hudson experienced lower sales volumes than reflected in the 2006 Rate Order, particularly for natural gas. Lower sales were caused by a reduction in natural gas and electric use per customer, which management believes was driven by energy conservation due to the price of energy and customers' environmental concerns. As a result, Central Hudson is earning less than its allowed ROE, despite growth in its customer base and in its rate base. Management believes that the warmer weather experienced over the last decade is due, at least in part, to changes in the overall climate in its service territory. Management expects this warming trend to continue. Rate base growth and a higher earned ROE are both critical to Central Hudson's ability to contribute to earnings growth. If not offset, lower sales than forecasted in the 2006 Rate Order, such as those experienced in 2006 and 2007, will continue to limit Central Hudson's ability to increase its earnings.

On September 25, 2007, Central Hudson filed a proposed energy efficiency program with the PSC. This proposed program addresses customers' desire to use energy more efficiently, and also features a Revenue Decoupling Mechanism (RDM), which eliminates the linkage of electric and natural gas profits from sales. If approved, the RDM feature of Central Hudson's proposed program will neutralize the earnings impact caused by fluctuations in usage per customer and the effect of unusual variations in weather patterns. The proposed program also includes a shareholder incentive provision to reward the company for successfully reducing energy consumption.

In addition to the energy efficiency and RDM proposals, management has implemented and is considering other potential strategies to manage costs and respond to lower sales growth than forecasted in rates. These strategies include the December 2007 filing with the PSC to defer certain Rate Year 1 gas costs not included in rates in the 2006 Rate Order and the possible filing of a rate case in 2008 to recalibrate revenues and expenses.

Changes in energy policy at the state level continue to provide new challenges for Central Hudson. Several generic proceedings have been established by the PSC on important policy questions that could impact Central Hudson. These are discussed further in the "Regulatory Matters" section following this discussion. Management cannot estimate at this time what, if any, impact these factors may have on Central Hudson.

Griffith

Griffith provides petroleum products and services to a base of more than 110,000 customers in a market area comprised of parts of Connecticut, Delaware, Washington, D.C., Maryland, Massachusetts, New Jersey, New York, Pennsylvania, Rhode Island, Virginia, and West Virginia. Griffith's revenues, cash flows, and earnings are derived from the sale and delivery of heating oil, gasoline, diesel fuel, kerosene, and propane and from the installation and maintenance of heating, ventilating, and air conditioning equipment. Griffith's 2007 gross profit by petroleum product and service and installations is illustrated below.

Griffith had stronger performance results for 2007 due primarily to the continued success of its acquisition and integration strategy, its strong marketing efforts, improved operational efficiency, and growth in its margins. Griffith's acquisition strategy continued to contribute favorably to earnings. In addition to the sixteen companies acquired in 2006 and 2005, Griffith acquired thirteen companies during the twelve months ended December 31, 2007, which provided a 26% increase in the total customer base and accounted for 4% of the company's net income for 2007. Due to the timing of the acquisitions and the seasonality of the business, it is expected that the favorable impact of these acquisitions will be more fully realized in 2008, when Griffith will own the acquired companies through an entire heating season.

Griffith's marketing initiatives have also proven to be an integral part of the continued expansion of its customer base. Internal efforts to promote Griffith's brand name and strong customer service capabilities have contributed to a 1% net account growth for 2007. Griffith will undertake efforts to continue this trend in 2008.

Griffith's earnings were also favorably impacted in 2007 by higher margins achieved in the first half of the year. The increase in oil prices in the second half of 2007 resulted in compression of these margins and could present continued challenges in 2008.

Griffith's strategy of acquiring quality companies, internal marketing efforts, and improving operational efficiency will continue to be Griffith's future focus.

During 2008, Griffith will also focus on efforts to expand its margins. The continued growth of the base company's earnings will be contingent upon Griffith's ability to minimize costs and optimize margins. Griffith is closely monitoring the impact of the economy on residential use per customer and analyzing potential impacts of legislation in response to recent environmental and political emphasis on energy efficiency initiatives. Conservation efforts by customers and federal policy that encourages this behavior could pose challenges to the company during 2008 and beyond. Management cannot estimate at this time what, if any, impact these factors may have on the company.

Other Businesses and Investments

In addition to Griffith, CHEC derives earnings through investments in the competitive energy markets. CHEC's investment objectives are to increase earnings and cash flow while limiting earnings volatility to a level that management believes is acceptable. Increasing government support for investments in renewable energy sources has made such investments more attractive, providing opportunities to promote environmentally friendly energy sources while providing potential earnings for shareholders. CHEC faces strong competition for investment opportunities in the energy industry, which may make it difficult to make investments that offer appropriate risk-adjusted returns or may slow the rate at which such investments can be made. CHEC's management believes these challenges can be met effectively as it pursues its current strategy.

In 2007, CHEC continued to expand its investments in renewable energy sources by entering into agreements committing a total of $14 million. The primary investment involves a plan to build, own and operate a 3-megawatt electric generating plant in Auburn, New York, which will use renewable energy for electric generation. The second project is a plan to invest in a biodiesel facility in Brooklyn, New York, which is expected to produce biodiesel fuel utilizing waste cooking oil as raw material. Also, an ethanol investment of $3 million was made through additional subordinated debt of Cornhusker Holdings.

Despite the challenges in 2007 caused by the volatile commodity prices impacting ethanol investments, CHEC's existing investments in ethanol production, biomass electric generation, and wind energy contributed favorably to earnings in 2007 and are expected to continue to do so in the future, reinforced by the new investments discussed above. Additionally, Cornhusker Holdings is currently working on an expansion of its plant capacity, which would increase capacity at a competitive cost per gallon of increased ethanol production. Lyonsdale's earnings are expected to increase starting in 2008 as a result of a contract entered into with NYSERDA for the sale of Renewable Energy Attributes, which are tied directly to plant output.

CHEC's other investments – in energy efficiency projects, a venture capital fund, and other small partnerships – are not expected to play a significant role in CH Energy Group's strategy going forward.

CHEC's ability to continue to make additional investments that provide attractive returns within acceptable earnings volatility parameters will be one of the key factors in CH Energy Group's ability to achieve its goal of increasing earnings per share over time. As planned, CH Energy Group utilized a portion of its cash reserves to make additional investments in the competitive energy markets, and expects to continue its strategy utilizing its remaining cash reserves and relying on its potential to raise capital with a long-term debt offering related to the currently unlevered CHEC businesses.

In December 2007, The Energy Independence and Security Act of 2007 (the "Energy Act") became law. The Energy Act increased the annual minimum of renewable fuels for 2008 and 2012 by 3.6 and 7.7 billion gallons, respectively, which could raise the demand for ethanol. Although these increases could favorably impact Cornhusker Holdings' earnings, any such impact is not expected to be material to CHEC or CH Energy Group.

2007 In Review

Earnings for CH Energy Group, Inc. totaled $2.70 per share in 2007, versus $2.73 per share during 2006. Though there was a slight year-over-year reduction in earnings, the core businesses performed solidly during 2007 and were able to almost completely offset more than $0.50 per share of favorable unusual items that were experienced during 2006.

The 2007 earnings per share reflect sound business fundamentals. Central Hudson's sales rebounded somewhat from depressed levels in 2006, and higher rates also boosted revenues. When combined with improved margins within Griffith and earnings from a peak level of acquisitions, these developments largely replaced those unusual items that had benefited earnings in 2006. The actual results by business were as follows:

Central Hudson's Electric and Natural Gas Businesses

Central Hudson's contribution to annual earnings was $2.06, which was $0.09 lower than 2006. Though higher utility rates, more favorable weather, and growth in both sales and usage per customer all contributed to strong performance, earnings results were down from the prior year because Central Hudson benefited from certain positive regulatory mechanisms and unusual items during 2006 that did not recur in 2007.

In particular, three factors that helped to bolster Central Hudson's earnings per share in 2007 as compared to the prior year were: reduced expenses associated with restoring service due to fewer storms and increased tree trimming ($0.12), higher rates ($0.18) and weather-normalized sales growth ($0.18), the last of which indicates that the conservation evidenced by lower usage per customer in 2006 in response to higher energy prices appears to have subsided.

Despite those positive developments, Central Hudson's management believes that the sales forecast adopted in the 2006 Rate Order did not accurately reflect the level of customer response to price increases and was therefore overstated, which has resulted in Central Hudson failing to earn the authorized return to shareholders.

In September 2007, Central Hudson filed a request to implement an energy efficiency program and adopt a revenue decoupling mechanism that would eliminate the linkage of electric and natural gas profits from sales. The outcome of that filing is not yet known and preparations have begun to file a request for a rate increase with the New York State Public Service Commission in 2008.

Griffith

Griffith contributed $0.20 to earnings per share in 2007, up from $0.10 during 2006, due largely to higher margins and profitable acquisitions. Griffith's management foresees opportunities to achieve still more given the successful execution in 2007 of Griffith's strategy to grow through both acquisitions and internal marketing, as well as to improve operational effectiveness.

Other Businesses

CH Energy Group (the holding company) and CHEC's partnerships and other investments contributed $0.44 to CH Energy Group's earnings in 2007, down $0.04 from 2006 results. The earnings from CHEC's investment in Cornhusker Holdings were lower due to lower margins, but that investment along with the investment in Lyonsdale and CH-Community Wind continued to add positively to earnings as part of a diversified portfolio of investments within the energy industry.

REGULATORY MATTERS

Rate Proceedings - Electric and Natural Gas

For further information regarding Central Hudson's current rate agreement, see Note 2 – "Regulatory Matters" under the caption "New Rate Proceedings – Electric and Natural Gas."

Other PSC Proceedings and Administration Initiatives

PSC Proceedings

CH Energy Group and Central Hudson continue to monitor a number of generic and specific regulatory proceedings. Neither CH Energy Group nor Central Hudson can predict the final outcome of Governor Spitzer's energy policies, or the following PSC proceedings.

On January 21, 2008, Central Hudson filed a petition for reconsideration and rehearing on the PSC's Order Concerning Annual Reconciliation of Gas Costs, issued on December 21, 2007. The petition seeks reconsideration and recovery of certain adjustments, totaling $666,000, proposed by the company in its November 1, 2007 gas cost reconciliation filing.

On December 24, 2007, the PSC issued an Order Initiating Electricity Reliability and Infrastructure Planning in Case 07-E-1507 as an outflow of the longer-term energy planning issues initially considered in Phase II of Case 06-M-1017. The Order institutes a collaborative process to develop the process, criteria, and standards for the PSC to review and choose among competing regulatory backstop projects, if necessary, in order to ensure system reliability in the near term. In addition, the Order seeks to establish a long term electric resource plan and planning process that incorporates various considerations and policy goals which are not adequately addressed by the existing market structure or planning process. In the Order, the PSC reiterated its support for competitive markets and market mechanisms, but noted regulatory approaches, including the use of long-term contracts, may be required to address the energy needs and policy goals of New York State. On January 23, 2008, Central Hudson filed a petition for clarification and reconsideration in this proceeding. The petition seeks Commission redress or consideration of several issues, including utility ownership of generation facilities, long-term contracts, and other planning issues that were addressed in the PSC's December 24, 2007 Order instituting the proceeding.

On November 27, 2007, Central Hudson filed a petition with the PSC seeking approval to defer certain incremental and material non-labor gas expenses that were incurred during Rate Year 1 but were not included in rates under the 2006 Rate Plan. The petition seeks PSC authorization to defer $990,000 of incremental expenses and associated carrying charges on the net of tax balances.

On September 25, 2007, Central Hudson filed a petition with the PSC seeking expedited consideration and approval of interim electric, gas and low-income energy efficiency programs, electric and gas revenue decoupling mechanisms, and deferral accounting authorizations. The petition was accompanied by a filing providing detailed descriptions of Central Hudson's proposed energy efficiency programs, including analyses demonstrating cost effectiveness. The programs are targeted at residential, small commercial and industrial, and low-income customer segments, and consist of a range of incentives for high efficiency measures including lighting, appliances, heating and cooling equipment, energy audits, and weatherization. In addition, the programs include a comprehensive customer outreach and education effort. On January 18, 2008, Central Hudson filed a comprehensive plan in the Energy Efficiency Portfolio Standard proceeding (Case 07-M-0548) outlining its vision of a statewide plan to achieve the 15% reduction targets. At this time, there has been no Commission action taken in this proceeding.

On April 24, 2007, the PSC issued an Order in Case 07-M-0458 - Proceeding on Motion of the Commission to Review Policies and Practices Intended to Foster the

Development of Competitive Retail Energy Markets. This Order encouraged interested parties to examine and submit comments on existing programs and practices of New York State ("NYS") utilities that promote retail market development focusing on whether programs are still necessary; if market participants are improperly subsidized; if risks and expenses are properly allocated among ratepayers, utilities and market participants; and the need to continue programs or practices to prevent the re-building of barriers to entry in the competitive markets. The Order also calls for the review and evaluation of utility specific programs, practices and policies in ongoing and future electric and gas rate proceedings.

On April 20, 2007, the PSC issued an Order in Cases 03-E-0640 and 06-G-0746 - Proceeding on Motion of the Commission to Investigate Potential Electric and Gas Delivery Rate Disincentives Against the Promotion of Energy Efficiency, Renewable Technologies and Distributed Generation. The Order directed Central Hudson and other NYS utilities to develop proposals for delivery service revenue decoupling mechanisms for consideration in a next rate case filing. Consistent with the Order's intent, Central Hudson proposed mechanisms to true up forecast and actual delivery service revenues in its September 25, 2007 filing discussed above.

On April 19, 2007, the PSC issued an Order in Case 06-M-1017 - Proceeding on Motion of the Commission as to Policies, Practices and Procedures for Utility Commodity Supply Service to Residential and Small Commercial Customers. The Order provided guidance on commodity supply and hedging practices and directed Central Hudson and other NYS utilities, through a collaborative or administrative process, to develop standards and goals for measuring and constraining the supply price volatility on certain classes of customers. In addition, utilities will be required to report to the PSC Staff on their strategies, aggregate supply portfolio, and the extent to which goals for measuring and constraining energy price volatility have been met. This case continues with collaborative meetings among the utilities, PSC Staff, and interested Parties, and a Phase II to address long-term contracting, supply resource planning, and other public policy issues. The Phase II matters in the case are being addressed in Case 07-E-1507 in the Order Initiating Electric Reliability and Infrastructure Planning referenced above.

On April 19, 2007, Governor Eliot Spitzer delivered a speech announcing a comprehensive energy strategy for NYS, consisting of demand side and supply side components to reduce energy costs and achieve economic and environmental benefits. The strategy includes goals of reducing electricity demand 15% by 2015 through new energy efficiency programs, new appliance efficiency standards, and energy building codes. The plan also proposes a new power plant siting law, and continued support for renewable energy resources, as well as other proposed energy policies. On May 16, 2007, the PSC issued an Order Instituting Proceeding in Case 07-M-0548 - Proceeding on Motion of the Commission on an Energy Efficiency Portfolio Standard. In response to those initiatives, Central Hudson developed the energy efficiency programs included in its September 25, 2007 filing discussed above.

Non-Utility Land Sales

For further information regarding non-utility land sales, see Note 2 – "Regulatory Matters."

Electric Reliability Performance

For further information regarding Central Hudson's electric reliability performance, see Note 2 – "Regulatory Matters."

RESULTS OF OPERATIONS

The following discussion and analyses include explanations of significant changes in revenues and expenses between the twelve months ended December 31, 2007, and 2006, and the twelve months ended December 31, 2006, and 2005, for Central Hudson's regulated electric and natural gas businesses, Griffith, and the other businesses.

Earnings

Earnings per share (basic and diluted) of CH Energy Group's common stock are computed on the basis of the average number of common shares outstanding (basic and diluted) during the subject year. The number of average shares outstanding of CH Energy Group common stock, the earnings per share, and the rate of return earned on average common equity, which is net income as a percentage of a monthly average of common equity, are as follows:

	2007	2006	2005
Average shares outstanding (In thousands):			
Basic	15,762	15,762	15,762
Diluted	15,779	15,779	15,767
Earnings per share:			
Basic	$ 2.70	$ 2.73	$ 2.81
Diluted	$ 2.70	$ 2.73	$ 2.81
Return earned on common equity	8.1%	8.4%	8.8%

2007 as Compared to 2006

CH Energy Group Consolidated Earnings

Earnings per Share (Basic)	2007	2006	Change
Central Hudson – Electric	$ 1.66	$ 1.67	$ (0.01)
Central Hudson – Natural Gas	0.40	0.48	(0.08)
Griffith	0.20	0.10	0.10
Other Businesses and Investments	0.44	0.48	(0.04)
	$ 2.70	$ 2.73	$ (0.03)

CH Energy Group's decrease in earnings in 2007 was primarily the result of the effect of unusual items that contributed to earnings favorably in 2006 but did not recur in 2007, partially offset by the impact of Central Hudson's rate increases in 2006 and 2007, weather-normalized sales growth, and Griffith's favorable operating results.

Central Hudson

Earnings per share (Basic)	2007	2006	Change
Electric	$ 1.66	$ 1.67	$ (0.01)
Natural Gas	0.40	0.48	(0.08)
Total	$ 2.06	$ 2.15	$ (0.09)

Earnings from Central Hudson's electric and natural gas operations decreased $0.09 per share in 2007 as compared to 2006, due to the following:

Regulatory Mechanisms and Unusual Events:	
Release of Reserves in 2006	$ (0.21)
Gain on Non-Utility Property Sales in 2006	(0.08)
Reversal of Shared Earnings in 2006	(0.08)
Revenues recorded in 2006 per prior Rate Agreement	(0.14)
Shared earnings recorded in 2007	(0.04)
Gain on Non-Utility Property Sales in 2007	0.02
	(0.53)
Rate Increases	0.18
Weather Impact on Sales	0.07 (a)
Weather-Normalized Sales Growth	0.18
Higher Tree Trimming Expense in 2007	(0.03)
Lower Storm Restoration Expense in 2007	0.15
Interest Expense and Carrying Charges	(0.11)

	$ (0.09)

(a) Includes $0.04 and $0.03 per share due to higher sales volumes for electric and natural gas, respectively, and is net of derivatives.

Central Hudson's decrease in earnings was primarily the result of changes in regulatory provisions and a number of significant, favorable, unusual items that contributed $0.51 per share to 2006 earnings, but did not recur in 2007. However, the lack of such items of that magnitude in 2007 was largely offset by an increase in rates pursuant to the 2006 Rate Order, higher energy delivery volumes and modest customer growth, and lower storm restoration costs due to fewer and less severe storms and increased tree trimming in 2007.

Griffith

Earnings per Share (Basic)	2007	2006	Change
	$ 0.20	$ 0.10	$ 0.10

Griffith's earnings increased $0.10 per share in 2007 compared to 2006, due to the following:

Acquisitions[(1)]	$ 0.04
Margin on Petroleum Sales and Services	0.18
Operating Expenses	(0.13)
Weather Impact on Sales	0.02
Reduction in Environmental Remediation Reserve in 2006	(0.04)
Other	0.03
	$ 0.10

(1) For the purposes of this chart, "Acquisitions" represents the incremental affect of acquisitions made by Griffith in 2007 and 2006.

The increase in earnings at Griffith in 2007 was largely the result of higher gross margins on petroleum products and service contracts which were partially offset by the impact of higher operating costs resulting in a net favorable earnings per share impact of $0.05. In addition, the incremental effect of acquisitions in 2006 and 2007 contributed to the higher earnings.

Other Businesses and Investments

Earnings per Share (Basic)	2007	2006	Change
	$ 0.44	$ 0.48	$ (0.04)

Earnings from CH Energy Group (the holding company) and CHEC's partnership and other investment interests decreased $0.04 per share in 2007 as compared to 2006, due to the following:

Unusual Events:	
Gain on Sale of Non-Strategic Property in 2006	$ (0.03)
Release of Reserves of a Former Subsidiary in 2006	(0.07)
Release of Reserves of a Former Subsidiary in 2007	0.01
Tax Adjustments	0.07
	(0.02)
Cornhusker Holdings	(0.04)
CH-Community Wind	0.02
Lyonsdale	0.02
Other	(0.02)
	$ (0.04)

CH Energy Group's other unregulated businesses decreased their earnings contribution by $0.04 per share from 2006 primarily due to the release of reserves related to a former subsidiary and property sales in 2006, partially offset by favorable tax adjustments. Other investments continue to contribute to earnings, but Cornhusker Holdings' earnings decreased in 2007 due to unfavorable markets for corn and ethanol.

2006 as Compared to 2005

CH Energy Group Consolidated Earnings

Earnings per Share (Basic)	2006	2005	Change
Central Hudson – Electric	$ 1.67	$ 1.63	$ 0.04
Central Hudson – Natural Gas	0.48	0.57	(0.09)
Griffith	0.10	0.23	(0.13)
Other Businesses and Investments	0.48	0.38	0.10
	$ 2.73	$ 2.81	$ (0.08)

Details by segment are as follows:

Central Hudson

Earnings per share (Basic)	2006	2005	Change
Electric	$ 1.67	$ 1.63	$ 0.04
Natural Gas	0.48	0.57	(0.09)
Total	$ 2.15	$ 2.20	$ (0.05)

Earnings from Central Hudson's electric and natural gas operations decreased $0.05 per share in 2006 as compared to 2005, due to the following:

Regulatory Mechanisms	$ 0.38 (a)
Rate Increases	0.32
Weather Impact on Sales	(0.25) (b)
Line Clearance Expense	(0.15)
Storm Restoration Expense	(0.10)
Other Operating Expenses	(0.11)
Interest Expense	(0.09)
Lower Sales per Customer Due to Conservation	(0.12)
Non-Utility Property Sales	0.08
2005 Favorable NYISO Billing Adjustment	(0.04)
Other	0.03
	$ (0.05)

(a) Includes $0.16 per share from lower shared earnings, $0.06 per share from lower PSC reliability assessments, and $0.11 per share from revenue restoration.

(b) Includes $(0.14) and $(0.11) per share due to lower sales volumes for electric and natural gas, respectively, and is net of derivatives.

Central Hudson's reduction in earnings was primarily the result of customer conservation and unfavorable weather. Revenues set aside for customers in 2005 were reinstated in 2006 to offset some of the unfavorable results of higher operating expenses and weather. Additionally, in 2006 Central Hudson recorded revenues to restore earnings towards the allowed rate of return in accordance with the provisions of the then-current Settlement Agreement. This regulatory mechanism is no longer available under the terms of the 2006 Rate Order. Central Hudson's rate increase was designed to provide revenue support for the recovery of the escalating cost of providing service to its customers and of previously deferred costs.

Griffith

Earnings per Share (Basic)	2006	2005	Change
	$ 0.10	$ 0.23	$ (0.13)

Griffith's earnings decreased $0.13 per share in 2006 compared to 2005, due to the following:

Acquisitions[1]	$ 0.03
Reduction in Environmental Remediation Reserve	0.04
Margin on Petroleum Sales and Services	0.10
Lower Sales per Customer Due to Conservation	(0.10)
Weather Impact on Sales	(0.13)
Operating Expenses	(0.04)
Other	(0.03)
	$ (0.13)

(1) For the purposes of this chart, "Acquisitions" represents the incremental affect of acquisitions made by Griffith in 2006 and 2005.

The reduction in earnings at Griffith was largely the result of customer conservation and warmer weather in 2006. Margins on petroleum products and service contracts increased over 2005 levels. Earnings from acquisitions of several small oil companies in 2006 were also higher than the acquisition-related earnings in 2005.

Other Businesses and Investments

Earnings per Share (Basic)	2006	2005	Change
	$ 0.48	$ 0.38	$ 0.10

Earnings from CH Energy Group (the holding company) and CHEC's partnership and other investment interests increased $0.10 per share in 2006 as compared to 2005, due to the following:

Tax Adjustment in 2005	$ (0.14)
Sales of Non-Strategic Property	0.03
Release of Reserves of a Former Subsidiary	0.07
Cornhusker Holdings	0.10
Lyonsdale	0.03
Other	0.01
	$ 0.10

CH Energy Group's other unregulated businesses increased their earnings contribution by $0.10 per share over 2005 primarily due to the earnings of new investments including the Cornhusker Holdings and Lyonsdale. The release of reserves related to CH Resources, property sales, and other favorable variations largely offset the favorable tax adjustment recorded in 2005. The 2005 tax adjustment was largely due to the completion of the New York State income tax audit for 2001.

Central Hudson

The following discussions and analyses include explanations of significant changes in revenues and expenses between the twelve months ended December 31, 2007, and December 31, 2006, and between the twelve months ended December 31, 2006 and December 31, 2005, for Central Hudson's regulated electric and natural gas businesses.

Central Hudson Income Statement Variances	Twelve months ended December 31, 2007 over/(under) 2006	
	Amount (In Thousands)	Percent
Operating Revenues	$ 123,108	18.7%
Operating Expenses:		
Purchased electric, fuel and natural gas	92,662	23.1%
Depreciation and Amortization	(603)	(2.1)%
Other operating expenses	30,599	19.4%
Total operating expenses	122,658	20.9%
Operating Income	450	1.0%
Other income, net	(592)	(10.0)%
Interest charges	2,495	12.0%
Income before income taxes	(2,637)	(5.0)%
Income taxes	(1,202)	(6.0)%
Net (loss)/income	$ (1,435)	(4.0)%

Central Hudson Income Statement Variances	Twelve months ended December 31, 2006 over/(under) 2005	
	Amount (In Thousands)	Percent
Operating Revenues	$ (17,416)	(2.6)%
Operating Expenses:		
Purchased electric, fuel and natural gas	(42,064)	(9.5)%
Depreciation and Amortization	(872)	(2.9)%
Other operating expenses	25,355	19%
Total operating expenses	(17,581)	(2.9)%
Operating Income	165	0%
Other income, net	30	1%

Interest charges		3,367	20%
Income before income taxes		(3,172)	(5)%
Income taxes		(2,408)	(10)%
Net (loss)/income	$	(764)	(2)%

Central Hudson

Delivery Volumes

Delivery volumes for Central Hudson vary in response to weather conditions and customer behavior. Electric deliveries typically peak in the summer, and deliveries of natural gas used for heating purposes typically peak in the winter. Sales also vary as customers respond to the price of the particular energy product and changes in local economic conditions.

The following charts reflect the change in the level of electric and natural gas deliveries for Central Hudson in 2007, compared to 2006, and in 2006, compared to 2005. The charts reflect the change for actual deliveries, and the change normalized to exclude the effect of weather. Deliveries of electricity and natural gas to residential and commercial customers contribute the most to Central Hudson's earnings. Industrial sales and interruptible sales have a negligible impact on earnings.

	Actual Deliveries			
	2007 Increase (Decrease) from 2006		2006 Increase (Decrease) from 2005	
	Electric	Natural Gas	Electric	Natural Gas
Residential	4%	12%	(6)%	(13)%
Commercial	4%	10%	(3)%	(10)%
Industrial and Other [(a)]	(2)%	5%	(3)%	6%
Total Deliveries	2%	9%	(4)%	(7)%

(a) Includes interruptible natural gas deliveries.

	Weather Normalized Deliveries			
	2007 Increase (Decrease from 2006)		2006 Increase (Decrease from 2005)	
	Electric	Natural Gas	Electric	Natural Gas
Residential	3%	6%	0%	(6)%
Commercial	4%	4%	(1)%	(4)%
Industrial and Other [(a)]	(2)%	5%	(2)%	(19)%
Total Deliveries	2%	5%	(1)%	(5)%

(a) Excludes interruptible natural gas deliveries.

Electric deliveries to residential and commercial customers were higher in 2007 due to colder weather (electric residential heating degree-days increased 3% for the year), an increase in non-weather related usage per customer, and modest customer growth. This increase was partially offset by the impact of cooler summer weather.

Deliveries of natural gas in 2007 also increased due to higher usage per customer, resulting from an increase in residential natural gas heating-degree days of

2% overall for 2007, an increase in non-weather related usage per customer, and some customer growth.

Electric deliveries to residential and commercial customers in 2006 decreased as a result of less usage due to cooler summer and warmer winter weather conditions, as well as some conservation by customers, which was partially offset by modest customer growth. As compared to 2005, cooling degree-days decreased 31% and electric residential heating degree-days decreased 6%.

Natural gas deliveries to residential and commercial customers also decreased due to weather conditions and conservation measures on the part of customers, which was partially offset by modest customer growth. Residential natural gas heating degree-days decreased 5% in 2006 as compared to 2005. Industrial deliveries decreased 23% due to lower usage and the loss of a large customer due to bankruptcy.

Revenues

Central Hudson's revenues consist of two major categories: those which offset specific expenses in the current period (matching revenues), and those that impact earnings. Matching revenues recover Central Hudson's actual costs for particular expenses. 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.

2007 Increase (Decrease) from 2006 — $123.1 million increase
(In Thousands)

	Central Hudson		
	Electric	Natural Gas	Total
Revenues with Matching Offsets: [a]			
Energy cost adjustment	$ 87,833	$ 1,955	$ 89,788
Sales to other utilities	349	1,086	1,435
Pension, OPEB and other revenues	19,491	5,850	25,341
Subtotal	107,673	8,891	116,564
Revenues Impacting Earnings:			
Customer sales [b]	9,911	2,389	12,300
Other regulatory mechanisms	(5,090)	(224)	(5,314)
Sales to other utilities	—	270	270
Weather-hedging contracts	440	(150)	290
Other revenues	(3)	(999)	(1,002)
Subtotal	5,258	1,286	6,544
Total	$ 112,931	$ 10,177	$ 123,108

Electric and natural gas revenues in 2007 increased due largely to an increase in revenues with matching expense offsets. The increases in energy cost adjustment revenues reflect the impact of higher delivery volumes and also higher wholesale costs for electric revenues. Revenues for pension, OPEB and other matched costs resulted from rate changes implemented in accordance with the 2006 Rate Order.

Electric and natural gas revenues from customer sales increased due to higher delivery volumes and the impact of the 2006 Rate Order. Electric revenues from customer sales were partially offset by a decrease in other regulatory mechanisms primarily related to shared earnings and revenues recorded in 2006 in accordance with prior PSC authorization.

2006 Increase (Decrease) from 2005 — $17.4 million decrease
(In Thousands)

	Central Hudson		
	Electric	Natural Gas	Total
Revenues with Matching Offsets: [a]			
Energy cost adjustment	$ (40,143)	$ (9,062)	$ (49,205)
Sales to other utilities	(1,060)	8,940	7,880
Customer Sales	14,517	1,585	16,102
Pension, OPEB and other revenues	202	40	242
Subtotal	(26,484)	1,503	(24,981)
Revenues Impacting Earnings:			
Customer sales [b]	(439)	(2,859)	(3,298)
Other regulatory mechanisms	8,444	(260)	8,184
Sales to other utilities	—	1,578	1,578
Weather-hedging contracts	1,342	116	1,458
Other revenues	51	(408)	(357)
Subtotal	9,398	(1,833)	7,565
Total	$ (17,086)	$ (330)	$ (17,416)

(a) 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 and natural gas costs. Other related costs are pensions, OPEB, and the cost of special programs authorized by the PSC, which are funded with certain available credits. Changes in revenues from electric sales to other utilities also do not affect earnings since any related profits or losses are returned or charged, respectively, to customers. For natural gas sales to other utilities, 85% of such profits are returned to customers.

(b) Includes an offsetting recovery of amounts related to back-out credits for retail access customers.

Electric revenues decreased $17.1 million in 2006 primarily due to a decrease of $26.5 million in revenues with matching offsets. A decrease in energy cost adjustment revenues due to lower deliveries and lower wholesale costs was partially offset by an increase in revenues for pension and OPEB costs resulting from the 2006 Order. Revenues affecting earnings increased $9.4 million primarily due to favorable changes in other regulatory mechanisms related to shared earnings, the restoration of revenues recorded in accordance with PSC authorization, service interruptions, and amounts collected for uncollectible expense and working capital.

Natural gas revenues decreased $0.3 million in 2006. This decrease was caused by a decrease of $1.8 million in revenues impacting earnings, primarily due to lower deliveries resulting from milder weather and some customer conservation. This decrease was largely offset by an increase of $1.5 million in revenues with matching offsets due to increases in sales to other utilities and revenues for pension and OPEB costs due to the 2006 Order, partially offset by a decrease in energy cost adjustment revenues due to lower deliveries resulting from a milder winter.

Incentive Arrangements

Under certain earnings incentive provisions approved by the PSC, Central Hudson shares with its customers certain revenues and/or cost savings exceeding predetermined levels or is penalized in some cases for shortfalls from certain performance standards.

Earnings sharing arrangements are currently effective for interruptible natural gas deliveries and natural gas capacity release transactions. Performance standards apply to electric service reliability, certain aspects of customer service, natural gas safety, and customer satisfaction, and certain aspects of retail market participant satisfaction.

The net results of these and previous earnings sharing arrangements had the effect of increasing pre-tax earnings by $0.5 million in 2007, and $0.4 million in 2006, and decreasing pre-tax earnings by $0.6 million in 2005.

In addition to the above-noted items, effective July 1, 2006, Central Hudson shared with customers earnings over a base ROE of 10.6% on the equity portion of Central Hudson's rate base, which was determined in accordance with the criteria set forth in the 2006 Rate Order. In 2007, Central Hudson recorded $1.1 million as a regulatory liability for the customer portion of these pre-tax shared earnings. Through June 30, 2006, Central Hudson shared earnings over a base ROE of 10.5% with customers, which was determined in accordance with the criteria set forth in the 2001 Rate Plan. In 2005, Central Hudson recorded $2.4 million as a regulatory liability for the customer portion of these pre-tax shared earnings of which $1.7 million was reversed in 2006 due to lower than anticipated ratemaking operating income in the six months ended June 30, 2006.

See Note 2 – "Regulatory Matters" of this 10-K Annual Report under the caption "2006 Rate Order" for a description of earnings sharing formulas approved by the PSC for Central Hudson.

Operating Expenses

The most significant elements of Central Hudson's operating expenses are purchased electricity and purchased natural gas; however, changes in these costs do not affect earnings since they are offset by changes in related revenues recovered through Central Hudson's energy cost adjustment mechanisms. Additionally, there are other significant costs that are matched by revenues, notably the cost of pensions and OPEBs.

Total utility operating expenses increased 20.9% in 2007 and decreased 2.9% in 2006.

The following summarizes the change in operating expenses:

	2007 Increase (Decrease) from 2006	2006 Increase (Decrease) from 2005
	(Change In Thousands)	
Expenses Currently Matched to Revenues [1]:		
Purchased electricity	$ 88,182	$ (41,422)
Purchased natural gas	3,041	(36)
Pension	15,102	11,575
OPEB	4,880	3,273
New York State energy programs	2,003	1,275
Stray voltage testing program	1,125	1,100
Residual gas deferred balances	1,509	—
Other matched expenses	1,511	201
Subtotal	$ 117,353	$ (24,034)
Other Expense Variations:		
Tree trimming	797	3,877
Disposition of property	1,749	(2,218)
Injuries & damages reserve	1,390	(836)
Purchased natural gas	1,439	(606)
Storm restoration expenses	(3,874)	2,442
Other expenses	3,804	3,794
Subtotal	$ 5,305	$ 6,453
Total Increase in Operating Expenses	$ 122,658	$ (17,581)

(1) Includes expenses that, in accordance with the 2006 Rate Order, are adjusted in the current period to equal the revenues earned for the applicable expenses.

Purchased electricity costs increased in 2007 due to higher wholesale costs and volumes purchased, the latter resulting from an increase in usage and customer growth. Natural gas costs increased in 2007 due primarily to an increase in volumes purchased due to increased deliveries and customer growth. The lower storm restoration costs in 2007 resulted from fewer and less severe storms as compared to 2006. Other expenses of operation were also impacted by fewer real property sales in 2007 compared to 2006.

Purchased electricity costs decreased in 2006 due to decreases in wholesale costs and volumes purchased, the latter due primarily to a decrease in usage resulting from cooler weather during the months of July through September 2006. The increase in other expenses of operation was partially offset by $2.2 million in gains realized on the sale of real property.

The increase in pensions and OPEBs in both periods is due to an increase in the level of expense recorded due to a corresponding increase in revenues resulting from the 2006 Rate Order. The increase in tree trimming expenses in both periods reflects Central Hudson’s continuing efforts to improve system reliability. These costs are covered by the higher revenues resulting from the 2006 Rate Order. Management also believes that the increased tree trimming contributed to the improved system reliability during storms.

Other Income

Other income and deductions for Central Hudson decreased $0.6 million in 2007 primarily due to lower regulatory carrying charges due from customers related to pension costs. This reduction was partially offset by higher interest income on trust assets and higher other regulatory carrying charges due from customers.

Other income and deductions for Central Hudson remained essentially unchanged in 2006 as compared to 2005. A decrease in regulatory carrying charges due from customers related to pension costs was largely offset by the recording of favorable regulatory adjustments for the change in interest costs on Central Hudson’s variable rate debt. The variation related to the variable rate debt is offset by changes in the related interest charges.

Interest Charges

Interest charges increased in 2007 primarily due to the issuance of medium-term notes in November 2006 and September 2007, and an increase in regulatory carrying charges due to customers related to other postretirement benefits. The latter results from an increase in the reserve balances upon which these carrying charges are calculated. Additional long-term debt was issued to supplement operating cash sources for Central Hudson’s capital expenditures, and additional short-term debt was required in 2007 for working capital needs.

Central Hudson's interest charges increased in 2006 primarily due to the issuance of medium-term notes in December 2005 and November 2006 and increased interest charges on Central Hudson's variable rate debt. The increase also reflects higher average balances of outstanding short-term debt and higher interest rates. Regulatory carrying charges on deferred balances due customers also increased.

The following table sets forth pertinent data on Central Hudson's outstanding debt.

	2007	2006	2005
	(Dollars In Thousands)		
Long-Term Debt:			
Debt retired	$ 33,000	$ —	$ —
Debt issued	$ 66,000	$ 27,000	$ 24,000
Outstanding at year-end:			
Amount (including current portion)	$ 403,892	$ 370,889	$ 343,886
Weighted average interest rate	5.49%	4.88%	4.47%
Short-Term Debt:			
Average daily amount outstanding	$ 32,501	$ 27,657	$ 16,559
Weighted average interest rate	5.37%	5.24%	3.65%

See Note 7 – "Short-Term Borrowing Arrangements" and Note 9 – "Capitalization – Long-Term Debt" for additional information on short-term and long-term debt of CH Energy Group and/or Central Hudson.

Income Taxes

Central Hudson's income taxes for 2007 decreased by $1.2 million compared to 2006 primarily due to a decrease in pre-tax book earnings, favorable impacts of items related to utility plant and from the tax benefits of the Medicare Act. These favorable items were partially offset by an unfavorable impact of flow-through items related to reserves.

Central Hudson's income taxes for 2006 decreased by $2.4 million compared to 2005 primarily due to a decrease in pre-tax book earnings and the reversal in 2005 of income tax reserves resulting from a favorable resolution of income tax audits.

CH Energy Group

In addition to the impacts of Central Hudson discussed above, CH Energy Group's sales volumes, revenues and operating expenses, income taxes and other income were impacted by Griffith and the other businesses described below.

CH Energy Group **Income Statement Variances**	Twelve months ended December 31, 2007 over/(under) 2006	
	Amount (In Thousands)	Percent
Operating Revenues	$	