

CENTRAL HUDSON GAS & ELECTRIC CORP  
Form 10-Q  
November 09, 2011

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

| Commission<br>File Number | Registrant, State of<br>Incorporation<br>Address and<br>Telephone Number  | IRS<br>Employer<br>Identification<br>No. |
|---------------------------|---|--|
| 0-30512                   | CH Energy Group,<br>Inc.<br>(Incorporated in New<br>York)<br>284 South Avenue<br>Poughkeepsie, New<br>York 12601-4839<br>(845) 452-2000   | 14-1804460                               |
| 1-3268                    | Central Hudson Gas &<br>Electric Corporation<br>(Incorporated in New<br>York)<br>284 South Avenue<br>Poughkeepsie, New<br>York 12601-4839 | 14-0555980                               |

(845) 452-2000



Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrants were required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

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

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

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

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

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

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

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

As of the close of business on October 31, 2011 (i) CH Energy Group, Inc. had outstanding 14,888,149 shares of Common Stock (\$0.10 per share par value) and (ii) all of the outstanding 16,862,087 shares of Common Stock (\$5 per share par value) of Central Hudson Gas & Electric Corporation were held by CH Energy Group, Inc.

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

FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2011

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

ITEM 1 – Financial Statements (Unaudited)

| CH Energy Group, Inc.  | PAGE |
|--|------|
| <u>Consolidated Statement of Income –</u><br>Three and Nine Months Ended September 30, 2011 and 2010                                 | 1    |
| <u>Consolidated Statement of Comprehensive Income –</u><br>Three and Nine Months Ended September 30, 2011 and 2010                   | 2    |
| <u>Consolidated Statement of Cash Flows –</u><br>Nine Months Ended September 30, 2011 and 2010                                       | 3    |
| <u>Consolidated Balance Sheet –</u><br>September 30, 2011, December 31, 2010 and September 30, 2010                                  | 4    |
| <u>Consolidated Statement of Equity –</u><br>Nine Months Ended September 30, 2011 and 2010   | 6    |
| Central Hudson Gas & Electric Corporation<br><u>Statement of Income –</u><br>Three and Nine Months Ended September 30, 2011 and 2010 | 7    |
| <u>Statement of Comprehensive Income –</u><br>Three and Nine Months Ended September 30, 2011 and 2010                                | 7    |
| <u>Statement of Cash Flows –</u><br>Nine Months Ended September 30, 2011 and 2010  | 8    |
| <u>Balance Sheet –</u><br>September 30, 2011, December 31, 2010 and September 30, 2010   | 9    |
| <u>Statement of Equity –</u><br>Nine Months Ended September 30, 2011 and 2010  | 11   |
| <u>NOTES TO FINANCIAL STATEMENTS (UNAUDITED)</u>   | 12   |

## TABLE OF CONTENTS

|   | PAGE |
|---|------|
| <u>ITEM</u> Management’s Discussion and Analysis of Financial Condition and Results of Operations<br><u>2</u> | 57   |
| <u>ITEM</u> Quantitative and Qualitative Disclosure About Market Risk<br><u>3</u>                             | 89   |
| <u>ITEM</u> Controls and Procedures<br><u>4</u>   | 89   |
| PART II – OTHER INFORMATION   |      |
| <u>ITEM 1</u> Legal Proceedings   | 89   |
| <u>ITEM 1A</u> Risk Factors   | 89   |
| <u>ITEM 2</u> Unregistered Sales of Equity Securities and Use of Proceeds                                     | 90   |
| <u>ITEM 6</u> Exhibits  | 90   |
| <u>SIGNATURES</u>   | 91   |
| <u>EXHIBIT INDEX</u>  | 92   |

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 FILING FORMAT

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

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## PART 1 – FINANCIAL INFORMATION

## ITEM 1 – Financial Statements (Unaudited)

## CH ENERGY GROUP CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

(In Thousands, except per share amounts)

|   | Three Months Ended<br>September 30, |                  | Nine Months Ended<br>September 30, |                  |
|---|-------------------------------------|------------------|------------------------------------|------------------|
|   | 2011                                | 2010             | 2011                               | 2010             |
| <b>Operating Revenues</b>   |                                     |                  |                                    |                  |
| Electric  | \$ 149,706                          | \$ 165,304       | \$ 418,511                         | \$ 436,362       |
| Natural gas   | 18,462                              | 18,823           | 127,941                            | 120,371          |
| Competitive business subsidiaries:  |                                     |                  |                                    |                  |
| Petroleum products  | 47,951                              | 34,429           | 194,612                            | 151,767          |
| Other   | 4,936                               | 5,101            | 14,630                             | 14,942           |
| <b>Total Operating Revenues</b>   | <b>221,055</b>                      | <b>223,657</b>   | <b>755,694</b>                     | <b>723,442</b>   |
| <b>Operating Expenses</b>   |                                     |                  |                                    |                  |
| Operation:  |                                     |                  |                                    |                  |
| Purchased electricity and fuel used in electric generation  | 60,734                              | 76,890           | 168,797                            | 196,413          |
| Purchased natural gas   | 6,337                               | 7,217            | 63,425                             | 59,619           |
| Purchased petroleum   | 43,564                              | 30,268           | 167,558                            | 125,352          |
| Other expenses of operation - regulated activities  | 55,480                              | 58,495           | 181,460                            | 166,389          |
| Other expenses of operation - competitive business subsidiaries                                   | 10,997                              | 11,080           | 34,870                             | 35,223           |
| Depreciation and amortization   | 10,180                              | 9,766            | 30,599                             | 29,049           |
| Taxes, other than income tax  | 11,760                              | 11,243           | 36,687                             | 32,626           |
| <b>Total Operating Expenses</b>   | <b>199,052</b>                      | <b>204,959</b>   | <b>683,396</b>                     | <b>644,671</b>   |
| Operating Income  | 22,003                              | 18,698           | 72,298                             | 78,771           |
| <b>Other Income and Deductions</b>  |                                     |                  |                                    |                  |
| Income from unconsolidated affiliates   | 25                                  | (95 )            | 644                                | (393 )           |
| Interest on regulatory assets and other interest income   | 1,226                               | 853              | 4,673                              | 3,487            |
| Impairment of Investments   | (3,582 )                            | (11,408 )        | (3,582 )                           | (11,408 )        |
| Regulatory adjustments for interest costs   | 319                                 | (427 )           | 1,032                              | (675 )           |
| Business development costs  | (529 )                              | (216 )           | (1,027 )                           | (1,018 )         |
| Other - net   | 154                                 | (86 )            | (887 )                             | (119 )           |
| <b>Total Other Income (Deductions)</b>  | <b>(2,387 )</b>                     | <b>(11,379 )</b> | <b>853</b>                         | <b>(10,126 )</b> |
| <b>Interest Charges</b>   |                                     |                  |                                    |                  |
| Interest on long-term debt  | 6,620                               | 5,591            | 20,090                             | 16,848           |
| Penalty for early retirement of debt  | 2,982                               | -                | 2,982                              | -                |
| Interest on regulatory liabilities and other interest   | 1,553                               | 1,288            | 4,568                              | 4,439            |
| <b>Total Interest Charges</b>   | <b>11,155</b>                       | <b>6,879</b>     | <b>27,640</b>                      | <b>21,287</b>    |
| <b>Income before income taxes, non-controlling interest and preferred dividends of subsidiary</b> |                                     |                  |                                    |                  |
|   | 8,461                               | 440              | 45,511                             | 47,358           |
| Income Taxes (Benefit)  | 3,550                               | (1,360 )         | 17,213                             | 17,278           |
| <b>Net Income from Continuing Operations</b>  | <b>4,911</b>                        | <b>1,800</b>     | <b>28,298</b>                      | <b>30,080</b>    |

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|  |              |              |               |               |
|--|--------------|--------------|---------------|---------------|
| <b>Discontinued Operations</b>                                     |              |              |               |               |
| Income (loss) from discontinued operations before tax              | (10 )        | 393          | 1,149         | (1,167 )      |
| Gain from sale of discontinued operations                          | 2,070        | -            | 841           | -             |
| Income tax (benefit) expense from discontinued operations          | (1,599 )     | 60           | (1,669 )      | (524 )        |
| Net Income (loss) from Discontinued Operations                     | 3,659        | 333          | 3,659         | (643 )        |
| <b>Net Income</b>  | <b>8,570</b> | <b>2,133</b> | <b>31,957</b> | <b>29,437</b> |
| <b>Net Income (loss) attributable to non-controlling interest:</b> |              |              |               |               |
| Non-controlling interest in subsidiary                             | -            | 112          | -             | (272 )        |
| Dividends declared on Preferred Stock of subsidiary                | 242          | 242          | 727           | 727           |
| Net income attributable to CH Energy Group                         | 8,328        | 1,779        | 31,230        | 28,982        |
| Dividends declared on Common Stock                                 | 8,263        | 8,545        | 25,021        | 25,629        |
| Change in Retained Earnings  | \$65         | \$(6,766 )   | \$6,209       | \$3,353       |

The Notes to Financial Statements are an integral part hereof.

## CH ENERGY GROUP CONSOLIDATED STATEMENT OF INCOME (CONT'D) (UNAUDITED)

(In Thousands, except per share amounts)

|   | Three Months Ended |        | Nine Months Ended |          |
|---|--------------------|--------|-------------------|----------|
|   | September 30,      |        | September 30,     |          |
|   | 2011               | 2010   | 2011              | 2010     |
| <b>Common Stock:</b>  |                    |        |                   |          |
| Average shares outstanding - Basic  | 15,126             | 15,790 | 15,416            | 15,783   |
| Average shares outstanding - Diluted  | 15,314             | 15,952 | 15,604            | 15,954   |
| <b>Income from continuing operations attributable to CH Energy Group common shareholders</b>          |                    |        |                   |          |
| Earnings per share - Basic  | \$0.31             | \$0.09 | \$1.79            | \$1.88   |
| Earnings per share - Diluted  | \$0.30             | \$0.09 | \$1.77            | \$1.86   |
| <b>Income (loss) from discontinued operations attributable to CH Energy Group common shareholders</b> |                    |        |                   |          |
| Earnings per share - Basic  | \$0.24             | \$0.02 | \$0.24            | \$(0.04) |
| Earnings per share - Diluted  | \$0.24             | \$0.02 | \$0.23            | \$(0.04) |
| <b>Amounts attributable to CH Energy Group common shareholders</b>                                    |                    |        |                   |          |
| Earnings per share - Basic  | \$0.55             | \$0.11 | \$2.03            | \$1.84   |
| Earnings per share - Diluted  | \$0.54             | \$0.11 | \$2.00            | \$1.82   |
| Dividends Declared Per Share  | \$0.56             | \$0.54 | \$1.64            | \$1.62   |

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

(In Thousands)

|  | Three Months Ended |         | Nine Months Ended |          |
|--|--------------------|---------|-------------------|----------|
|  | September 30,      |         | September 30,     |          |
|  | 2011               | 2010    | 2011              | 2010     |
| Net Income   | \$8,570            | \$2,133 | \$31,957          | \$29,437 |
| <b>Other Comprehensive Income:</b>   |                    |         |                   |          |
| <b>Fair value of cash flow hedges:</b>   |                    |         |                   |          |
| Unrealized (loss)/gains - net of tax of \$0 and \$0 in 2011 and \$0 and (\$13) in 2010, respectively   | -                  | -       | -                 | 19       |
| Reclassification for gains realized in net income - net of tax of \$0 and \$0 in 2011 and \$0 and \$35 in 2010, respectively   | -                  | -       | -                 | (52)     |
| Net unrealized gains/(losses) recorded from investments held by equity method investees - net of tax of (\$37) and (\$10) in 2011 and (\$7) and (\$78) in 2010, respectively | 56                 | 10      | 15                | 117      |
| Other comprehensive income   | 56                 | 10      | 15                | 84       |
| Comprehensive Income   | 8,626              | 2,143   | 31,972            | 29,521   |



|   |         |         |          |          |
|---|---------|---------|----------|----------|
| Comprehensive income attributable to non-controlling interest | 242     | 354     | 727      | 455      |
| Comprehensive income attributable to CH Energy Group          | \$8,384 | \$1,789 | \$31,245 | \$29,066 |

The Notes to Financial Statements are an integral part hereof.

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

(In Thousands)

|  | Nine Months Ended<br>September 30, |           |
|--|------------------------------------|-----------|
|  | 2011                               | 2010      |
| <b>Operating Activities:</b>   |                                    |           |
| Net income   | \$31,957                           | \$29,437  |
| <b>Adjustments to reconcile net income to net cash provided by operating activities:</b> |                                    |           |
| Depreciation   | 28,614                             | 27,055    |
| Amortization   | 3,120                              | 2,907     |
| Deferred income taxes - net  | 15,061                             | 25,618    |
| Bad debt expense   | 6,049                              | 2,410     |
| Impairment of investments  | 3,582                              | 11,408    |
| Distributed (undistributed) equity in earnings of unconsolidated affiliates              | (644 )                             | 756       |
| Pension expense  | 20,725                             | 22,728    |
| Other post-employment benefits ("OPEB") expense  | 5,203                              | 4,883     |
| Regulatory liability - rate moderation   | (7,849 )                           | (14,019 ) |
| Revenue decoupling mechanism recorded  | 4,956                              | (1,568 )  |
| Regulatory asset amortization  | 3,524                              | 3,451     |
| (Gain) loss on sale of assets  | (897 )                             | 11        |
| <b>Changes in operating assets and liabilities - net of business acquisitions:</b>       |                                    |           |
| Accounts receivable, unbilled revenues and other receivables                             | 2,380                              | 6,546     |
| Fuel, materials and supplies   | (843 )                             | (2,298 )  |
| Special deposits and prepayments   | 2,779                              | 211       |
| Income and other taxes   | (1,773 )                           | (10,772 ) |
| Accounts payable   | (18,092 )                          | (4,279 )  |
| Accrued interest   | 1,566                              | 218       |
| Customer advances  | (508 )                             | (3,640 )  |
| Pension plan contribution  | (32,536 )                          | (31,854 ) |
| OPEB contribution  | (1,184 )                           | (4,275 )  |
| Revenue decoupling mechanism collected   | 2,388                              | 4,271     |
| Regulatory asset - storm deferral  | (3,441 )                           | (16,720 ) |
| Regulatory asset - manufactured gas plant ("MGP") site remediation                       | 3,761                              | (10,802 ) |
| Regulatory asset - Temporary State Assessment  | (2,169 )                           | (3,112 )  |
| Deferred natural gas and electric costs  | 22,164                             | 5,052     |
| Other - net  | 6,895                              | 7,655     |
| Net cash provided by operating activities  | 94,788                             | 51,278    |
| <b>Investing Activities:</b>   |                                    |           |
| Proceeds from sale of assets   | 42,234                             | 40        |
| Additions to utility and other property and plant  | (61,755 )                          | (75,771 ) |
| Acquisitions made by competitive business subsidiaries                                   | (2,255 )                           | (749 )    |
| Proceeds from federal grants   | 14,744                             | -         |
| Other - net  | (3,022 )                           | (3,910 )  |
| Net cash used in investing activities  | (10,054 )                          | (80,390 ) |
| <b>Financing Activities:</b>   |                                    |           |
| Redemption of long-term debt   | (20,464 )                          | (24,000 ) |

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|  |           |           |
|--|-----------|-----------|
| Proceeds from issuance of long-term debt         | 33,400    | 40,000    |
| Borrowings of short-term debt - net              | 5,000     | -         |
| Dividends paid on Common Stock                   | (25,290 ) | (25,619 ) |
| Dividends paid on Preferred Stock of subsidiary  | (727 )    | (727 )    |
| Shares repurchased                               | (48,612 ) | -         |
| Other - net                                      | (647 )    | (293 )    |
| Net cash used in financing activities            | (57,340 ) | (10,639 ) |
| Net Change in Cash and Cash Equivalents          | 27,394    | (39,751 ) |
| Cash and Cash Equivalents at Beginning of Period | 29,420    | 73,436    |
| Cash and Cash Equivalents at End of Period       | \$56,814  | \$33,685  |

Supplemental Disclosure of Cash Flow Information:

|  |          |          |
|--|----------|----------|
| Interest paid  | \$22,276 | \$17,189 |
| Federal and state taxes paid                           | \$17,150 | \$21,208 |
| Additions to plant included in liabilities             | \$3,997  | \$2,685  |
| Regulatory asset - storm deferral costs in liabilities | \$9,396  | \$2,648  |

The Notes to Financial Statements are an integral part hereof.

## CH ENERGY GROUP CONSOLIDATED BALANCE SHEET (UNAUDITED)

(In Thousands)

|   | September<br>30,<br>2011 | December<br>31,<br>2010 | September<br>30,<br>2010 |
|---|--------------------------|-------------------------|--------------------------|
| <b>ASSETS</b>   |                          |                         |                          |
| Utility Plant   |                          |                         |                          |
| Electric  | \$988,319                | \$963,261               | \$945,139                |
| Natural gas   | 301,989                  | 292,358                 | 288,052                  |
| Common  | 142,201                  | 142,255                 | 143,918                  |
| Gross Utility Plant   | 1,432,509                | 1,397,874               | 1,377,109                |
| Less: Accumulated depreciation  | 385,198                  | 395,776                 | 393,514                  |
| Net   | 1,047,311                | 1,002,098               | 983,595                  |
| Construction work in progress   | 63,996                   | 52,607                  | 55,468                   |
| Net Utility Plant   | 1,111,307                | 1,054,705               | 1,039,063                |
| Non-Utility Property & Plant  |                          |                         |                          |
| Griffith non-utility property & plant   | 30,795                   | 29,881                  | 29,177                   |
| Other non-utility property & plant  | 6,181                    | 64,059                  | 62,488                   |
| Gross Non-Utility Property & Plant  | 36,976                   | 93,940                  | 91,665                   |
| Less: Accumulated depreciation - Griffith   | 21,656                   | 20,519                  | 20,071                   |
| Less: Accumulated depreciation - other  | 1,121                    | 5,108                   | 4,576                    |
| Net Non-Utility Property & Plant  | 14,199                   | 68,313                  | 67,018                   |
| Current Assets  |                          |                         |                          |
| Cash and cash equivalents   | 56,814                   | 29,420                  | 33,685                   |
| Accounts receivable from customers - net of allowance for doubtful accounts of \$6.5 million, \$6.7 million and \$7.0 million, respectively | 90,155                   | 99,402                  | 84,091                   |
| Accrued unbilled utility revenues   | 11,320                   | 16,233                  | 10,862                   |
| Other receivables   | 8,618                    | 8,006                   | 7,686                    |
| Fuel, materials and supplies  | 25,530                   | 25,447                  | 27,182                   |
| Regulatory assets   | 43,407                   | 89,905                  | 106,607                  |
| Income tax receivable   | 2,822                    | 2,802                   | 47,819                   |
| Fair value of derivative instruments  | 42                       | 146                     | 86                       |
| Special deposits and prepayments  | 19,836                   | 22,869                  | 21,149                   |
| Accumulated deferred income tax   | 12,956                   | -                       | -                        |
| Total Current Assets  | 271,500                  | 294,230                 | 339,167                  |
| Deferred Charges and Other Assets   |                          |                         |                          |
| Regulatory assets - pension plan  | 121,238                  | 142,647                 | 144,781                  |
| Regulatory assets - other   | 105,899                  | 90,264                  | 79,571                   |
| Goodwill  | 36,538                   | 35,940                  | 35,956                   |
| Other intangible assets - net   | 12,682                   | 12,867                  | 13,431                   |
| Unamortized debt expense  | 5,017                    | 4,774                   | 5,092                    |

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|  |              |              |              |
|--|--------------|--------------|--------------|
| Investments in unconsolidated affiliates | 3,043        | 6,681        | 6,656        |
| Other investments                        | 14,422       | 12,883       | 12,052       |
| Other                                    | 6,175        | 5,971        | 7,193        |
| Total Deferred Charges and Other Assets  | 305,014      | 312,027      | 304,732      |
| Total Assets                             | \$ 1,702,020 | \$ 1,729,275 | \$ 1,749,980 |

The Notes to Financial Statements are an integral part hereof.

- 4 -

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## CH ENERGY GROUP CONSOLIDATED BALANCE SHEET (CONT'D) (UNAUDITED)

(In Thousands)

|  | September<br>30,<br>2011 | December<br>31,<br>2010 | September<br>30,<br>2010 |
|--|--------------------------|-------------------------|--------------------------|
| <b>CAPITALIZATION AND LIABILITIES</b>  |                          |                         |                          |
| Capitalization   |                          |                         |                          |
| CH Energy Group Common Shareholders' Equity  |                          |                         |                          |
| Common Stock (30,000,000 shares authorized: \$0.10 par value; 16,862,087 shares issued) 14,885,037 shares, 15,799,262 shares and 15,823,926 shares outstanding, respectively | \$ 1,686                 | \$ 1,686                | \$ 1,686                 |
| Paid-in capital  | 350,693                  | 350,360                 | 350,444                  |
| Retained earnings  | 236,551                  | 230,342                 | 229,352                  |
| Treasury stock - 1,977,050 shares, 1,062,825 shares and 1,038,161 shares, respectively   | (93,210 )                | (44,887 )               | (43,652 )                |
| Accumulated other comprehensive income   | 474                      | 459                     | 268                      |
| Capital stock expense  | (328 )                   | (328 )                  | (328 )                   |
| Total CH Energy Group Common Shareholders' Equity  | 495,866                  | 537,632                 | 537,770                  |
| Non-controlling interest in subsidiary   | -                        | 172                     | 1,113                    |
| Total Equity   | 495,866                  | 537,804                 | 538,883                  |
| Preferred Stock of subsidiary  | 21,027                   | 21,027                  | 21,027                   |
| Long-term debt   | 446,466                  | 502,959                 | 503,900                  |
| Total Capitalization   | 963,359                  | 1,061,790               | 1,063,810                |
| Current Liabilities  |                          |                         |                          |
| Current maturities of long-term debt   | 70,373                   | 941                     | -                        |
| Notes payable  | 5,000                    | -                       | -                        |
| Accounts payable   | 47,915                   | 57,059                  | 42,252                   |
| Accrued interest   | 7,964                    | 6,398                   | 6,285                    |
| Dividends payable  | 8,505                    | 8,774                   | 8,787                    |
| Accrued vacation and payroll   | 6,956                    | 6,663                   | 6,676                    |
| Customer advances  | 18,801                   | 19,309                  | 18,810                   |
| Customer deposits  | 6,651                    | 7,727                   | 7,982                    |
| Regulatory liabilities   | 12,444                   | 18,596                  | 16,461                   |
| Fair value of derivative instruments   | 12,778                   | 13,183                  | 35,184                   |
| Accrued environmental remediation costs  | 5,227                    | 2,233                   | 5,593                    |
| Deferred revenues  | 3,699                    | 4,650                   | 3,723                    |
| Accumulated deferred income tax  | -                        | 9,634                   | 9,109                    |
| Other  | 14,565                   | 18,961                  | 14,553                   |
| Total Current Liabilities  | 220,878                  | 174,128                 | 175,415                  |
| Deferred Credits and Other Liabilities   |                          |                         |                          |
| Regulatory liabilities - OPEB  | 12,038                   | 6,976                   | 4,936                    |
| Regulatory liabilities - other   | 110,280                  | 99,793                  | 99,395                   |
| Operating reserves   | 3,414                    | 3,187                   | 3,938                    |
| Fair value of derivative instruments   | 3,193                    | 11,698                  | -                        |
| Accrued environmental remediation costs  | 11,937                   | 4,312                   | 3,468                    |
| Accrued OPEB costs   | 46,426                   | 45,367                  | 45,367                   |
| Accrued pension costs  | 76,414                   | 102,555                 | 128,379                  |
| Tax reserve  | 9,668                    | 11,486                  | 8,322                    |

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|  |              |              |              |
|--|--------------|--------------|--------------|
| Other  | 18,831       | 16,967       | 16,034       |
| Total Deferred Credits and Other Liabilities | 292,201      | 302,341      | 309,839      |
| Accumulated Deferred Income Tax              | 225,582      | 191,016      | 200,916      |
| Commitments and Contingencies                |              |              |              |
| Total Capitalization and Liabilities         | \$ 1,702,020 | \$ 1,729,275 | \$ 1,749,980 |

The Notes to Financial Statements are an integral part hereof.

## CH ENERGY GROUP CONSOLIDATED STATEMENT OF EQUITY (UNAUDITED)

(In Thousands, except share amounts)

|   | CH Energy Group Common Shareholders |         |                       |            |                    |                    |                   |   |                              |                 |
|---|-------------------------------------|---------|-----------------------|------------|--------------------|--------------------|-------------------|---|------------------------------|-----------------|
|   | Common Stock                        |         | Treasury Stock        |            |                    | Paid-In<br>Capital | Stock<br>Retained | Accumulated<br>Other<br>Comprehensive<br>Income | /Non-controlling<br>Interest | Total<br>Equity |
|   | Shares<br>Issued                    | Amount  | Shares<br>Repurchased | Amount     | Capital<br>Expense |                    |                   |   |                              |                 |
| Balance at<br>December 31,<br>2009  | 16,862,087                          | \$1,686 | (1,057,525)           | \$(44,406) | \$350,367          | \$(328)            | \$225,999         | \$184   | \$1,385                      | \$534,887       |
| Comprehensive<br>income:  |                                     |         |                       |            |                    |                    |                   |   |                              |                 |
| Net income  |                                     |         |                       |            |                    |                    | 29,709            |   | (272 )                       | 29,437          |
| Dividends<br>declared on<br>Preferred Stock<br>of subsidiary                |                                     |         |                       |            |                    |                    | (727 )            |   |                              | (727 )          |
| Change in fair<br>value:  |                                     |         |                       |            |                    |                    |                   |   |                              |                 |
| Derivative<br>instruments   |                                     |         |                       |            |                    |                    |                   | 19  |                              | 19              |
| Investments   |                                     |         |                       |            |                    |                    |                   | 117   |                              | 117             |
| Reclassification<br>adjustments<br>for gains<br>recognized in<br>net income |                                     |         |                       |            |                    |                    |                   |   | (52 )                        | (52 )           |
| Dividends<br>declared on<br>common stock                                    |                                     |         |                       |            |                    |                    | (25,629 )         |   |                              | (25,629 )       |
| Treasury shares<br>activity - net   |                                     |         | 19,364                | 754        | 77                 |                    |                   |   |                              | 831             |
| Balance at<br>September 30,<br>2010   | 16,862,087                          | \$1,686 | (1,038,161)           | \$(43,652) | \$350,444          | \$(328)            | \$229,352         | \$268   | \$1,113                      | \$538,883       |
| Balance at<br>December 31,<br>2010  | 16,862,087                          | \$1,686 | (1,062,825)           | \$(44,887) | \$350,360          | \$(328)            | \$230,342         | \$459   | \$172                        | \$537,804       |
| Comprehensive<br>income:  |                                     |         |                       |            |                    |                    |                   |   |                              |                 |
| Net income  |                                     |         |                       |            |                    |                    | 31,957            |   |                              | 31,957          |
| Dividends<br>declared on<br>Preferred Stock                                 |                                     |         |                       |            |                    |                    | (727 )            |   |                              | (727 )          |



|                 |            |         |             |            |           |         |           |       |           |           |
|-----------------|------------|---------|-------------|------------|-----------|---------|-----------|-------|-----------|-----------|
| of subsidiary   |            |         |             |            |           |         |           |       |           |           |
| Sale of         |            |         |             |            |           |         |           |       |           |           |
| majority owned  |            |         |             |            |           |         |           |       |           |           |
| subsidiary      |            |         |             |            |           |         |           |       | (172 )    | (172 )    |
| Change in fair  |            |         |             |            |           |         |           |       |           |           |
| value:          |            |         |             |            |           |         |           |       |           |           |
| Investments     |            |         |             |            |           |         |           |       | 15        | 15        |
| Dividends       |            |         |             |            |           |         |           |       |           |           |
| declared on     |            |         |             |            |           |         |           |       |           |           |
| common stock    |            |         |             |            |           |         |           |       | (25,021 ) | (25,021 ) |
| Treasury shares |            |         |             |            |           |         |           |       |           |           |
| activity - net  |            |         | (914,225 )  | (48,323 )  | 333       |         |           |       |           | (47,990 ) |
| Balance at      |            |         |             |            |           |         |           |       |           |           |
| September 30,   |            |         |             |            |           |         |           |       |           |           |
| 2011            | 16,862,087 | \$1,686 | (1,977,050) | \$(93,210) | \$350,693 | \$(328) | \$236,551 | \$474 | \$-       | \$495,866 |

The Notes to Financial Statements are an integral part hereof.

## CENTRAL HUDSON STATEMENT OF INCOME (UNAUDITED)

(In Thousands)

|  | Three Months Ended<br>September 30, |                 | Nine Months Ended<br>September 30, |                  |
|--|-------------------------------------|-----------------|------------------------------------|------------------|
|  | 2011                                | 2010            | 2011                               | 2010             |
| <b>Operating Revenues</b>                                  |                                     |                 |                                    |                  |
| Electric   | \$ 149,706                          | \$ 165,304      | \$ 418,511                         | \$ 436,362       |
| Natural gas  | 18,462                              | 18,823          | 127,941                            | 120,371          |
| <b>Total Operating Revenues</b>                            | <b>168,168</b>                      | <b>184,127</b>  | <b>546,452</b>                     | <b>556,733</b>   |
| <b>Operating Expenses</b>                                  |                                     |                 |                                    |                  |
| <b>Operation:</b>  |                                     |                 |                                    |                  |
| Purchased electricity and fuel used in electric generation | 60,734                              | 76,890          | 168,796                            | 196,413          |
| Purchased natural gas                                      | 6,337                               | 7,217           | 63,425                             | 59,619           |
| Other expenses of operation                                | 55,480                              | 58,495          | 181,460                            | 166,389          |
| Depreciation and amortization                              | 8,909                               | 8,526           | 26,791                             | 25,362           |
| Taxes, other than income tax                               | 11,644                              | 11,142          | 36,303                             | 32,255           |
| <b>Total Operating Expenses</b>                            | <b>143,104</b>                      | <b>162,270</b>  | <b>476,775</b>                     | <b>480,038</b>   |
| <b>Operating Income</b>                                    | <b>25,064</b>                       | <b>21,857</b>   | <b>69,677</b>                      | <b>76,695</b>    |
| <b>Other Income and Deductions</b>                         |                                     |                 |                                    |                  |
| Interest on regulatory assets and other interest income    | 1,209                               | 853             | 4,646                              | 3,486            |
| Regulatory adjustments for interest costs                  | 319                                 | (427 )          | 1,032                              | (675 )           |
| Other - net  | 327                                 | (168 )          | (636 )                             | (206 )           |
| <b>Total Other Income</b>                                  | <b>1,855</b>                        | <b>258</b>      | <b>5,042</b>                       | <b>2,605</b>     |
| <b>Interest Charges</b>                                    |                                     |                 |                                    |                  |
| Interest on long-term debt                                 | 5,872                               | 4,785           | 17,668                             | 14,371           |
| Interest on regulatory liabilities and other interest      | 1,529                               | 1,279           | 4,517                              | 4,430            |
| <b>Total Interest Charges</b>                              | <b>7,401</b>                        | <b>6,064</b>    | <b>22,185</b>                      | <b>18,801</b>    |
| <b>Income Before Income Taxes</b>                          | <b>19,518</b>                       | <b>16,051</b>   | <b>52,534</b>                      | <b>60,499</b>    |
| <b>Income Taxes</b>  | <b>7,853</b>                        | <b>6,311</b>    | <b>20,858</b>                      | <b>24,125</b>    |
| <b>Net Income</b>  | <b>11,665</b>                       | <b>9,740</b>    | <b>31,676</b>                      | <b>36,374</b>    |
| <b>Dividends Declared on Cumulative Preferred Stock</b>    | <b>242</b>                          | <b>242</b>      | <b>727</b>                         | <b>727</b>       |
| <b>Income Available for Common Stock</b>                   | <b>\$ 11,423</b>                    | <b>\$ 9,498</b> | <b>\$ 30,949</b>                   | <b>\$ 35,647</b> |

## CENTRAL HUDSON STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

(In Thousands)

|  | Three Months Ended<br>September 30, |      | Nine Months Ended<br>September 30, |      |
|--|-------------------------------------|------|------------------------------------|------|
|  | 2011                                | 2010 | 2011                               | 2010 |

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|                            |           |          |           |           |
|----------------------------|-----------|----------|-----------|-----------|
| Net Income                 | \$ 11,665 | \$ 9,740 | \$ 31,676 | \$ 36,374 |
| Other Comprehensive Income | -         | -        | -         | -         |
| Comprehensive Income       | \$ 11,665 | \$ 9,740 | \$ 31,676 | \$ 36,374 |

The Notes to Financial Statements are an integral part hereof.

- 7 -

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## CENTRAL HUDSON STATEMENT OF CASH FLOWS (UNAUDITED)

(In Thousands)

|  | Nine Months Ended<br>September 30, |           |
|--|------------------------------------|-----------|
|  | 2011                               | 2010      |
| <b>Operating Activities:</b>   |                                    |           |
| Net income   | \$31,676                           | \$36,374  |
| <b>Adjustments to reconcile net income to net cash provided by operating activities:</b> |                                    |           |
| Depreciation   | 25,463                             | 24,159    |
| Amortization   | 1,328                              | 1,203     |
| Deferred income taxes - net  | 19,975                             | 19,490    |
| Bad debt expense   | 5,075                              | 1,835     |
| Pension expense  | 20,725                             | 22,728    |
| OPEB expense   | 5,203                              | 5,344     |
| Regulatory liability - rate moderation   | (7,849 )                           | (14,019 ) |
| Revenue decoupling mechanism recorded  | 4,956                              | (1,568 )  |
| Regulatory asset amortization  | 3,524                              | 3,451     |
| <b>Changes in operating assets and liabilities - net:</b>                                |                                    |           |
| Accounts receivable, unbilled revenues and other receivables                             | 1,690                              | (1,646 )  |
| Fuel, materials and supplies   | (2,550 )                           | (3,100 )  |
| Special deposits and prepayments   | 1,563                              | 1,997     |
| Income and other taxes   | (682 )                             | 4,425     |
| Accounts payable   | (10,420 )                          | 1,507     |
| Accrued interest   | 1,346                              | (617 )    |
| Customer advances  | (3,597 )                           | (4,554 )  |
| Pension plan contribution  | (32,536 )                          | (31,854 ) |
| OPEB contribution  | (1,184 )                           | (4,275 )  |
| Revenue decoupling mechanism collected   | 2,388                              | 4,271     |
| Regulatory asset - storm deferral  | (3,441 )                           | (16,720 ) |
| Regulatory asset - MGP site remediation  | 3,761                              | (10,802 ) |
| Regulatory asset - Temporary State Assessment  | (2,169 )                           | (3,112 )  |
| Deferred natural gas and electric costs  | 22,164                             | 5,052     |
| Other - net  | 10,658                             | 11,971    |
| Net cash provided by operating activities  | 97,067                             | 51,540    |
| <b>Investing Activities:</b>   |                                    |           |
| Additions to utility plant   | (57,434 )                          | (49,424 ) |
| Other - net  | (3,705 )                           | (3,964 )  |
| Net cash used in investing activities  | (61,139 )                          | (53,388 ) |
| <b>Financing Activities:</b>   |                                    |           |
| Redemption of long-term debt   | -                                  | (24,000 ) |
| Proceeds from issuance of long-term debt   | 33,400                             | 40,000    |
| Dividends paid to parent - CH Energy Group   | (33,000 )                          | -         |
| Dividends paid on cumulative Preferred Stock   | (727 )                             | (727 )    |
| Other - net  | (647 )                             | (294 )    |
| Net cash (used in) provided by financing activities                                      | (974 )                             | 14,979    |

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|   |          |          |
|---|----------|----------|
| Net Change in Cash and Cash Equivalents         | 34,954   | 13,131   |
| Cash and Cash Equivalents - Beginning of Period | 9,622    | 4,784    |
| Cash and Cash Equivalents - End of Period       | \$44,576 | \$17,915 |

Supplemental Disclosure of Cash Flow Information:

|  |          |          |
|--|----------|----------|
| Interest paid  | \$17,036 | \$15,416 |
| Federal and state taxes paid                           | \$16,113 | \$15,656 |
| Additions to plant included in liabilities             | \$3,997  | \$2,183  |
| Regulatory asset - storm deferral costs in liabilities | \$9,396  | \$2,648  |

The Notes to Financial Statements are an integral part hereof.

## CENTRAL HUDSON BALANCE SHEET (UNAUDITED)

(In Thousands)

|   | September<br>30,<br>2011 | December<br>31,<br>2010 | September<br>30,<br>2010 |
|---|--------------------------|-------------------------|--------------------------|
| <b>ASSETS</b>   |                          |                         |                          |
| Utility Plant   |                          |                         |                          |
| Electric  | \$988,319                | \$963,261               | \$945,139                |
| Natural gas   | 301,989                  | 292,358                 | 288,052                  |
| Common  | 142,201                  | 142,255                 | 143,918                  |
| Gross Utility Plant   | 1,432,509                | 1,397,874               | 1,377,109                |
| Less: Accumulated depreciation  | 385,198                  | 395,776                 | 393,514                  |
| Net   | 1,047,311                | 1,002,098               | 983,595                  |
| Construction work in progress   | 63,996                   | 52,607                  | 55,468                   |
| Net Utility Plant   | 1,111,307                | 1,054,705               | 1,039,063                |
| Non-Utility Property and Plant  | 681                      | 681                     | 681                      |
| Less: Accumulated depreciation  | 36                       | 35                      | 34                       |
| Net Non-Utility Property and Plant  | 645                      | 646                     | 647                      |
| Current Assets  |                          |                         |                          |
| Cash and cash equivalents   | 44,576                   | 9,622                   | 17,915                   |
| Accounts receivable from customers - net of allowance for doubtful accounts of \$5.2 million, \$5.3 million and \$5.5 million, respectively | 66,859                   | 67,185                  | 66,926                   |
| Accrued unbilled utility revenues   | 11,320                   | 16,233                  | 10,862                   |
| Other receivables   | 4,679                    | 10,328                  | 3,833                    |
| Fuel, materials and supplies - at average cost  | 22,577                   | 20,027                  | 24,405                   |
| Regulatory assets   | 43,407                   | 89,905                  | 106,607                  |
| Income tax receivable   | -                        | -                       | 41,465                   |
| Fair value of derivative instruments  | -                        | 34                      | -                        |
| Special deposits and prepayments  | 15,697                   | 17,184                  | 16,375                   |
| Accumulated deferred income tax   | 6,593                    | -                       | -                        |
| Total Current Assets  | 215,708                  | 230,518                 | 288,388                  |
| Deferred Charges and Other Assets   |                          |                         |                          |
| Regulatory assets - pension plan  | 121,238                  | 142,647                 | 144,781                  |
| Regulatory assets - other   | 105,899                  | 90,264                  | 79,571                   |
| Unamortized debt expense  | 5,017                    | 4,774                   | 5,092                    |
| Other investments   | 14,008                   | 12,511                  | 11,710                   |
| Other   | 2,217                    | 3,009                   | 4,152                    |
| Total Deferred Charges and Other Assets   | 248,379                  | 253,205                 | 245,306                  |
| Total Assets  | \$1,576,039              | \$1,539,074             | \$1,573,404              |

The Notes to Financial Statements are an integral part hereof.



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

(In Thousands)

|   | September 30,<br>2011 | December<br>31,<br>2010 | September 30,<br>2010 |
|---|-----------------------|-------------------------|-----------------------|
| <b>CAPITALIZATION AND LIABILITIES</b>   |                       |                         |                       |
| <b>Capitalization</b>   |                       |                         |                       |
| Common Stock, 30,000,000 shares authorized; 16,862,087 shares issued and outstanding, \$5 par value | \$ 84,311             | \$84,311                | \$ 84,311             |
| Paid-in capital   | 199,980               | 199,980                 | 199,980               |
| Retained earnings   | 162,847               | 164,898                 | 160,397               |
| Capital stock expense   | (4,961 )              | (4,961 )                | (4,961 )              |
| <b>Total Equity</b>   | <b>442,177</b>        | <b>444,228</b>          | <b>439,727</b>        |
| <br>  |                       |                         |                       |
| Cumulative Preferred Stock not subject to mandatory redemption                                      | 21,027                | 21,027                  | 21,027                |
| <br>  |                       |                         |                       |
| Long-term debt  | 417,903               | 453,900                 | 453,900               |
| <b>Total Capitalization</b>   | <b>881,107</b>        | <b>919,155</b>          | <b>914,654</b>        |
| <br>  |                       |                         |                       |
| <b>Current Liabilities</b>  |                       |                         |                       |
| Current maturities of long-term debt  | 69,400                | -                       | -                     |
| Accounts payable  | 42,229                | 43,452                  | 37,024                |
| Accrued interest  | 7,313                 | 5,967                   | 5,020                 |
| Dividends payable - Preferred Stock   | 242                   | 242                     | 242                   |
| Dividends payable to parent   | -                     | -                       | 26,000                |
| Accrued vacation and payroll  | 5,568                 | 5,484                   | 5,311                 |
| Customer advances   | 10,157                | 13,753                  | 10,449                |
| Customer deposits   | 6,587                 | 7,654                   | 7,922                 |
| Regulatory liabilities  | 12,444                | 18,596                  | 16,461                |
| Fair value of derivative instruments  | 12,778                | 13,183                  | 35,184                |
| Accrued environmental remediation costs   | 4,552                 | 1,396                   | 5,106                 |
| Accrued income taxes  | 1,184                 | 113                     | -                     |
| Accumulated deferred income tax   | -                     | 13,021                  | 11,746                |
| Other   | 11,481                | 13,275                  | 9,694                 |
| <b>Total Current Liabilities</b>  | <b>183,935</b>        | <b>136,136</b>          | <b>170,159</b>        |
| <br>  |                       |                         |                       |
| <b>Deferred Credits and Other Liabilities</b>   |                       |                         |                       |
| Regulatory liabilities - OPEB   | 12,038                | 6,976                   | 4,936                 |
| Regulatory liabilities - other  | 110,280               | 99,793                  | 99,395                |
| Operating reserves  | 2,235                 | 2,068                   | 2,690                 |
| Fair value of derivative instruments  | 3,193                 | 11,698                  | -                     |
| Accrued environmental remediation costs   | 10,483                | 1,849                   | 572                   |
| Accrued OPEB costs  | 46,426                | 45,367                  | 45,367                |
| Accrued pension costs   | 76,414                | 102,555                 | 128,379               |
| Tax reserve   | 9,668                 | 11,486                  | 8,322                 |
| Other   | 17,884                | 16,109                  | 15,179                |
| <b>Total Deferred Credits and Other Liabilities</b>   | <b>288,621</b>        | <b>297,901</b>          | <b>304,840</b>        |



|                                      |              |             |              |
|--------------------------------------|--------------|-------------|--------------|
| Accumulated Deferred Income Tax      | 222,376      | 185,882     | 183,751      |
| Commitments and Contingencies        |              |             |              |
| Total Capitalization and Liabilities | \$ 1,576,039 | \$1,539,074 | \$ 1,573,404 |

The Notes to Financial Statements are an integral part hereof.

- 10 -

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## CENTRAL HUDSON STATEMENT OF EQUITY (UNAUDITED)

(In Thousands, except share amounts)

|                                     | Central Hudson Common Shareholders |                   |                       |        | Paid-In<br>Capital | Capital<br>Stock<br>Expense | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>/ (Loss) | Total<br>Equity |
|-------------------------------------|------------------------------------|-------------------|-----------------------|--------|--------------------|-----------------------------|----------------------|---|-----------------|
|                                     | Common Stock                       | Treasury<br>Stock |                       |        |                    |                             |                      |   |                 |
|                                     | Shares<br>Issued                   | Amount            | Shares<br>Repurchased | Amount |                    |                             |                      |   |                 |
| Balance at<br>December 31,<br>2009  | 16,862,087                         | \$ 84,311         | -                     | \$ -   | \$ 199,980         | \$ (4,961)                  | \$ 150,750           | \$ -  | \$ 430,080      |
| Net income                          |                                    |                   |                       |        |                    |                             | 36,374               |   | 36,374          |
| Dividends<br>declared:              |                                    |                   |                       |        |                    |                             |                      |   |                 |
| On cumulative<br>Preferred Stock    |                                    |                   |                       |        |                    |                             | (727 )               |   | (727 )          |
| On Common<br>Stock to parent        |                                    |                   |                       |        |                    |                             |                      |   |                 |
| -<br>CH Energy<br>Group             |                                    |                   |                       |        |                    |                             | (26,000 )            |   | (26,000 )       |
| Balance at<br>September 30,<br>2010 | 16,862,087                         | \$ 84,311         | -                     | \$ -   | \$ 199,980         | \$ (4,961)                  | \$ 160,397           | \$ -  | \$ 439,727      |
| Balance at<br>December 31,<br>2010  | 16,862,087                         | \$ 84,311         | -                     | \$ -   | \$ 199,980         | \$ (4,961)                  | \$ 164,898           | \$ -  | \$ 444,228      |
| Net income                          |                                    |                   |                       |        |                    |                             | 31,676               |   | 31,676          |
| Dividends<br>declared:              |                                    |                   |                       |        |                    |                             |                      |   |                 |
| On cumulative<br>Preferred Stock    |                                    |                   |                       |        |                    |                             | (727 )               |   | (727 )          |
| On Common<br>Stock to parent        |                                    |                   |                       |        |                    |                             |                      |   |                 |
| -<br>CH Energy<br>Group             |                                    |                   |                       |        |                    |                             | (33,000 )            |   | (33,000 )       |
| Balance at<br>September 30,<br>2011 | 16,862,087                         | \$ 84,311         | -                     | \$ -   | \$ 199,980         | \$ (4,961)                  | \$ 162,847           | \$ -  | \$ 442,177      |

The Notes to Financial Statements are an integral part hereof.



NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 – Summary of Significant Accounting Policies

Basis of Presentation

This Quarterly Report on Form 10-Q is a combined report of CH Energy Group, Inc. (“CH Energy Group”) and its regulated electric and natural gas subsidiary, Central Hudson Gas & Electric Corporation (“Central Hudson”). The Notes to the Consolidated Financial Statements apply to both CH Energy Group and Central Hudson. CH Energy Group’s Consolidated Financial Statements include the accounts of CH Energy Group and its wholly owned subsidiaries, which include Central Hudson and CH Energy Group’s non-utility subsidiary, Central Hudson Enterprises Corporation (“CHEC”). Operating results of CHEC in 2011 include its wholly owned subsidiaries, Griffith Energy Services, Inc. (“Griffith”) and CH-Greentree, LLC (“CH-Greentree”). Discontinued operations on CH Energy Group’s Consolidated Statements of Income include the operating results of CHEC’s subsidiaries which were sold in 2011, including Lyonsdale Biomass, LLC (“Lyonsdale”) sold on May 1, 2011, Shirley Wind, LLC (“Shirley Wind”), sold on August 11, 2011 and CH-Auburn, LLC (“CH-Auburn”) sold on September 16, 2011. The non-controlling interest shown on CH Energy Group’s Consolidated Financial Statements represents the minority owner’s proportionate share of the income and equity of Shirley Delaware for 2011 and 2010 prior to the sale of this subsidiary and Lyonsdale for 2010 prior to the purchase of the minority owner’s interest on October 1, 2010. Inter-company balances and transactions have been eliminated in consolidation. See Note 5 – “Acquisitions, Divestitures and Investments” for further information.

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

Unaudited Financial Statements

The accompanying Consolidated Financial Statements of CH Energy Group and Financial Statements of Central Hudson are unaudited but, in the opinion of Management, reflect adjustments (which include normal recurring adjustments) necessary for a fair statement of the results for the interim periods presented. These unaudited quarterly Financial Statements do not contain all footnote disclosures concerning accounting policies and other matters which would be included in annual Financial Statements and, accordingly, should be read in conjunction with the audited Financial Statements (including the Notes thereto) included in the combined CH Energy Group/Central Hudson Annual Report on Form 10-K for the year ended December 31, 2010 (the “Corporations’ 10-K Annual Report”).

CH Energy Group's and Central Hudson's balance sheet as of September 30, 2010 is not required to be included in this Quarterly Report on Form 10-Q; however, this balance sheet is included for supplemental analysis purposes.

#### Reclassification

Certain amounts in the 2010 Financial Statements have been reclassified to conform to the 2011 presentation. For more information regarding reclassification of discontinued operations, see Note 5 – "Acquisition, Divestitures and Investments."

#### Consolidation of Variable Interest Entities

CH Energy Group and its subsidiaries do not have any interests in special purpose entities and do not have material affiliations with any variable interest entities which were not consolidated.

#### Revenue Recognition

CH Energy Group's deferred revenue balances as of September 30, 2011, December 31, 2010 and September 30, 2010 were \$3.7 million, \$4.7 million and \$3.7 million, respectively. The deferred revenue balance will be recognized in CH Energy Group's operating revenues over the 12-month term of the respective customer contract.

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

## Fuel, Materials &amp; Supplies

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

## CH Energy Group

|                                  | September<br>30,<br>2011 | December<br>31,<br>2010 | September<br>30,<br>2010 |
|----------------------------------|--------------------------|-------------------------|--------------------------|
| Natural gas                      | \$13,106                 | \$10,803                | \$14,153                 |
| Petroleum products and propane   | 2,177                    | 3,831                   | 1,791                    |
| Fuel used in electric generation | 287                      | 820                     | 832                      |
| Materials and supplies           | 9,960                    | 9,993                   | 10,406                   |
| Total                            | \$25,530                 | \$25,447                | \$27,182                 |

## Central Hudson

|                                  | September<br>30,<br>2011 | December<br>31,<br>2010 | September<br>30,<br>2010 |
|----------------------------------|--------------------------|-------------------------|--------------------------|
| Natural gas                      | \$13,106                 | \$10,803                | \$14,153                 |
| Petroleum products and propane   | 494                      | 519                     | 526                      |
| Fuel used in electric generation | 287                      | 271                     | 290                      |
| Materials and supplies           | 8,690                    | 8,434                   | 9,436                    |
| Total                            | \$22,577                 | \$20,027                | \$24,405                 |

## Depreciation and Amortization

Current accounting guidance related to asset retirements precludes the recognition of expected future retirement obligations as a component of depreciation expense or accumulated depreciation. Central Hudson, however, is required to use depreciation methods and rates approved by the PSC under regulatory accounting. These depreciation rates include a charge for the cost of future removal and retirement of fixed assets. In accordance with current accounting guidance for regulated operations, Central Hudson continues to accrue for the future cost of removal for its rate-regulated natural gas and electric utility assets. In accordance with current accounting guidance related to asset retirements, Central Hudson has classified \$52.6 million, \$46.9 million, and \$47.3 million of cost of removal as regulatory liabilities as of September 30, 2011, December 31, 2010, and September 30, 2010, respectively. This liability represents the portion of the cost of removal charge in excess of the amount reported as an Asset Retirement Obligation under GAAP.

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

Earnings Per Share

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

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

| Three Months Ended |         | Nine Months Ended |         |
|--------------------|---------|-------------------|---------|
| September 30,      |         | September 30,     |         |
| 2011               | 2010    | 2011              | 2010    |
| 188,177            | 161,689 | 187,931           | 161,689 |

Certain stock options are excluded from the calculation of diluted earnings per share because the exercise prices of those options were greater than the average market price per share of Common Stock. Options excluded are as follows (In Shares):

| Three Months Ended |        | Nine Months Ended |        |
|--------------------|--------|-------------------|--------|
| September 30,      |        | September 30,     |        |
| 2011               | 2010   | 2011              | 2010   |
| -                  | 35,980 | -                 | 35,980 |

For additional information regarding stock options, performance shares and restricted shares, see Note 11 - "Equity-Based Compensation."

Parental Guarantees

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

(In Thousands)

| Transaction Description  | September 30, 2011         |                            |
|--|----------------------------|----------------------------|
|  | Maximum Potential Payments | Outstanding Liabilities(1) |
| Heating oil, propane, other petroleum products, weather and commodity hedges | \$26,250                   | \$ 4,475                   |

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

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

## Common Stock Dividends

CH Energy Group's ability to pay dividends is affected by the ability of its subsidiaries to pay dividends. The Federal Power Act limits the payment of dividends by Central Hudson to its retained earnings. More restrictive is the PSC's limit on the dividends Central Hudson may pay to CH Energy Group which is 100% of the average annual income available for common stock, calculated on a two-year rolling average basis. Based on this calculation, Central Hudson was restricted to a maximum payment of \$38.5 million in dividends to CH Energy Group for the year ended December 31, 2010. Central Hudson's dividend would be reduced to 75% of its average annual income in the event of a downgrade of its senior debt rating below "BBB+" by more than one rating agency if the stated reason for the downgrade is related to any of CH Energy Group's or Central Hudson's affiliates. Further restrictions are imposed for any downgrades below this level. As of September 30, 2011, Central Hudson had declared and paid dividends of \$33.0 million to parent CH Energy Group in 2011, of which \$11.0 million was paid during the three months ended September 30, 2011. CH Energy Group's other subsidiaries do not have express restrictions on their ability to pay dividends.

On September 23, 2011, the Board of Directors of CH Energy Group declared a quarterly dividend of 55.5 cents per share payable November 1, 2011, to shareholders of record as of October 11, 2011. This dividend is an increase from the previously consistent 54 cents per share declared to shareholders each quarter since 1998.



## NOTE 2 – Regulatory Matters

## Summary of Regulatory Assets and Liabilities

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

|  | September 30,<br>2011 | December<br>31,<br>2010 | September 30,<br>2010 |
|--|-----------------------|-------------------------|-----------------------|
| <b>Regulatory Assets (Debits):</b>   |                       |                         |                       |
| <b>Current:</b>  |                       |                         |                       |
| Deferred purchased electric and natural gas costs                            | \$ 8,155              | \$ 30,320               | \$ 22,558             |
| Deferred unrealized losses on derivatives                                    | 12,778                | 13,149                  | 35,184                |
| PSC General and Temporary State Assessment<br>and carrying charges           | 12,481                | 9,891                   | 14,258                |
| RDM and carrying charges   | -                     | 3,966                   | 2,484                 |
| Residual natural gas deferred balances                                       | 4,554                 | 4,554                   | 4,554                 |
| Deferred debt expense on re-acquired debt                                    | 600                   | 624                     | 610                   |
| Deferred and accrued costs - MGP site<br>remediation<br>and carrying charges | 4,549                 | 4,488                   | 4,465                 |
| Deferred storm costs and carrying charges                                    | - (1)                 | 19,985                  | 19,583                |
| Uncollectible deferral and carrying charges                                  | - (1)                 | 2,638                   | 2,621                 |
| Other  | 290                   | 290                     | 290                   |
|  | 43,407                | 89,905                  | 106,607               |
| <b>Long-term:</b>  |                       |                         |                       |
| Deferred pension costs   | 121,238               | 142,647                 | 144,781 (2)           |
| Deferred unrealized losses on derivatives                                    | 3,193                 | 11,698                  | -                     |
| Carrying charges - pension reserve   | 4,055                 | 1,144                   | 602 (2)               |
| Deferred and accrued costs - MGP site<br>remediation<br>and carrying charges | 14,086                | 5,876                   | 6,817                 |
| Deferred debt expense on re-acquired debt                                    | 5,071                 | 5,460                   | 3,888                 |
| Deferred Medicare Subsidy taxes  | 7,171                 | 6,740                   | 6,570                 |
| Residual natural gas deferred balances and<br>carrying charges               | 10,810                | 14,121                  | 15,088 (2)            |
| Income taxes recoverable through future rates                                | 37,716                | 35,903                  | 38,345 (2)            |
| Deferred storm costs and carrying charges                                    | 12,838                | -                       | -                     |
| Other  | 10,959                | 9,322                   | 8,261 (2)             |
|  | 227,137               | 232,911                 | 224,352               |
| <b>Total Regulatory Assets</b>   | <b>\$ 270,544</b>     | <b>\$ 322,816</b>       | <b>\$ 330,959</b>     |

- (1) Central Hudson offset deferred storm costs and incremental bad debt expense and associated carrying charges, in accordance with the PSC prescribed Order issued on April 14, 2011. Additionally, a regulatory liability was established for the future benefit of the customers based on the remaining balance of tax refund after these offsets.
- (2) Central Hudson offset all or a portion of certain regulatory assets and liabilities, including full offset of the June 30, 2010 balances for Carrying charges - OPEB reserve, Carrying charges - pension reserve, in accordance with the PSC prescribed 2010 Rate Order ("2010 Rate Order") issued on June 18, 2010.



|   | September 30,<br>2011 | December<br>31,<br>2010 | September 30,<br>2010 |
|---|-----------------------|-------------------------|-----------------------|
| <b>Regulatory Liabilities (Credits):</b>                    |                       |                         |                       |
| Current:  |                       |                         |                       |
| Excess electric depreciation reserve                        | \$ 2,008              | \$ 7,366                | \$ 9,122              |
| RDM and carrying charges                                    | 3,520                 | -                       | -                     |
| Income taxes refundable through future rates                | 4,938                 | 5,128                   | 5,412                 |
| Deferred unbilled gas revenues                              | 1,978                 | 6,102                   | 1,927                 |
|   | 12,444                | 18,596                  | 16,461                |
| Long-term:  |                       |                         |                       |
| Customer benefit fund                                       | 3,139                 | 3,468                   | 3,471                 |
| Deferred cost of removal                                    | 52,630                | 46,938                  | 47,346                |
| Rate Base Impact of Tax Repair Project and carrying charges | 10,170 (1)            | -                       | -                     |
| Excess electric depreciation reserve carrying charges       | 2,653                 | 4,889                   | 5,722                 |
| Income taxes refundable through future rates                | 24,189                | 33,820                  | 34,173 (2)            |
| Deferred OPEB costs   | 12,038                | 6,976                   | 4,936 (2)             |
| Carrying charges - OPEB reserve                             | 4,379                 | 1,599                   | 780 (2)               |
| Other   | 13,120                | 9,079                   | 7,903 (2)             |
|   | 122,318               | 106,769                 | 104,331               |
| Total Regulatory Liabilities                                | \$ 134,762            | \$ 125,365              | \$ 120,792            |
| Net Regulatory Assets                                       | \$ 135,782            | \$ 197,451              | \$ 210,167            |

- (1) Central Hudson offset deferred storm costs and incremental bad debt expense and associated carrying charges, in accordance with the PSC prescribed Order issued on April 14, 2011. Additionally, a regulatory liability was established for the future benefit of the customers based on the remaining balance of tax refund after these offsets.
- (2) Central Hudson offset all or a portion of certain regulatory assets and liabilities, including full offset of the June 30, 2010 balances for Carrying charges - OPEB reserve, Carrying charges - pension reserve, in accordance with the PSC prescribed 2010 Rate Order ("2010 Rate Order") issued on June 18, 2010.

The significant new regulatory assets and liabilities include:

**Storm Costs:** In late August 2011, Central Hudson's service territory was affected by Tropical Storm Irene, disrupting service to approximately 180,000 customers. Management believes that the incremental storm restoration costs incurred as of September 30, 2011 associated with electric service restoration efforts of approximately \$12.8 million are probable of future recovery from customers. This amount includes significant estimates for mutual aid and tree trimming crews employed during the restoration. Actual amounts may differ from these estimates. Additional costs are expected to be incurred in the fourth quarter related to restoration efforts, including sales tax on invoices paid. These costs will be deferred when incurred.

Management is currently analyzing the storm costs incurred related to gas emergencies as a result of the impacts of Tropical Storm Irene to determine if the costs meet the following requirements for deferral accounting: the expense must be incremental to the amount included in rates, the incremental expense must be material and extraordinary and the company's earnings must be below the authorized rate of return. As of September 30, 2011, approximately \$0.6 million have been incurred related to these gas emergencies and additional costs are expected as a result of on-going repairs to damaged infrastructure. These costs have not been deferred as of September 30, 2011 but Management will

continue to monitor whether the three requirements for deferral accounting have been met. Central Hudson can not predict the outcome of this analysis as of September 30, 2011.

- 18 -

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## 2010 Rate Order

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

| Description  | 2010 Rate Order  |
|--|--|
| Electric delivery revenue increases  | \$11.8 million(1)<br>7/1/10<br>\$9.3<br>million(1) 7/1/11<br>\$9.0 million<br>7/1/12 |
| Natural gas delivery revenue increases   | \$5.7 million<br>7/1/10<br>\$2.4 million<br>7/1/11<br>\$1.6 million<br>7/1/12        |
| ROE  | 10.0%  |
| Earnings sharing   | Yes(2)   |
| Capital structure – common equity  | 48%  |
| Targets with true-up provisions - % of revenue requirement to defer for shortfalls     |  |
| Net plant balances   | 100%   |
| Transmission and distribution ROW maintenance  | 100%   |
| RDMs – electric and natural gas(3)   | Yes  |
| New deferral accounting for full recovery  |  |
| Fixed debt costs   | Yes(4)   |
| Transmission sag mitigation  | Yes  |
| New York State Temporary Assessment  | Yes  |
| Material regulatory actions(5)   | Yes(5)   |
| Property taxes – Deferral for 90% of excess/deficiency relative to revenue requirement | Yes(6)   |

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

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

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

(4) Deferral authorization in RY2 and RY3 only.

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

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

## Other PSC Proceedings

On April 14, 2011, the Commission issued an Order authorizing deferral of \$18.8 million of the incremental electric storm restoration expense related to the significant storm event in February 2010 and the \$2.6 million of incremental bad debt expense and denying deferral of the Company's \$2.5 million of incremental electric and gas property tax expense. The PSC also approved the ratemaking treatment proposed by the Company in its petition filed on September 23, 2010. The offsets have been recorded as of March 31, 2011. The remaining balance of the tax refund not subject to offset has been established as a regulatory liability subject to carrying charges for the benefit of customers totaling \$9.6 million. On May 13, 2011, Central Hudson filed a Petition for Clarification and Rehearing on the PSC's April 14, 2011 Order. The petition seeks clarification concerning recovery of the costs to achieve and rehearing for reconsideration and recovery of certain costs denied by the Commission, totaling \$0.8 million, for deferral accounting treatment proposed by the Company in its September 23, 2010 petition filing related to the incremental electric storm restoration expense for the February 2010 Twin Peaks storm. Central Hudson cannot predict the final outcome of this proceeding.

## NOTE 3 - New Accounting Guidance

Newly adopted and soon to be adopted accounting guidance is summarized below, and explanations of the underlying information for all guidance (except that which is not currently applicable) that is expected to have a material impact on CH Energy Group and its subsidiaries.

| Impact | Category  | Accounting Reference | Title  | Issued Date | Effective Date |
|--------|---|----------------------|--|-------------|----------------|
| 1      | Comprehensive Income (Topic 220)                    | ASU No. 2011-05      | Presentation of Comprehensive Income   | Jun-11      | Jan-12         |
| 1      | Fair Value Measurements and Disclosures (Topic 820) | ASU No. 2011-04      | Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in US GAAP and IFRS | May-11      | Jan-12         |
| 1      | Intangibles - Goodwill and Other (Topic 350)        | ASU No. 2011-08      | Testing Goodwill for Impairment  | Sep-11      | Jan-12         |

## Impact Key:

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

## NOTE 4 – Income Tax

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

There are no uncertain tax positions other than that related to the Company’s accounting method change; the activity of which is summarized below (In Thousands):

|   | Three Months Ended<br>September 30, |      | Nine Months Ended<br>September 30, |      |
|---|-------------------------------------|------|------------------------------------|------|
|   | 2011                                | 2010 | 2011                               | 2010 |
| Balance at the beginning of the period                                | \$ 10,934                           | \$ - | \$ 11,486                          | \$ - |
| Adjustment related to tax accounting<br>method change                 | (1,266 )                            | -    | (1,818 )                           | -    |
| Settlement of uncertain tax positions with<br>tax authorities         | -                                   | -    | -                                  | -    |
| Lapse of statute of limitations related to<br>uncertain tax positions | -                                   | -    | -                                  | -    |
| Balance at the end of the period                                      | \$ 9,668                            | \$ - | \$ 9,668                           | \$ - |

| Jurisdiction   | Tax Years Open for Audit  |
|----------------|---------------------------|
| Federal(1)     | 2007, 2008, 2009 and 2010 |
| New York State | 2007, 2008, 2009 and 2010 |

(1) Federal tax filings for the years 2007, 2008 and 2009 are currently under audit.

## Reconciliation - CH Energy Group

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

|   | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |           |
|---|-------------------------------------|------------|------------------------------------|-----------|
|   | 2011                                | 2010       | 2011                               | 2010      |
| Net income attributable to CH Energy Group  | \$ 8,328                            | \$ 1,779   | \$ 31,230                          | \$ 28,982 |
| Preferred Stock dividends of Central Hudson | 242                                 | 242        | 727                                | 727       |
| Non-controlling interest in subsidiary      | -                                   | 112        | -                                  | (272)     |
| Federal income tax                          | (524)                               | (25,743)   | 153                                | (30,470)  |
| State income tax                            | 17                                  | (3,291)    | 289                                | (4,793)   |
| Deferred federal income tax                 | 1,927                               | 26,694     | 13,998                             | 47,813    |
| Deferred state income tax                   | 531                                 | 1,040      | 1,104                              | 4,204     |
| Income before taxes                         | \$ 10,521                           | \$ 833     | \$ 47,501                          | \$ 46,191 |
| Computed federal tax at 35% statutory rate  | \$ 3,682                            | \$ 292     | \$ 16,625                          | \$ 16,167 |
| State income tax net of federal tax benefit | 623                                 | (1,150)    | 1,588                              | 872       |
| Depreciation flow-through                   | 757                                 | 1,091      | 2,322                              | 2,400     |
| Cost of Removal                             | (458)                               | (369)      | (1,373)                            | (1,104)   |
| Production tax credits                      | (51)                                | (70)       | (149)                              | (206)     |
| Federal grant                               | (2,580)                             | -          | (2,580)                            | -         |
| Other                                       | (22)                                | (1,094)    | (889)                              | (1,375)   |
| Total income tax                            | \$ 1,951                            | \$ (1,300) | \$ 15,544                          | \$ 16,754 |
| Effective tax rate - federal                | 13.3 %                              | 114.2 %    | 29.8 %                             | 37.5 %    |
| Effective tax rate - state                  | 5.2 %                               | (270.2)%   | 2.9 %                              | (1.2)%    |
| Effective tax rate - combined               | 18.5 %                              | (156.0)%   | 32.7 %                             | 36.3 %    |

The effective rate for the quarter ended September 30, 2011 is impacted by the tax benefit related to federal grants received and the reversal of prior period Production Tax Credits as a result of receiving the grant. The net benefit from state income taxes recognized in the quarter ended September 30, 2010 is due to the true-up of the New York State apportionment rate.



## Reconciliation - Central Hudson

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

|   | Three Months Ended |           | Nine Months Ended |           |
|---|--------------------|-----------|-------------------|-----------|
|   | September 30,      |           | September 30,     |           |
|   | 2011               | 2010      | 2011              | 2010      |
| Net income                                  | \$11,665           | \$9,740   | \$31,676          | \$36,374  |
| Federal income tax                          | 133                | (17,698 ) | 348               | (21,096 ) |
| State income tax                            | 218                | (261 )    | 535               | (1,129 )  |
| Deferred federal income tax                 | 6,739              | 23,375    | 18,020            | 42,769    |
| Deferred state income tax                   | 763                | 895       | 1,955             | 3,581     |
| Income before taxes                         | \$19,518           | \$16,051  | \$52,534          | \$60,499  |
| Computed federal tax at 35% statutory rate  | \$6,831            | \$5,618   | \$18,387          | \$21,175  |
| State income tax net of federal tax benefit | 905                | 725       | 2,303             | 2,846     |
| Depreciation flow-through                   | 757                | 1,091     | 2,322             | 2,400     |
| Cost of Removal                             | (458 )             | (369 )    | (1,373 )          | (1,104 )  |
| Other                                       | (182 )             | (754 )    | (781 )            | (1,192 )  |
| Total income tax                            | \$7,853            | \$6,311   | \$20,858          | \$24,125  |
| Effective tax rate - federal                | 35.2               | % 35.4    | % 35.0            | % 35.8    |
| Effective tax rate - state                  | 5.0                | % 3.9     | % 4.7             | % 4.1     |
| Effective tax rate - combined               | 40.2               | % 39.3    | % 39.7            | % 39.9    |

## NOTE 5 – Acquisitions, Divestitures and Investments

## Acquisitions

During the nine months ended September 30, 2011, Griffith acquired fuel distribution companies as follows (Dollars in Thousands):

| Quarter Ended      | # of<br>Acquired<br>Companies | Purchase<br>Price | Total<br>Intangible<br>Assets(1) | Goodwill | Total<br>Tangible<br>Assets |
|--------------------|-------------------------------|-------------------|----------------------------------|----------|-----------------------------|
| March 31, 2011     | 2                             | \$1,961           | \$1,936                          | \$515    | \$25                        |
| June 30, 2011      | -                             | -                 | -                                | -        | -                           |
| September 30, 2011 | 1                             | 305               | 270                              | 83       | 37                          |
| Total              | 3                             | \$2,266           | \$2,206                          | \$598    | \$62                        |

(1) Including goodwill.

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

## Divestitures

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

During 2011, CHEC divested three of its renewable energy investments, as follows:

- On May 1, 2011, the sale of Lyonsdale, which owns a wood-burning electric generating facility in Lyons Falls, New York, was completed.
- On August 11, 2011, the sale of Shirley Wind, which owns a wind project in Glenmore, Wisconsin, was completed.
- On September 16, 2011, the sale of CH-Auburn, which owns an electric generating plant that utilizes methane gas generated by the City of Auburn, New York landfill, was completed.

The results of operations of Lyonsdale, Shirley Wind and CH-Auburn for current and prior periods are presented in discontinued operations in the CH Energy Group Consolidated Statement of Income. Management has elected to include cash flows from discontinued operations of Lyonsdale, Shirley Wind and CH-Auburn with those from continuing operations in the CH Energy Group Consolidated Statement of Cash Flows. The details of each of the sales transactions by investment are as follows (In Thousands):

|   | CH-Auburn | Shirley<br>Wind | Lyonsdale |
|---|-----------|-----------------|-----------|
| <b>Assets</b>                               |           |                 |           |
| Current Assets                              | \$ 174    | \$ 623          | \$ 2,099  |
| Other Assets                                | -         | 461             | -         |
| <b>Property, Plant and Equipment</b>        |           |                 |           |
| Property, plant and equipment               | 4,667     | 32,564          | 10,670    |
| Less: Accumulated depreciation              | 626       | 657             | 4,191     |
| Total property, plant and equipment, net    | 4,041     | 31,907          | 6,479     |
| Assets sold                                 | \$ 4,215  | \$ 32,991       | \$ 8,578  |
| <b>Liabilities</b>                          |           |                 |           |
| Current Liabilities                         | \$ 85     | \$ 6            | \$ 322    |
| Other Liabilities                           | 1,736     | -               | -         |
| Liabilities sold                            | \$ 1,821  | \$ 6            | \$ 322    |
| Net Assets Sold                             | \$ 2,394  | \$ 32,985       | \$ 8,256  |
| Net Proceeds from Sale                      | \$ 3,676  | \$ 33,100       | \$ 7,700  |
| Pre-tax gain (loss) on sales transaction(1) | \$ 1,282  | \$ 115          | \$(556)   |
| Tax Benefit of Federal Grant Received(2)    | \$ 277    | \$ 2,303        | \$-       |
| Net Increase (Decrease) to Earnings         | \$ 1,033  | \$ 2,371        | \$(328)   |

(1) Included in the Gain from the sale of discontinued operations line of the CH Energy Group Consolidated Income Statement

(2) Included in the Income tax (benefit) expense from discontinued operations line of the CH Energy Group Consolidated Income Statement

Proceeds from the sale of these investments were used primarily for the repurchase of outstanding Common Stock of CH Energy Group. Additionally, a portion of the proceeds from the sale of Shirley Wind were used to pay down private placement debt at CH Energy Group Holding Company, which provided corporate financing for the construction of this project. See Note 9 – “Capitalization – Long-Term Debt” for further details regarding the repayment of debt.

The remaining three investments in renewable energy as of September 30, 2011, Cornhusker, CH-Community Wind and CH-Greentree, are not considered a part of the core business, however, Management intends to hold these investments at this time. The value of CHEC’s investment in Cornhusker is zero as of September 30, 2011.

Based on preliminary market analysis and updated operating forecasts related to CH-Community Wind, CHEC's 50% equity interest in a joint venture that owns an 18% interest in two operating wind projects, Management performed an impairment test related to this investment. Based on the present value of the projected cash flow, using a market participant's expected return, Management has concluded the fair value of the investment is zero and as such has recorded an impairment loss for the full value of the investment as of September 30, 2011.

- 25 -

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CHEC's \$4.7 million investment in CH-Greentree, a 100% equity interest in a molecular gate used to remove nitrogen from landfill gas, generates revenues from the lease of the gate to the landfill project owner. Currently, the project is current on all of its lease payments to CH-Greentree. Due to the effects of the economic slowdown, less municipal solid waste is being delivered to the landfill, and along with sludge from hydraulic fracturing which is being delivered, less gas is being produced and sold. In response to these operational challenges, the project is seeking to renegotiate its current debt obligations to improve its future cash flows in order to continue to meet its financial obligations. The project owner is in the process of trying to renegotiate the terms of its outstanding debt to improve the project's financial situation. If the project is no longer able to meet its lease obligations to CH-Greentree, Management has certain remedies available, including removing the molecular gate, seeking an alternative landfill, or selling the molecular gate. Management will continue to monitor this matter.

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

|   | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |          |
|---|-------------------------------------|---------|------------------------------------|----------|
|   | 2011                                | 2010    | 2011                               | 2010     |
| Revenues from discontinued operations                     | \$812                               | \$3,064 | \$5,755                            | \$7,698  |
| Income (loss) from discontinued operations before tax     | (10 )                               | 393     | 1,149                              | (1,167 ) |
| Gain from sale of discontinued operations                 | 2,070                               | -       | 841                                | -        |
| Income tax (benefit) expense from discontinued operations | (1,599 )                            | 60      | (1,669 )                           | (524 )   |

Investments

The value of CHEC's investments as of September 30, 2011 are as follows (In Thousands):

| CHEC Investment          | Description  | Intercompany Debt | Equity Investment | Total     |
|--------------------------|--|-------------------|-------------------|-----------|
| Griffith Energy Services | 100% controlling interest in a fuel distribution business                                    | \$ 28,600         | \$ 34,596         | \$ 63,196 |
| CH-Greentree             | 100% equity interest in a molecular gate used to remove nitrogen from landfill gas           | -                 | 4,750             | 4,750     |
| Cornhusker Holdings      | 12% equity interest plus subordinated debt investment in an operating corn-ethanol plant     | -                 | -                 | -         |
| CH-Community Wind        | 50% equity interest in a joint venture that owns 18% interest in two operating wind projects | -                 | -                 | -         |
| Other                    | Other renewable energy projects and partnerships and an energy sector venture capital fund   | -                 | 3,111             | 3,111     |
|                          |  | \$ 28,600         | \$ 42,457         | \$ 71,057 |

NOTE 6 – Goodwill and Other Intangible Assets

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

|                               | September 30, 2011    |                          | December 31, 2010     |                          | September 30, 2010    |                          |
|-------------------------------|-----------------------|--------------------------|-----------------------|--------------------------|-----------------------|--------------------------|
|                               | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Customer relationships        | \$35,516              | \$ 22,978                | \$34,063              | \$ 21,214                | \$34,053              | \$ 20,646                |
| Covenants not to compete      | 267                   | 123                      | 113                   | 95                       | 114                   | 90                       |
| Total Amortizable Intangibles | \$35,783              | \$ 23,101                | \$34,176              | \$ 21,309                | \$34,167              | \$ 20,736                |

| (In Thousands)       | Three Months Ended September 30, |       | Nine Months Ended September 30, |         |
|----------------------|----------------------------------|-------|---------------------------------|---------|
|                      | 2011                             | 2010  | 2011                            | 2010    |
| Amortization Expense | \$598                            | \$567 | \$1,792                         | \$1,704 |

The estimated annual amortization expense for each of the next five years, assuming no new acquisitions or divestitures, is approximately \$2.0 million.

## NOTE 7 – Short-Term Borrowing Arrangements

CH Energy Group and Central Hudson borrowings under revolving credit facilities are as follows (In Thousands):

|   | September<br>30, 2011 | December<br>31, 2010 | September<br>30, 2010 |
|---|-----------------------|----------------------|-----------------------|
| CH Energy Group Holding Company Short-term borrowings | \$5,000               | \$-                  | \$-                   |
| Central Hudson Short-term borrowings                  | -                     | -                    | -                     |
| Total CH Energy Group                                 | \$5,000               | \$-                  | \$-                   |

At September 30, 2011, the corresponding weighted average effective interest rate for the short-term borrowings was 0.56%.

## NOTE 8 – Capitalization – Common and Preferred Stock

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

Effective July 31, 2007, CH Energy Group's Board of Directors extended and amended the Common Stock Repurchase Program of the Company (the "Repurchase Program"), which was originally authorized in 2002. As amended, the Repurchase Program authorized the repurchase of up to 2,000,000 shares (excluding shares repurchased before July 31, 2007) or approximately 13% of CH Energy Group's outstanding Common Stock, from time to time, through July 31, 2012. As of September 30, 2011, CH Energy Group had purchased 948,676 shares under the Repurchase Program, of which 554,017 shares were purchased during the three months ended September 30, 2011.

As part of this Repurchase Program, on August 16, 2011, CH Energy Group implemented an accelerated share repurchase program ("ASR") providing for the repurchase by CH Energy Group of a number of shares with a value as of the date of the agreement of \$30 million. CH Energy Group paid \$30 million and received 554,017 shares on August 17, 2011, which represented 100% of the total number of shares CH Energy Group would receive if the price per share of the Common Stock remained at the closing price on August 16, 2011 of \$54.15 per share throughout the remainder of the calculation period under the program, which is expected to end no later than May 16, 2012 (but may be earlier terminated by the agent under certain circumstances).

The actual number of shares of Common Stock that CH Energy Group will repurchase under the ASR will be determined at the end of the calculation period based on the difference between the \$30 million contract amount and an amount determined by multiplying a discounted daily volume-weighted average price of CH Energy Group's Common Stock over the calculation period by the number of shares initially purchased. The actual number of shares CH Energy Group will repurchase under the ASR is subject to collar provisions that establish a minimum and maximum number of shares to be repurchased and certain other adjustments. If the actual number of shares to be delivered under the program exceeds the number of shares initially delivered by the agent to CH Energy Group, following the end of the calculation period the agent will be required to deliver to CH Energy Group a number of additional shares equal to the excess. If the actual number of shares to be delivered under the program is less than the number of shares initially delivered by the agent to CH Energy Group, then following the end of the calculation period CH Energy Group will be required, at its election, to either deliver to the agent a number of shares of Common Stock approximately equal to the difference or pay to the agent cash in an amount equal to the value of such shares. CH Energy Group controls the form of settlement of any obligation resulting from the ASR and in all cases may elect to deliver its Common Stock at settlement, except in the presence of a liquidating event or default or termination event. CH Energy Group has sufficient authorized and unissued shares available to settle the contract based on the current CH Energy Group stock price and after considering all other commitments that may require the issuance of

stock during the maximum calculation period. Additionally, the ASR permits settlement in unregistered shares and further specifies that CH Energy Group cannot be required to deliver more than the shares available at the time but must use its best efforts to authorize, issue and deliver additional shares if necessary to satisfy its obligations under the contract. Accordingly, and in accordance with current accounting guidance, this transaction has been accounted for as an equity transaction.

- 28 -

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Subsequent to September 30, 2011, no additional shares have been purchased under the Repurchase Program. CH Energy Group does not intend to purchase additional shares under the Program during the remainder of 2011. CH Energy Group intends to set repurchase targets, if any, from time to time based on then prevailing circumstances. The shares repurchased by CH Energy Group have not been retired or cancelled, and the repurchases accordingly have been presented as an increase to treasury stock in CH Energy Group's Consolidated Balance Sheet.

Effective July 1, 2011, employer matching contributions to an eligible employee's Savings Incentive Plan ("SIP") will be paid in either cash or in CH Energy Group Common Stock. During the third quarter of 2011, CH Energy Group began making employer matching contributions to the SIP with the issuance of treasury shares. As of September 30, 2011, 8,210 shares were issued from treasury related to the employer matching contribution. Management expects employer matching contributions to be approximately 48,000 shares per year.

There were no repurchases of preferred stock in the three and nine months ended September 30, 2011 and 2010.

As of September 30, 2011, Central Hudson had made \$33.0 million in dividend payments in 2011 to parent CH Energy Group, of which \$11.0 million was paid during the three months ended September 30, 2011.

NOTE 9 – Capitalization – Long-Term Debt

On September 30, 2011, Central Hudson issued \$33.4 million of its Series G registered unsecured Medium Term Notes in two maturities. The first maturity bears interest at the rate of 3.378% per annum on a principal amount of \$23.4 million and matures on April 1, 2022. The second maturity bears interest at the rate of 4.707% per annum on a principal amount of \$10.0 million and matures on April 1, 2042. On September 29, 2011, a notice of redemption was provided to NYSERDA and as such, the 1999 Series A bonds are shown as current maturities of long-term debt in the Central Hudson and CH Energy Group Consolidated Balance Sheets. In November 2011, Central Hudson used the proceeds from the sale of the notes for redeeming its 1999 Series A NYSERDA Bonds in the principal amount of \$33.4 million bearing interest at the rate of 5.45%. No bonds of this 1999 Series A remained outstanding following the redemption.

In September 2011, following the sale of Shirley Wind, CH Energy Group paid down \$20 million of its 2009 Series A private placement debt with a portion of the proceeds from the sale. As a result, a prepayment penalty was incurred of approximately \$3.0 million, which has been included in Penalty for early retirement of debt on the CH Energy Group Consolidated Statement of Income.

NYSERDA

Central Hudson's Series B NYSERDA Bonds total \$33.7 million at September 30, 2011. These bonds are tax-exempt multi-modal bonds that are currently in a variable rate mode. In its Orders, the PSC has authorized deferral accounting treatment for variations in the interest costs from these bonds. As such, variations between the actual interest rates on these bonds and the interest rate included in the current delivery rate structure for these bonds are deferred for future recovery from or refund to customers. As a result, variations in these interest rates do not have any impact on earnings.

To mitigate the potential cash flow impact from unexpected increases in short-term interest rates on Series B Bonds, Central Hudson purchased an interest rate cap based on an index of short-term tax-exempt debt. The rate cap is two years in length with a notional amount aligned with Series B and will expire on April 1, 2012. The cap is based on the monthly weighted average of an index of tax-exempt variable rate debt, multiplied by 175%. Central Hudson would receive a payout if the adjusted index exceeds 5.0% for a given month. As of September 30, 2011, no payout is expected and as such the fair value of this instrument is zero.

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

## NOTE 10 – Post-Employment Benefits

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

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

The following are the components of Central Hudson’s net periodic benefit costs for its pension and other post-employment benefit (“OPEB”) plans for the three and nine months ended September 30, 2011 and 2010 (In Thousands):

|                                 | Pension Benefits                    |          | OPEB(1)                             |          |
|---------------------------------|-------------------------------------|----------|-------------------------------------|----------|
|                                 | Three Months Ended<br>September 30, |          | Three Months Ended<br>September 30, |          |
|                                 | 2011                                | 2010     | 2011                                | 2010     |
| Service cost                    | \$2,448                             | \$2,272  | \$657                               | \$531    |
| Interest cost                   | 6,537                               | 6,571    | 1,723                               | 1,712    |
| Expected return on plan assets  | (6,860 )                            | (6,225 ) | (1,748 )                            | (1,267 ) |
| Amortization of:                |                                     |          |                                     |          |
| Prior service cost (credit)     | 536                                 | 544      | (1,467 )                            | (1,467 ) |
| Transitional obligation (asset) | -                                   | -        | 641                                 | 641      |
| Recognized actuarial loss       | 6,523                               | 7,377    | 2,227                               | 2,073    |
| Net Periodic Benefit Cost       | \$9,184                             | \$10,539 | \$2,033                             | \$2,223  |

|                                 | Pension Benefits                   |           | OPEB(1)                            |          |
|---------------------------------|------------------------------------|-----------|------------------------------------|----------|
|                                 | Nine Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |          |
|                                 | 2011                               | 2010      | 2011                               | 2010     |
| Service cost                    | \$7,345                            | \$6,816   | \$2,003                            | \$1,593  |
| Interest cost                   | 19,611                             | 19,713    | 5,187                              | 5,136    |
| Expected return on plan assets  | (20,580 )                          | (18,675 ) | (5,170 )                           | (3,801 ) |
| Amortization of:                |                                    |           |                                    |          |
| Prior service cost (credit)     | 1,608                              | 1,632     | (4,399 )                           | (4,401 ) |
| Transitional obligation (asset) | -                                  | -         | 1,924                              | 1,923    |
| Recognized actuarial loss       | 19,569                             | 22,131    | 7,603                              | 6,219    |
| Net Periodic Benefit Cost       | \$27,553                           | \$31,617  | \$7,148                            | \$6,669  |

(1) The OPEB amounts for all periods presented reflect the effect of the Medicare Prescription Drug Improvement and Modernization Act of 2003.

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

|                       | September<br>30,<br>2011 | December<br>31,<br>2010 | September<br>30,<br>2010 |
|-----------------------|--------------------------|-------------------------|--------------------------|
| Accrued pension costs | \$77,065                 | \$103,227               | \$128,979                |

These balances include the difference between the projected benefit obligation (“PBO”) for pensions and the market value of the pension assets, and the liability for the non-qualified SERP.

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

|   | September<br>30,<br>2011 | December<br>31,<br>2010 | September<br>30,<br>2010 |
|---|--------------------------|-------------------------|--------------------------|
| Prefunded pension costs prior to funding status adjustment              | \$39,291                 | \$34,307                | \$11,900                 |
| Additional liability required   | (116,356 )               | (137,534 )              | (140,879 )               |
| Total accrued pension costs   | \$(77,065 )              | \$(103,227 )            | \$(128,979 )             |
| Total offset to additional liability - Regulatory assets - Pension Plan | \$116,356                | \$137,534               | \$140,879                |

Gains or losses and prior service costs or credits that arise during the period but that are not recognized as components of net periodic pension cost would typically be recognized as a component of other comprehensive income, net of tax. However, Central Hudson has PSC approval to record regulatory assets rather than adjusting comprehensive income to offset the additional liability.

Contributions for the nine months ended September 30, 2011, and 2010 were as follows (In Thousands):

|               | Retirement Income Plan             |          | OPEB                               |         |
|---------------|------------------------------------|----------|------------------------------------|---------|
|               | Nine Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |         |
|               | 2011                               | 2010     | 2011                               | 2010    |
| Contributions | \$32,028                           | \$31,400 | \$1,184                            | \$4,275 |

Contribution levels for the Retirement Income Plan and OPEB plans are determined by various factors including the discount rate, expected return on plan assets, benefit changes, and corporate resources. In addition, OPEB plan contribution levels are also impacted by medical claims assumptions used and mortality assumptions used.

## Retirement Plan Policy and Strategy

Central Hudson's Retirement Plan investment policy seeks to achieve long-term growth and income to match the long-term nature of its funding obligations. During the first quarter of 2010, Management began a transition to a long-duration investment ("LDI") strategy for its pension plan assets. Management's objective is to minimize the plan's funded status volatility and the level of contributions by more closely aligning the characteristics of plan assets with liabilities.

Asset allocation targets in effect as of September 30, 2011 as well as actual asset allocations as of September 30, 2011 and December 31, 2010, expressed as a percentage of the market value of the Retirement Plan's assets, are summarized in the table below:

| Asset Class                | December 31, 2010 |         | Target Average |         | September 30, 2011 |         |
|----------------------------|-------------------|---------|----------------|---------|--------------------|---------|
|                            | Minimum           | Maximum | Minimum        | Maximum | Minimum            | Maximum |
| Equity Securities          | 46%               | 56%     | 54.8%          | 51%     | 39.4%              | 51%     |
| Debt Securities            | 44%               | 54%     | 44.0%          | 49%     | 60.1%              | 49%     |
| Alternative Investments(1) | -%                | 5%      | -%             | -%      | -%                 | 5%      |
| Other(2)                   | -%                | -%      | 1.2%           | -%      | 0.5%               | -%      |

(1) Includes Real Estate

(2) Consists of temporary cash investments

The above current asset allocations are the result of the transition to an LDI strategy to achieve an asset allocation of approximately 50% equity and 50% long duration fixed income assets by year-end compounded by recent market activity. A reduction in interest rates has made the long duration bonds held in debt securities more valuable and the recent decrease in stock price performance in the third quarter of 2011 has reduced the value of the pension plan's equity investments. As noted in the above chart, the resulting September 30, 2011 asset allocations are outside of the target minimum for equity and maximum for debt. Due to market value fluctuations, Retirement Plan assets will require rebalancing from time-to-time to maintain the target asset allocation. Management is currently monitoring on-going market activity and the impact on the pension plan asset allocations to determine if a rebalancing will be necessary.

Central Hudson cannot assure that the Retirement Plan's return objectives or funded status objectives will be achieved.

## NOTE 11 – Equity-Based Compensation

CH Energy Group has adopted the CH Energy Group, Inc. 2011 Long-Term Equity Incentive Plan (the “2011 Plan”) to replace the CH Energy Group, Inc. 2006 Long-Term Equity Incentive Plan (the “2006 Plan”). The 2011 Plan was approved by shareholders on April 26, 2011. The 2006 Plan has been terminated, with no new awards to be granted under such plan. Outstanding awards granted under the 2006 Plan will continue in accordance with their terms and the provisions of the 2006 Plan.

The 2011 Plan reserves for awards to be granted up to a maximum of 400,000 shares of Common Stock plus any shares remaining available under the 2006 Plan as of April 26, 2011 and any shares that are subject to awards granted under the 2006 Plan that are forfeited, cancelled, surrendered or otherwise terminated without the issuance of shares on or after that date. Awards may consist of incentive stock options, nonqualified stock options, stock appreciation rights, restricted shares, restricted share units, performance shares, dividend equivalents and other awards that CH Energy Group may authorize.

The 2011 Plan will continue in effect until February 9, 2021, unless sooner terminated by the Board of Directors. Termination will not affect grants and awards then outstanding.

## Performance Shares

A summary of the status of outstanding performance shares granted to executives under the 2006 Plan is as follows:

| Grant Date       | Grant Date<br>Fair Value | Performance Shares<br>Granted | Performance Shares<br>Outstanding at<br>September 30, 2011 |
|------------------|--------------------------|-------------------------------|--|
| January 26, 2009 | \$ 49.29                 | 36,730                        | 28,060   |
| February 8, 2010 | \$ 38.62                 | 48,740                        | 43,220   |
| February 7, 2011 | \$ 49.77                 | 40,320                        | 40,320   |

The ultimate number of shares earned under the awards is based on metrics established by the Compensation Committee at the beginning of the award cycle. Compensation expense is recorded as performance shares are earned over the relevant three-year life of the performance share grant prior to its award. The portion of the compensation expense related to an employee who retires during the performance period is the amount recognized up to the date of retirement.

Due to the retirement of one of Central Hudson’s executive officers on January 1, 2011, a pro-rated number of shares under the January 26, 2009 and February 8, 2010 grants were paid to this individual on July 6, 2011. For the pro-rata payout, 2,374 shares were issued from CH Energy Group’s treasury stock on this date in satisfaction of these awards.

## Restricted Shares and Restricted Stock Units

The following table summarizes information concerning restricted shares and stock units outstanding as of September 30, 2011:

| Grant Date        | Type of Award | Shares or Stock Units Granted | Grant Date Fair Value | Vesting Terms                                  | Unvested Shares Outstanding at September 30, 2011 |
|-------------------|---------------|-------------------------------|-----------------------|--|---|
| January 26, 2009  | Shares        | 2,930                         | \$ 49.29              | End of 3 years                                 | 2,320 (1)   |
| October 1, 2009   | Shares        | 14,375                        | \$ 43.86              | Ratably over 5 years                           | 11,500  |
| November 20, 2009 | Stock Units   | 13,900                        | \$ 41.43              | 1/3 each year in Years 5, 6 and 7              | 13,900  |
| February 8, 2010  | Shares        | 3,060                         | \$ 38.62              | End of 3 years                                 | 2,655 (2)   |
| February 10, 2010 | Shares        | 5,200                         | \$ 38.89              | End of 3 years                                 | 5,200   |
| November 15, 2010 | Shares        | 3,000                         | \$ 46.53              | Ratably over 3 years<br>1/3 each year in Years | 3,000   |
| February 7, 2011  | Shares        | 1,500                         | \$ 49.77              | 3, 4 and 5                                     | 1,500   |
| February 7, 2011  | Shares        | 2,230                         | \$ 49.77              | End of 3 years                                 | 2,230   |

(1) The vesting of 250 shares was accelerated upon a change in control for an individual resulting from the sale of certain assets of Griffith and the vesting of 360 shares was accelerated as approved by the Board of Directors.

(2) The vesting of 405 shares was accelerated as approved by the Board of Directors.

## Compensation Expense

The following table summarizes expense for equity-based compensation by award type for the three and nine months ended September 30, 2011 and 2010 (In Thousands):

|   | Three Months Ended<br>September 30, |       | Nine Months Ended<br>September 30, |         |
|---|-------------------------------------|-------|------------------------------------|---------|
|   | 2011                                | 2010  | 2011                               | 2010    |
| Performance shares  | \$659                               | \$794 | \$2,213                            | \$1,547 |
| Restricted shares and stock units                           | \$116                               | \$133 | \$334                              | \$398   |
| Recognized tax benefit of restricted shares and stock units | \$43                                | \$50  | \$127                              | \$150   |

Compensation expense for performance shares is recognized over the three year performance period based on the fair value of the awards at the end of each reporting period and the time elapsed within each grant's performance period. Compensation expense for restricted shares and stock options is recognized over the defined vesting periods based on the grant date fair value of the awards.

## NOTE 12 – Commitments and Contingencies

## Electricity Purchase Commitments

On March 6, 2007, Central Hudson entered into an agreement 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. During this period, the electricity purchased through this Entergy contract represented approximately 23% of Central Hudson's full-service customer requirements on an annual basis. For the nine months

ended September 30, 2010, energy supplied under this agreement cost approximately \$41.9 million. On June 30, 2010 and September 9, 2010, Central Hudson entered into additional agreements with Entergy Nuclear Power Marketing, LLC to purchase electricity on a unit-contingent basis at defined prices from January 1, 2011 through December 31, 2013. The electricity purchased under these current contracts with Entergy is generated from the Indian Point and FitzPatrick nuclear power facilities and is estimated to represent approximately 13% of Central Hudson's full-service customer requirements on an annual basis. For the nine months ended September 30, 2011, energy supplied under this agreement cost approximately \$14.7 million.

- 35 -

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In the event the above noted counterparty is unable to fulfill its commitment to deliver under the terms of the agreements, Central Hudson would obtain the supply from the NYISO market, and under Central Hudson's current ratemaking treatment, recover the full cost from customers. As such, there would be no impact on earnings.

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 contracts with capacity providers, purchases from the NYISO capacity market and its own generating capacity.

#### Environmental Matters

##### Central Hudson

- Air

In October 1999, Central Hudson was informed by the New York State Attorney General ("Attorney General") that the Danskammer Point Steam Electric Generating Station ("Danskammer Plant") was included in an investigation by the Attorney General's Office into the compliance of eight older New York State coal-fired power plants with federal and state air emissions rules. Specifically, the Attorney General alleged that Central Hudson "may have constructed, and continues to operate, major modifications to the Danskammer Plant without obtaining certain requisite preconstruction permits." In March 2000, the Environmental Protection Agency ("EPA") assumed responsibility for the investigation. Central Hudson has completed its production of documents requested by the Attorney General, the New York State Department of Environmental Conservation ("DEC"), and the EPA, and believes any permits required for these projects were obtained in a timely manner. Central Hudson sold the Danskammer Plant on January 30, 2001. In March 2009, Dynegy notified Central Hudson that Dynegy had received an information request pursuant to the Clean Air Act from the EPA for the Danskammer Plant covering the period beginning January 2000 to present. At that time, Dynegy also submitted to Central Hudson a demand for indemnification for any fines, penalties or other losses that may be incurred by Dynegy arising from the period that Central Hudson owned the Danskammer Plant. While Central Hudson could have retained liability after the sale, depending on the type of remedy, Central Hudson believes that the statutes of limitation relating to any alleged violation of air emissions rules have lapsed.

- Former Manufactured Gas Plant Facilities

Central Hudson and its predecessors owned and operated manufactured gas plants (“MGPs”) to serve their customers’ heating and lighting needs. MGPs manufactured gas from coal and oil. This process produced certain by-products that may pose risks to human health and the environment.

The New York State Department of Environmental Conservation (“DEC”), which regulates the timing and extent of remediation of MGP sites in New York State, has notified Central Hudson that it believes Central Hudson or its predecessors at one time owned and/or operated MGPs at seven sites in Central Hudson’s franchise territory. The DEC has further requested that Central Hudson investigate and, if necessary, remediate these sites under a Consent Order, Voluntary Cleanup Agreement, or Brownfield Cleanup Agreement. The DEC has placed all seven of these sites on the New York State Environmental Site Remediation Database. As authorized by the PSC, Central Hudson is currently permitted to defer for future recovery the differences between actual costs for MGP site investigation and remediation and the associated rate allowances, with carrying charges to be accrued on the deferred balances at the authorized pre-tax rate of return.

The status of the seven MGP sites are as follows:

|    | Site         | Status  |
|----|--------------|---|
| #1 | Beacon, NY   | Remediation work complete. Final Report approved by the DEC. A revised Site Management Plan ("SMP") was submitted by Central Hudson to the DEC on September 20, 2010. The Deed Restriction has been sent to Metropolitan Transportation Authority ("MTA") for signature and final execution. Central Hudson received a copy of the executed Deed Restriction dated July 15, 2011. This should be the final step in completing the SMP for this site.  |
| #2 | Newburgh, NY | The DEC has approved the Construction Completion Report ("CCR") for the remediation that was completed at Area A of the site. Remediation for the other two areas at the site, Areas B and C, was completed in December 2010. The remaining site restoration work was completed in the spring of 2011. Central Hudson has prepared a draft SMP that was submitted to DEC on June 13, 2011. Central Hudson has prepared a draft Final Engineering Report ("FER"), which was submitted to the DEC on June 17, 2011. |

|    | Site   | Status  |
|----|--|---|
| #3 | Laurel Street<br>Poughkeepsie,<br>NY         | Remediation work is complete. The CCR was approved by the DEC. As requested by the DEC, fifteen additional monitoring wells were installed and the last of the four quarterly groundwater sampling events was conducted in January 2011. Central Hudson submitted a letter work plan for additional site investigation work, as required by the DEC, which was subsequently approved by the DEC. Associated with the approved work plan, a total of nine additional down gradient monitoring wells were installed between August 22 and September 16, 2011. Quarterly groundwater sampling will resume in October 2011. |
| #4 | North Water<br>Street<br>Poughkeepsie,<br>NY | As requested by the DEC, additional land and river investigations were conducted and completed. Central Hudson has submitted a Remedial Investigation ("RI") Report which was sent to and approved by the DEC. Central Hudson is currently defining the areas where further investigations as part of the Remedial Alternative Analyses ("RAA") will be required. This additional fieldwork is anticipated to be completed during the 2011 field season.  |
| #5 | Kingston, NY                                 | Central Hudson is continuing the RI work at this site. Central Hudson is currently involved in legal proceedings seeking to obtain judicial authorization to have certain obstacles removed. This resulted in a decision and order granting Central Hudson's motion for summary judgment against the owner to remove the 'Dry Dock' within 30 days and, if he fails to do so, gives Central Hudson the right to remove the same and submit a judgment for the cost of removal. The 30-day period has expired with no action taken by the owner.   |
| #6 | Catskill, NY                                 | A revised RAA Report was submitted by Central Hudson and the final Decision Document was received from DEC on July 11, 2011.  |
| #7 | Bayeaux<br>Street<br>Poughkeepsie,<br>NY     | No further investigation or remedial action is currently required, however per the DEC this site still remains on the list for potential future investigation.  |

In the second quarter of 2008, Central Hudson updated the cost model analysis of possible remediation and future operating, maintenance, and monitoring costs for sites #2, 3, 4, 5 and 6. This cost model indicated that the potential future cost exposure for the five sites could range from amounts currently accrued up to \$166 million over the next 30 years. Information for sites #2 through #6 are detailed in the chart below (In Thousands):

| Site #  | 2008<br>Total Cost<br>Estimate | Liability<br>Recorded as<br>of 12/31/10 | Amounts<br>Spent in<br>2011(3) | Liability<br>Adjustment | Liability<br>Recorded as<br>of 9/30/11 | Current<br>Portion of<br>Liability at<br>9/30/11 | Long-Term<br>Portion of<br>Liability at<br>9/30/11 |
|---------|--------------------------------|---|--------------------------------|-------------------------|--|--|--|
| 2, 3(1) | \$ 44,700                      | \$ 1,766                                | \$ 698                         | \$ 6,440                | \$ 7,508                               | \$ 518   | \$ 6,990   |
| 4, 5,   |                                |   |                                |                         |  |  |  |
| 6(2)    | 121,000                        | 1,479                                   | 262                            | 6,310                   | 7,527                                  | 4,034  | 3,493  |
|         | \$ 165,700                     | \$ 3,245                                | \$ 960                         | \$ 12,750               | \$ 15,035                              | \$ 4,552   | \$ 10,483  |

- (1) The estimates for sites #2 and 3 are currently based on the actual completed or contracted remediation costs. However, these estimates are subject to change. The estimated liability recorded for sites #2 and 3 are based on estimates of remediation costs for the proposed clean-up plans.
- (2) No amounts have been recorded in connection with physical remediation for sites #4, 5 and 6. Absent DEC-approved remediation plans, Management cannot reasonably estimate what cost, if any, will actually be incurred. The estimated liability for sites #4, 5 and 6 are based on the latest forecast of activities at these sites in connection with preliminary investigations, site testing and development of remediation plans for these sites. For additional discussion of estimates, see paragraphs below.
- (3) Amounts spent in 2011 as shown above do not include legal fees of approximately \$8 thousand.

The potential future cost exposure for sites #4, 5 and 6 was based on partially completed remedial investigations and current DEC and NYS Department of Health ("NYSDOH") preferences related to site remediation, and are considered conceptual and preliminary. The cost model involves assumptions relating to investigation expenses, remediation costs, potential future liabilities, and post-remedial operating, maintenance and monitoring costs, and is based on a variety of factors including projections regarding the amount and extent of contamination, the location, size and use of the sites, proximity to sensitive resources, status of regulatory investigations, and information regarding remediation activities at other MGP sites in New York State. The cost model also assumes that proposed or anticipated remediation techniques are technically feasible and that proposed remediation plans receive DEC and NYSDOH approval. Currently, Central Hudson is in the process of reviewing and updating its cost model analysis of potential future cost exposure. The updated cost model could be materially different from the previous cost model based on revised assumptions, preliminary results of investigations in process at some of the sites, changes in technology relating to alternatives and changes to current laws and regulations.

Central Hudson has accrued for estimated investigation costs and remedial design costs for those sites still in the investigation phase. Upon completion of the investigation phase and the filing of results with the DEC, Central Hudson accrues for estimated remediation costs based on DEC approved methods, including an estimate of post-remediation operation, maintenance and monitoring costs. Amounts are subject to change based on current investigations, final remedial design (and associated engineering estimates), DEC and NYSDOH comments and requests, remedial design changes/negotiations, and changed or unforeseen conditions during the remediation or additional requirements following the remediation.

Central Hudson spent \$0.3 million and \$1.0 million for the three and nine months ended September 30, 2011, related to site investigation and remediation for sites #2, 3, 4, 5 and 6. On July 1, 2007, Central Hudson started recovering through a rate allowance for MGP Site Investigation and Remediation Costs. The 2010 Rate Order provided for an increase in this rate allowance to an amount of \$13.6 million over the three year settlement period ending June 30, 2013. As authorized in the 2009 Rate Order, Central Hudson also received deferral authority and subsequent recovery for amounts spent over the rate allowance from a net electric regulatory liability balance during the three year settlement period ending June 30, 2010. The total MGP Site Investigation and Remediation costs recovered through rates from July 1, 2007 through September 30, 2011 was approximately \$18.8 million, with \$1.1 million recovered in the three months ended September 30, 2011 and \$3.6 million recovered in the nine months ended September 30, 2011.

Central Hudson has put its insurers on notice and intends to seek reimbursement from its insurers for the costs of any liabilities. Certain of these insurers have denied coverage. In addition to the amounts noted above, Central Hudson recovered approximately \$1.6 million from insurance in 2011.

Future remediation activities, including operating, maintenance and monitoring and related costs may vary significantly from the assumptions used in Central Hudson's current cost estimates, and these costs could have a material adverse effect (the extent of which cannot be reasonably determined) on the financial condition, results of operations and cash flows of CH Energy Group and Central Hudson if Central Hudson were unable to recover all or a substantial portion of these costs via collection in rates from customers and/or through insurance.

- Little Britain Road property owned by Central Hudson

In 2000, Central Hudson and the DEC entered into a Voluntary Cleanup Agreement (“VCA”) whereby Central Hudson removed approximately 3,100 tons of soil and conducted groundwater sampling. Central Hudson believes that it has fulfilled its obligations under the VCA and should receive the release provided for in the VCA, but the DEC has proposed that additional ground water work be done to address groundwater sampling results that showed the presence of certain contaminants at levels exceeding DEC criteria. Central Hudson believes that such work is not necessary and has completed a soil vapor intrusion study showing that indoor air at the facility met Occupational Safety and Health Administration (“OSHA”) and NYSDOH standards; in addition, in 2008, it also installed an indoor air vapor mitigation system (that continues to operate).

In September 2010, NYSDEC personnel orally advised that Central Hudson would likely receive a letter from the NYSDEC proposing closure of the VCA, and inclusion of the site into the Brownfield Cleanup Program (“BCP”). To date that letter has not been received.

At this time Central Hudson does not have sufficient information to estimate the need for additional remediation or potential remediation costs. Central Hudson has put its insurers on notice regarding this matter and intends to seek reimbursement from its insurers for amounts, if any, for which it may become liable. Central Hudson cannot predict the outcome of this matter.

- Eltings Corners

Central Hudson owns and operates a maintenance and warehouse facility located in Lloyd, NY. In the course of Central Hudson's recent hazardous waste permit renewal process for this facility, sediment contamination was discovered within the wetland area across the street from the main property. In cooperation with NYSDEC, Central Hudson continues to investigate the nature and extent of the contamination. The extent of the contamination, as well as the timing and costs for continued investigation and future remediation efforts, cannot be reasonably estimated at this time.

- Asbestos Litigation

As of September 30, 2011, of the 3,330 asbestos cases brought against Central Hudson, 1,166 remain pending. Of the cases no longer pending against Central Hudson, 2,009 have been dismissed or discontinued without payment by Central Hudson, and Central Hudson has settled 155 cases. Central Hudson is presently unable to assess the validity of the remaining asbestos lawsuits; however, based on information known to Central Hudson at this time, including Central Hudson's experience in settling asbestos cases and in obtaining dismissals of asbestos cases, Central Hudson believes that the costs which may be incurred in connection with the remaining lawsuits will not have a material adverse effect on the financial position, results of operations or cash flows of either CH Energy Group or Central Hudson.

#### CHEC

During the nine months ended September 30, 2011, Griffith spent \$0.5 million on remediation efforts in Maryland, Virginia and Connecticut.

Griffith's reserve for environmental remediation is \$2.1 million as of September 30, 2011, of which \$0.7 million is expected to be spent in the next twelve months.

In connection with the 2009 sale of operations in certain geographic locations, Griffith agreed to indemnify the purchaser for certain claims, losses and expenses arising out of any breach by Griffith of the representations, warranties and covenants Griffith made in the sale agreement, certain environmental matters and all liabilities retained by Griffith. Griffith's indemnification obligation is subject to a number of limitations, including a five-year limitation within which certain claims must be brought, an aggregate deductible of \$0.8 million applicable to certain types of non-environmental claims and other deductibles applicable to certain specific environmental claims, and caps on Griffith's liability with respect to certain of the indemnification obligations. The sale agreement includes an aggregate cap of \$5.7 million on Griffith's obligation to indemnify the purchaser for breaches of many of Griffith's representations and warranties and for certain environmental liabilities. In 2009, the Company reserved \$2.6 million for environmental remediation costs it may be obligated to pay based on its indemnification obligations under the sale agreement. To date, Griffith has paid approximately \$0.6 million under its environmental remediation cost obligation. In the first quarter of 2011, Griffith reduced the reserve by \$0.6 million based on the completion of an environmental study. The reserve balance as of September 30, 2011 related to the divestiture is \$1.3 million. Management believes this is the most likely amount Griffith would pay with respect to its indemnification obligations under the sale agreement.



Other Matters

Central Hudson and Griffith are involved in various other legal and administrative proceedings incidental to their businesses, which are in various stages. While these matters collectively could involve substantial amounts, based on the facts currently known, it is the opinion of Management that their ultimate resolution will not have a material adverse effect on either of CH Energy Group's or the individual segment's financial positions, results of operations or cash flows.

CH Energy Group and Central Hudson expense legal costs as incurred.

- 42 -

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NOTE 13 – Segments and Related Information

CH Energy Group's reportable operating segments are the regulated electric utility business and regulated natural gas utility business of Central Hudson and the unregulated fuel distribution business of Griffith. Other activities of CH Energy Group, which do not constitute a business segment, include CHEC's renewable energy investments and the holding company's activities, which consist primarily of financing its subsidiaries, and are reported under the heading "Other Businesses and Investments."

Certain additional information regarding these segments is set forth in the following tables. General corporate expenses and Central Hudson's property common to both electric and natural gas segments have been allocated in accordance with practices established for regulatory purposes.

Central Hudson's and Griffith's operations are seasonal in nature and weather-sensitive and, as a result, financial results for interim periods are not necessarily indicative of trends for a twelve-month period. Demand for electricity typically peaks during the summer, while demand for natural gas and heating oil typically peaks during the winter.

In the following segment charts for CH Energy Group, information related to Griffith represents continuing operations unless otherwise noted.

CH Energy Group Segment Disclosure  
(In Thousands)

|   | Three Months Ended September 30, 2011 |                |             |   |              |            |
|---|---------------------------------------|----------------|-------------|---|--------------|------------|
|   | Segments                              |                |             | Other<br>Businesses<br>and<br>Investments | Eliminations | Total      |
|   | Central Hudson<br>Electric            | Natural<br>Gas | Griffith    |   |              |            |
| Revenues from external customers \$               | 149,706                               | \$ 18,462      | \$ 52,587   | \$ 300                                    | \$ -         | \$ 221,055 |
| Intersegment revenues                             | 3                                     | 139            | -           | -   | (142)        | -          |
| Total revenues                                    | 149,709                               | 18,601         | 52,587      | 300                                       | (142)        | 221,055    |
| Operating income (loss)                           | 24,807                                | 257            | (3,169)     | 108                                       | -            | 22,003     |
| Interest and investment income                    | 910                                   | 299            | -           | 614                                       | (597) (1)    | 1,226      |
| Interest charges                                  | 5,878                                 | 1,523          | 610         | 3,741                                     | (597) (1)    | 11,155     |
| Income (loss) before income taxes                 | 20,377                                | (859)          | (3,826)     | (7,231)                                   | -            | 8,461      |
| Net income (loss) attributable to CH Energy Group | 12,060                                | (637)          | (2,269) (3) | (826) (2)                                 | -            | 8,328      |
| Segment assets at September 30                    | 1,211,879                             | 364,160        | 98,890      | 29,371                                    | (2,280)      | 1,702,020  |

(1) This represents the elimination of inter-company interest income (expense) generated from lending activities between CH Energy Group (the holding company), and its subsidiaries (CHEC and Griffith).

(2) Includes net income from discontinued operations of \$3,671.

(3) Includes net loss from discontinued operations of \$12.

CH Energy Group Segment Disclosure  
(In Thousands)

|                                     | Three Months Ended September 30, 2010 |                |           |   |              |            |
|-------------------------------------|---------------------------------------|----------------|-----------|---|--------------|------------|
|                                     | Segments                              |                |           | Other<br>Businesses<br>and<br>Investments | Eliminations | Total      |
|                                     | Central Hudson<br>Electric            | Natural<br>Gas | Griffith  |   |              |            |
| Revenues from external customers \$ | 165,304                               | \$ 18,823      | \$ 39,230 | \$ 300                                    | \$ -         | \$ 223,657 |
| Intersegment revenues               | 3                                     | 6              | -         | -   | (9)          | -          |
| Total revenues                      | 165,307                               | 18,829         | 39,230    | 300                                       | (9)          | 223,657    |
| Operating income (loss)             | 21,600                                | 257            | (3,163)   | 4   | -            | 18,698     |
|                                     | 497                                   | 356            | -         | 544                                       | (544) (1)    | 853        |

|   |           |         |         |             |           |           |
|---|-----------|---------|---------|-------------|-----------|-----------|
| Interest and investment income                    |           |         |         |             |           |           |
| Interest charges                                  | 4,842     | 1,222   | 523     | 836         | (544) (1) | 6,879     |
| Income (loss) before income taxes                 | 16,832    | (781)   | (3,820) | (11,791)    | -         | 440       |
| Net income (loss) attributable to CH Energy Group | 10,112    | (614)   | (2,254) | (5,465) (2) | -         | 1,779     |
| Segment assets at September 30                    | 1,199,266 | 374,138 | 90,474  | 121,841     | (35,739)  | 1,749,980 |

(1) This represents the elimination of inter-company interest income (expense) generated from lending activities between CH Energy Group (the holding company), and its subsidiaries (CHEC and Griffith).

(2) Includes net income from discontinued operations of \$333.

CH Energy Group Segment Disclosure  
(In Thousands)

|   | Nine Months Ended September 30, 2011 |                |            |   |              | Total      |
|---|--------------------------------------|----------------|------------|---|--------------|------------|
|   | Segments                             |                |            | Other<br>Businesses<br>and<br>Investments | Eliminations |            |
|   | Central Hudson<br>Electric           | Natural<br>Gas | Griffith   |   |              |            |
| Revenues from external customers\$                | 418,511                              | \$ 127,941     | \$ 208,342 | \$ 900                                    | \$ -         | \$ 755,694 |
| Intersegment revenues                             | 13                                   | 344            | -          | -   | (357)        | -          |
| Total revenues                                    | 418,524                              | 128,285        | 208,342    | 900                                       | (357)        | 755,694    |
| Operating income                                  | 53,695                               | 15,982         | 2,314      | 307                                       | -            | 72,298     |
| Interest and investment income                    | 3,539                                | 1,107          | -          | 2,115                                     | (2,088) (1)  | 4,673      |
| Interest charges                                  | 17,626                               | 4,559          | 2,101      | 5,442                                     | (2,088) (1)  | 27,640     |
| Income (loss) before income taxes                 | 39,916                               | 12,618         | 235        | (7,258)                                   | -            | 45,511     |
| Net income (loss) attributable to CH Energy Group | 23,774                               | 7,175          | 449 (3)    | (168) (2)                                 | -            | 31,230     |
| Segment assets at September 30                    | 1,211,879                            | 364,160        | 98,890     | 29,371                                    | (2,280)      | 1,702,020  |

(1) This represents the elimination of inter-company interest income (expense) generated from lending activities between CH Energy Group (the holding company), and its subsidiaries (CHEC and Griffith).

(2) Includes net income from discontinued operations of \$3,349.

(3) Includes income from discontinued operations of \$310.

CH Energy Group Segment Disclosure  
(In Thousands)

|                                    | Nine Months Ended September 30, 2010 |                |            |   |              | Total      |
|------------------------------------|--------------------------------------|----------------|------------|---|--------------|------------|
|                                    | Segments                             |                |            | Other<br>Businesses<br>and<br>Investments | Eliminations |            |
|                                    | Central Hudson<br>Electric           | Natural<br>Gas | Griffith   |   |              |            |
| Revenues from external customers\$ | 436,362                              | \$ 120,371     | \$ 165,808 | \$ 901                                    | \$ -         | \$ 723,442 |
| Intersegment revenues              | 5                                    | 207            | -          | -   | (212)        | -          |
| Total revenues                     | 436,367                              | 120,578        | 165,808    | 901                                       | (212)        | 723,442    |
| Operating income                   | 57,862                               | 18,833         | 2,009      | 67  | -            | 78,771     |
| Interest and investment income     | 2,427                                | 1,059          | 1          | 1,642                                     | (1,642) (1)  | 3,487      |

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|  |           |         |        |             |             |           |
|--|-----------|---------|--------|-------------|-------------|-----------|
| Interest charges   | 14,975    | 3,826   | 1,619  | 2,509       | (1,642) (1) | 21,287    |
| Income (loss)<br>before income<br>taxes                    | 44,760    | 15,739  | 346    | (13,487)    | -           | 47,358    |
| Net income<br>(loss) attributable<br>to CH Energy<br>Group | 26,800    | 8,847   | 204    | (6,869) (2) | -           | 28,982    |
| Segment assets<br>at September 30                          | 1,199,266 | 374,138 | 90,474 | 121,841     | (35,739)    | 1,749,980 |

(1) This represents the elimination of inter-company interest income (expense) generated from temporary lending activities between CH Energy Group (the holding company), and its subsidiaries (CHEC and Griffith).

(2) Includes loss from discontinued operations of \$643.

## NOTE 14 - Accounting for Derivative Instruments and Hedging Activities

## Accounting for Derivatives

Central Hudson has been authorized to fully recover risk management costs through its natural gas and electricity cost adjustment charge clauses. Risk management costs are defined by the PSC as "costs associated with transactions that are intended to reduce price volatility or reduce overall costs to customers. These costs include transaction costs, and gains and losses associated with risk management instruments." The related gains and losses associated with Central Hudson's derivatives are included as part of Central Hudson's commodity cost and/or price-reconciled in its natural gas and electricity cost adjustment charge clauses, and are not designated as hedges. Additionally, Central Hudson has been authorized to fully recover the interest costs associated with its variable rate debt, which includes costs and gains or losses associated with its interest rate cap contracts. As a result, these derivative activities at Central Hudson do not impact earnings.

On March 18, 2011, Central Hudson entered into a total return master swap agreement with Bank of America with the intent to enter into future swap contracts to exchange total returns on CH Energy Group, Inc. common stock for fixed payments to Bank of America. The purpose is to reduce the volatility to earnings from phantom shares under CH Energy Group's Directors and Executives Deferred Compensation Plan. Based on the terms and conditions of the swap agreement, the fair value of the swaps are designated as Level 2 within the fair value hierarchy. Quarterly valuations are made on the last day of the quarter, at which time a net cash settlement will be recorded. Therefore the fair value of these outstanding contracts at any quarter-end is not expected to be material. On September 30, 2011, the swap settled resulting in expense of \$0.1 million, and the notional amount of the swap to be settled at December 31, 2011 was re-priced. Year-to-date, the swap has settled resulting in income of \$0.1 million. The proceeds will be used to offset future obligations under CH Energy Group's Directors and Executives Deferred Compensation Plan.

Derivative activity related to Griffith's heating oil contracts is not material.

The percentage of Central Hudson's electric and gas requirements hedged by derivative contracts is as follows:

| Central Hudson                           | % of<br>Requirement<br>Hedged (1) |   |
|--|-----------------------------------|---|
| <b>Electric Derivative Contracts:</b>    |                                   |   |
| October 2011 – December 2011             | 20.8                              | % |
| 2012                                     | 23.4                              | % |
| <b>Natural Gas Derivative Contracts:</b> |                                   |   |
| November 2011 – March 2012               | 31.5                              | % |

(1) Projected coverage as of September 30, 2011.

## Derivative Risks

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

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

To help limit the credit exposure of their derivatives, both Central Hudson and Griffith have entered into master netting agreements with counterparties whereby contracts in a gain position can be offset against contracts in a loss position. Of the eighteen total agreements held by both companies, twelve contain credit-risk related contingent features. As of September 30, 2011, there were 22 open derivative contracts in liability positions under these twelve master netting agreements containing credit-risk related contingent features. The circumstances that could trigger these features, the aggregate fair value of the derivative contracts that contain contingent features and the amount that would be required to settle these instruments on September 30, 2011 if the contingent features were triggered, are summarized in the table below.

Contingent Contracts  
(Dollars In Thousands)

| Triggering Event  | As of September 30, 2011   |                                    |   |
|---|--|------------------------------------|---|
|   | # of<br>Contracts<br>in a<br>Liability<br>Position<br>Containing<br>the<br>Triggering<br>Feature | Gross Fair<br>Value of<br>Contract | Cost to<br>Settle if<br>Contingent<br>Feature is<br>Triggered<br>(net of<br>collateral) |
| <b>Central Hudson:</b>  |  |                                    |   |
| Change in Ownership (CHEG ownership of CHG&E falls below 51%) | 4  | \$(231 )                           | \$(231 )  |
| Credit Rating Downgrade (to below BBB-)                       | 18   | (716 )                             | (716 )  |
| Adequate Assurance(1)   | -  | -                                  | -   |
| <b>Total Central Hudson</b>                                   | <b>22</b>  | <b>\$(947 )</b>                    | <b>\$(947 )</b>   |
| <b>Griffith:</b>  |  |                                    |   |
| Change in Ownership (CHEG ownership of CHEC falls below 51%)  | -  | -                                  | -   |
| Adequate Assurance(1)   | -  | -                                  | -   |
| <b>Total Griffith</b>   | <b>-</b>   | <b>-</b>                           | <b>-</b>  |
| <b>Total CH Energy Group</b>                                  | <b>22</b>  | <b>\$(947 )</b>                    | <b>\$(947 )</b>   |

(1) If the counterparty has reasonable grounds to believe Central Hudson's or Griffith's creditworthiness or performance has become unsatisfactory, it can request collateral in an amount determined by the counterparty, not to exceed the amount required to settle the contract.

CH Energy Group and Central Hudson have elected gross presentation for their derivative contracts under master netting agreements and collateral positions. On September 30, 2011, neither Central Hudson nor Griffith had collateral posted against the fair value amount of derivatives.

The fair value of CH Energy Group's and Central Hudson's derivative instruments and their location in the respective Balance Sheets are summarized in the table below, followed by a summarization of their effect on the respective Statements of Income. For additional information regarding Central Hudson's physical hedges, see the discussion following the caption "Electricity Purchase Commitments" in Note 12 - "Commitments and Contingencies."



## Gross Fair Value of Derivative Instruments

Derivative contracts are measured at fair value on a recurring basis. As of September 30, 2011, December 31, 2010 and September 30, 2010, CH Energy Group's and Central Hudson's derivative assets and liabilities by category and hierarchy level are as follows (In Thousands):

| Asset or Liability Category                          | Fair Value  | Quoted<br>Prices in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|--|-------------|---|---|--|
| As of September 30, 2011                             |             |   |   |  |
| Assets:  |             |   |   |  |
| Derivative Contracts:                                |             |   |   |  |
| Griffith - heating oil                               | 42          | -   | 42  | -  |
| Total CH Energy Group Assets                         | \$42        | \$-   | \$42  | \$ -   |
| Liabilities:   |             |   |   |  |
| Derivative Contracts:                                |             |   |   |  |
| Central Hudson - electric                            | \$(14,702 ) | \$-   | \$-   | \$ (14,702 )                                       |
| Central Hudson - natural gas                         | (1,269 )    | -   | (1,269 )  | -  |
| Total CH Energy Group and Central Hudson Liabilities | \$(15,971 ) | \$-   | \$(1,269 )  | \$ (14,702 )                                       |
| As of December 31, 2010                              |             |   |   |  |
| Assets:  |             |   |   |  |
| Derivative Contracts:                                |             |   |   |  |
| Central Hudson - natural gas                         | \$34        | \$-   | \$34  | \$ -   |
| Total Central Hudson Assets                          | \$34        | \$-   | \$34  | \$ -   |
| Griffith - heating oil                               | \$112       | \$-   | \$112   | \$ -   |
| Total CH Energy Group Assets                         | \$146       | \$-   | \$146   | \$ -   |
| Liabilities:   |             |   |   |  |
| Derivative Contracts:                                |             |   |   |  |
| Central Hudson - electric                            | \$(23,872 ) | \$-   | \$-   | \$ (23,872 )                                       |
| Central Hudson - natural gas                         | (1,009 )    | -   | (1,009 )  | -  |
| Total CH Energy Group and Central Hudson Liabilities | \$(24,881 ) | \$-   | \$(1,009 )  | \$ (23,872 )                                       |
| As of September 30, 2010                             |             |   |   |  |
| Assets:  |             |   |   |  |
| Derivative Contracts:                                |             |   |   |  |
| Griffith - heating oil                               | \$86        | \$-   | \$86  | \$ -   |
| Total CH Energy Group Assets                         | \$86        | \$-   | \$86  | \$ -   |

Liabilities:

Derivative Contracts:

|  |             |     |            |              |
|--|-------------|-----|------------|--------------|
| Central Hudson - electric                            | \$(33,130 ) | \$- | \$-        | \$ (33,130 ) |
| Central Hudson - natural gas                         | (2,054 )    | -   | (2,054 )   | -            |
| Total CH Energy Group and Central Hudson Liabilities | \$(35,184 ) | \$- | \$(2,054 ) | \$ (33,130 ) |

- 49 -

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The table listed below provides a reconciliation of the beginning and ending net balances for assets and liabilities measured at fair value and classified as Level 3 in the fair value hierarchy (In Thousands):

|                                    | Three Months Ended |             | Nine Months Ended |             |
|------------------------------------|--------------------|-------------|-------------------|-------------|
|                                    | September 30,      |             | September 30,     |             |
|                                    | 2011               | 2010        | 2011              | 2010        |
| Balance at Beginning of Period     | \$(16,515 )        | \$(23,476 ) | \$(23,872 )       | \$(11,983 ) |
| Unrealized gains (losses)          | 1,813              | (9,654 )    | 9,170             | (21,147 )   |
| Realized gains (losses)            | (2,564 )           | 739         | (7,734 )          | (5,600 )    |
| Purchases                          | -                  | -           | -                 | -           |
| Issuances                          | -                  | -           | -                 | -           |
| Sales and settlements              | 2,564              | (739 )      | 7,734             | 5,600       |
| Transfers in and/or out of Level 3 | -                  | -           | -                 | -           |
| Balance at End of Period           | \$(14,702 )        | \$(33,130 ) | \$(14,702 )       | \$(33,130 ) |

The amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or lossess relating to derivatives still held at end of period

|  |     |     |     |     |
|--|-----|-----|-----|-----|
|  | \$- | \$- | \$- | \$- |
|--|-----|-----|-----|-----|

The company did not have any transfers into or out of Levels 1 or 2.

#### The Effect of Derivative Instruments on the Statements of Income

For the three and nine months ended September 30, 2011, all income statement activity for Griffith heating oil call option contracts was not material. Effective October 1, 2009, Griffith de-designated all open derivative positions. The loss reclassified from accumulated other comprehensive income in 2010, as these de-designated derivatives have settled, was not material.

For the three and nine months ended September 30, 2011, neither CH Energy Group nor Central Hudson had derivatives designated as hedging instruments. The following table summarizes the effects of CH Energy Group and Central Hudson derivatives on the statements of income (In Thousands):

|                                   | Amount of Gain/(Loss) Recognized in the Income Statement |       |                       |            | Location of Gain/(Loss)                                 |
|-----------------------------------|--|-------|-----------------------|------------|---|
|                                   | Three Months Ended                                       |       | Nine Months Ended     |            |   |
|                                   | September 30,<br>2011                                    | 2010  | September 30,<br>2011 | 2010       |   |
| <b>Central Hudson:</b>            |  |       |                       |            |   |
| Electricity swap contracts        | \$(2,564 )   | \$739 | \$(7,734 )            | \$(5,600 ) | Regulatory asset(1)                                     |
| Natural gas swap contracts        | -  | -     | (1,385 )              | (1,778 )   | Regulatory asset(1)                                     |
|                                   |  |       |                       |            | Interest on regulatory assets and other interest income |
| Total return swap contracts       | (59 )  | -     | 128                   | -          |   |
| Total Central Hudson              | (2,623 )   | 739   | (8,991 )              | (7,378 )   |   |
| <b>Griffith:</b>                  |  |       |                       |            |   |
| Heating oil call option contracts | 60   | -     | (22 )                 | (52 )      | Purchased petroleum                                     |
| Total Griffith                    | 60   | -     | (22 )                 | (52 )      |   |
| Total CH Energy Group             | \$(2,563 )   | \$739 | \$(9,013 )            | \$(7,430 ) |   |

(1) Realized gains and losses on Central Hudson's derivative instruments are conveyed to or recovered from customers through PSC authorized deferral accounting mechanisms, with an offset in revenue and on the balance sheet, and no impact on results of operations.

## NOTE 15 – Other Fair Value Measurements

## Other Assets Recorded at Fair Value

In addition to the derivatives reported at fair value discussed in Note 14 – “Accounting for Derivative Instruments and Hedging Activities”, CH Energy Group reports certain other assets at fair value in the Consolidated Balance Sheets, including the investments of CH Energy Group’s Directors and Executives Deferred Compensation Plan. The following table summarizes the amount reported at fair value related to these assets as of September 30, 2011, December 31, 2010 and September 30, 2010 (In Thousands):

| Asset Category               | Fair Value | Quoted<br>Prices in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|------------------------------|------------|--|---|--|
| As of September 30, 2011     |            |  |   |  |
| Other investments            | \$3,870    | \$3,870  | \$-   | \$ -   |
| As of December 31, 2010      |            |  |   |  |
| Other investments            | \$3,912    | \$3,912  | \$-   | \$ -   |
| Lyonsdale property and plant | \$6,685    | \$-  | \$6,685   | \$ -   |
| As of September 30, 2010     |            |  |   |  |
| Other investments            | \$-        | \$-  | \$-   | \$ -   |

As of September 30, 2011 and December 31, 2010, a portion of the trust assets for the funding of CH Energy Group’s Directors and Executives Deferred Compensation Plan are invested in mutual funds, which are measured at fair value on a recurring basis. These investments are valued at quoted market prices in active markets and as such are Level 1 investments as defined in the fair value hierarchy. These amounts are included in the line titled “Other investments” within the Deferred Charges and Other Assets section of the CH Energy Group Consolidated and Central Hudson Balance Sheets.

As a result of an impairment charge recognized in 2010, as of December 31, 2010, Lyonsdale property and plant of \$6.7 million was recorded at fair value. The fair value of the assets was calculated based on market participant bids for the purchase of Lyonsdale, which were received in early 2011. Prior to December 31, 2010, Lyonsdale property and plant was stated at amortized cost. Effective May 1, 2011, Lyonsdale was sold. See Note 5 – “Acquisitions, Divestitures and Investments” for further details regarding the sale.

CHEC recorded a reserve against the full balance of its \$10 million note receivable from Cornhusker Holdings in the third quarter of 2010. As of September 30, 2011, Management believes the fair value of this note receivable remains at zero and therefore appropriately reserved.

In the third quarter of 2011, CHEC recorded an impairment loss for the full value of its investment in CH-Community Wind. As of September 30, 2011, the fair value of this investment is zero. See Note 5 – “Acquisitions, Divestitures and Investments” for further details regarding the impairment.

#### Other Fair Value Disclosure

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

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

Cash and Cash Equivalents: Carrying amount

Long-term Debt: Quoted market prices for the same or similar issues

Notes Payable: Carrying amount

- 53 -

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Long-term Debt Maturities and Fair Value - CH Energy Group  
(Dollars in Thousands)

September 30, 2011

|                                   | Expected Maturity Date |           |           |           |          |            | Total      | Fair Value |
|-----------------------------------|------------------------|-----------|-----------|-----------|----------|------------|------------|------------|
|                                   | 2011                   | 2012      | 2013      | 2014      | 2015     | Thereafter |            |            |
| Fixed Rate:                       | \$ 34,341              | \$ 37,007 | \$ 31,076 | \$ 21,650 | \$ 1,230 | \$ 357,835 | \$ 483,139 | \$ 540,896 |
| Estimated Effective Interest Rate | 6.86%                  | 6.71%     | 6.92%     | 5.46%     | 6.86%    | 5.28%      | 5.54%      |            |
| Variable Rate:                    | \$ -                   | \$ -      | \$ -      | \$ -      | \$ -     | \$ 33,700  | \$ 33,700  | \$ 33,700  |
| Estimated Effective Interest Rate |                        |           |           |           |          | 0.38%      | 0.38%      |            |
| Total Debt Outstanding            |                        |           |           |           |          |            | \$ 516,839 | \$ 574,596 |
| Estimated Effective Interest Rate |                        |           |           |           |          |            |            | 5.18%      |

December 31, 2010

|                                   | Expected Maturity Date |           |           |           |          |            | Total      | Fair Value |
|-----------------------------------|------------------------|-----------|-----------|-----------|----------|------------|------------|------------|
|                                   | 2011                   | 2012      | 2013      | 2014      | 2015     | Thereafter |            |            |
| Fixed Rate:                       | \$ 941                 | \$ 37,007 | \$ 31,076 | \$ 41,650 | \$ 1,230 | \$ 358,296 | \$ 470,200 | \$ 489,660 |
| Estimated Effective Interest Rate | 6.86%                  | 6.71%     | 6.92%     | 6.02%     | 6.86%    | 5.54%      | 5.78%      |            |
| Variable Rate:                    | \$ -                   | \$ -      | \$ -      | \$ -      | \$ -     | \$ 33,700  | \$ 33,700  | \$ 33,700  |
| Estimated Effective Interest Rate |                        |           |           |           |          | 0.46%      | 0.46%      |            |
| Total Debt Outstanding            |                        |           |           |           |          |            | \$ 503,900 | \$ 523,360 |
| Estimated Effective Interest Rate |                        |           |           |           |          |            |            | 5.42%      |

September 30, 2010

|                                   | Expected Maturity Date |        |           |           |           |            | Total      | Fair Value |
|-----------------------------------|------------------------|--------|-----------|-----------|-----------|------------|------------|------------|
|                                   | 2010                   | 2011   | 2012      | 2013      | 2014      | Thereafter |            |            |
| Fixed Rate:                       | \$ -                   | \$ 941 | \$ 37,007 | \$ 31,076 | \$ 41,650 | \$ 277,376 | \$ 388,050 | \$ 432,746 |
| Estimated Effective Interest Rate | - %                    | 6.86%  | 6.71%     | 6.93%     | 6.02%     | 5.82%      | 6.02%      |            |
| Variable Rate:                    | \$ -                   | \$ -   | \$ -      | \$ -      | \$ -      | \$ 115,850 | \$ 115,850 | \$ 115,850 |
| Estimated Effective Interest Rate |                        |        |           |           |           | 0.45%      | 0.45%      |            |
| Total Debt Outstanding            |                        |        |           |           |           |            | \$ 503,900 | \$ 548,596 |
| Estimated Effective Interest Rate |                        |        |           |           |           |            |            | 4.74%      |





Long-term Debt Maturities and Fair Value - Central Hudson  
(Dollars in Thousands)

September 30, 2011

|                                   | Expected Maturity Date |           |           |           |      |            | Total      | Fair Value |
|-----------------------------------|------------------------|-----------|-----------|-----------|------|------------|------------|------------|
|                                   | 2011                   | 2012      | 2013      | 2014      | 2015 | Thereafter |            |            |
| Fixed Rate:                       | \$ 33,400              | \$ 36,000 | \$ 30,000 | \$ 14,000 | \$ - | \$ 340,203 | \$ 453,603 | \$ 505,472 |
| Estimated Effective Interest Rate | - %                    | 6.71%     | 6.93%     | 4.81%     | - %  | 5.21%      | 5.46%      |            |
| Variable Rate:                    | \$ -                   | \$ -      | \$ -      | \$ -      | \$ - | \$ 33,700  | \$ 33,700  | \$ 33,700  |
| Estimated Effective Interest Rate |                        |           |           |           |      | 0.38%      | 0.38%      |            |
| Total Debt Outstanding            |                        |           |           |           |      |            | \$ 487,303 | \$ 539,172 |
| Estimated Effective Interest Rate |                        |           |           |           |      |            |            | 5.07%      |

December 31, 2010

|                                   | Expected Maturity Date |           |           |           |      |            | Total      | Fair Value |
|-----------------------------------|------------------------|-----------|-----------|-----------|------|------------|------------|------------|
|                                   | 2011                   | 2012      | 2013      | 2014      | 2015 | Thereafter |            |            |
| Fixed Rate:                       | \$ -                   | \$ 36,000 | \$ 30,000 | \$ 14,000 | \$ - | \$ 340,200 | \$ 420,200 | \$ 432,800 |
| Estimated Effective Interest Rate | - %                    | 6.71%     | 6.93%     | 4.81%     | - %  | 5.47%      | 5.66%      |            |
| Variable Rate:                    | \$ -                   | \$ -      | \$ -      | \$ -      | \$ - | \$ 33,700  | \$ 33,700  | \$ 33,700  |
| Estimated Effective Interest Rate |                        |           |           |           |      | 0.46%      | 0.46%      |            |
| Total Debt Outstanding            |                        |           |           |           |      |            | \$ 453,900 | \$ 466,500 |
| Estimated Effective Interest Rate |                        |           |           |           |      |            |            | 5.28%      |

September 30, 2010

|                                   | Expected Maturity Date |      |           |           |           |            | Total      | Fair Value |
|-----------------------------------|------------------------|------|-----------|-----------|-----------|------------|------------|------------|
|                                   | 2010                   | 2011 | 2012      | 2013      | 2014      | Thereafter |            |            |
| Fixed Rate:                       | \$ -                   | \$ - | \$ 36,000 | \$ 30,000 | \$ 14,000 | \$ 258,050 | \$ 338,050 | \$ 373,559 |
| Estimated Effective Interest Rate | - %                    | - %  | 6.71%     | 6.93%     | 4.81%     | 5.75%      | 5.92%      |            |
| Variable Rate:                    | \$ -                   | \$ - | \$ -      | \$ -      | \$ -      | \$ 115,850 | \$ 115,850 | \$ 115,850 |
| Estimated Effective Interest Rate |                        |      |           |           |           | 0.45%      | 0.45%      |            |
| Total Debt Outstanding            |                        |      |           |           |           |            | \$ 453,900 | \$ 489,409 |
| Estimated Effective Interest Rate |                        |      |           |           |           |            |            | 4.52%      |



NOTE 16 – Subsequent Events

In addition to items disclosed in the footnotes, CH Energy Group has performed an evaluation of events subsequent to September 30, 2011 through the date the financial statements were issued and noted three additional items to disclose.

On October 19, 2011, Central Hudson entered into a new \$150 million committed revolving credit facility with JPMorgan Chase Bank, N.A., Bank of America, N.A., HSBC Bank USA, N.A., KeyBank National Association and RBS Citizens Bank, N.A. as the participating banks. The new credit facility has a term of up to five years. The existing \$125 million facility was terminated as of the effective date of the new agreement.

Subsequent to the end of the third quarter, Griffith acquired two fuel distribution and service companies for a total of approximately \$1.2 million. The purchase price of the two companies included an immaterial amount for tangible assets and \$1.1 million for intangible assets of which approximately \$0.5 million is goodwill.

On October 29, 2011, Central Hudson experienced its third largest storm event in Company history in which approximately 156,000 electric customers were affected. Although a final determination cannot be made at this time, Central Hudson estimates that this storm event is likely to exceed the level necessary for deferral of incremental costs.

ITEM 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

EXECUTIVE SUMMARY

This MD&A should be read in conjunction with the third quarter Financial Statements and the notes thereto and the MD&A in Item 7 of the Companies' combined Annual Report on Form 10-K for the year ended December 31, 2010; and the MD&A in Part I, Item 2 of the Companies' combined Quarterly Report on Form 10-Q for the period ended March 31, 2011 and June 30, 2011.

Business Overview

CH Energy Group is a holding company with four business units:

Business Segments:

- (1) Central Hudson's regulated electric utility business;
- (2) Central Hudson's regulated natural gas utility business;
- (3) Griffith's fuel distribution business;

Other Businesses and Investments:

- (4) CHEC's renewable energy investments and the holding company's activities, which consist primarily of financing its subsidiaries.

CH Energy Group's mission is to provide electricity, natural gas, petroleum and related services to an expanding customer base in a safe, reliable, courteous and affordable manner; to produce growing financial returns for shareholders; to foster a culture that encourages employees to reach their full potential; and to be a good corporate citizen.

Strategy

Offer an attractive risk adjusted return to CH Energy Group shareholders. Our plan is to:

- Concentrate on energy distribution through Central Hudson in the Mid-Hudson Valley and through Griffith in the Mid-Atlantic region
  - Invest primarily in utility electric and natural gas transmission and distribution
    - Focus on risk management
    - Limit commodity exposure
  - Manage regulatory affairs effectively
- Maintain a financial profile that supports a credit rating in the "A" category
- Target stable and predictable earnings, with growth trend expectations of 5% or more per year off a base of \$2.76 in 2009

- Provide an annualized common stock dividend that is the higher of \$2.22/share or 65% to 70% of annual earnings

#### Implementation

During 2011, CH Energy Group acted upon its 2010 announced strategy transition and began to divest its investments in the renewable energy industry through CHEC. Year-to-date, CHEC has divested its three largest renewable energy investments; Lyonsdale, Shirley Wind and CH-Auburn. The sale of these investments resulted in a combined net increase to earnings of \$3.1 million, which includes the tax benefits of federal grants received. These divestitures represent a continued de-risking of the business. Proceeds from the sale of these investments were used primarily for the repurchase of outstanding Common Stock of CH Energy Group and debt repayment. As of September 30, 2011, 948,676 shares of CH Energy Group stock were repurchased. Additionally, a portion of the proceeds from the sale of Shirley Wind was used to pay down private placement debt at CH Energy Group Holding Company. These transactions will result in a reduction of the volatility of CH Energy Group's earnings.

The remaining three investments in renewable energy, totaling \$4.7 million, are not considered a part of the core business, should not require significant management oversight, and are not expected to have any further capital invested in them. Management intends to hold these remaining investments, but will continue to monitor market conditions to evaluate the fair market value of these investments and consider whether the opportunity exists to create greater shareholder value through divestitures. Earnings impacts associated with these investments are not a reflection of the potential earnings growth of CH Energy Group and will not impact CH Energy Group's ability to achieve its sustainable earnings and dividend objectives.

CHEC's \$4.7 million investment in CH-Greentree, a 100% equity interest in a molecular gate used to remove nitrogen from landfill gas, generates revenues from the lease of the gate to the landfill project owner. Currently, the project is current on all of its lease payments to CH-Greentree. Due to the effects of the economic slowdown, less municipal solid waste is being delivered to the landfill, and along with sludge from hydraulic fracturing which is being delivered, less gas is being produced and sold. In response to these operational challenges, the project is seeking to renegotiate its current debt obligations to improve its future cash flows in order to meet its financial obligations. If the project is no longer able to meet its lease obligations to CH-Greentree, Management has certain remedies available, including removing the molecular gate, seeking an alternative landfill, or selling the molecular gate. Management will continue to monitor this matter, however, Management believes that this will not impact its ability to achieve the financials goals defined in the strategy. For further discussions relating to the impact of the change in strategy on CHEC's renewable energy investments, see Note 5 – "Acquisitions, Divestitures and Investments."

Contributions by respective business units to operating revenues and net income for the three and nine months ended September 30, 2011 and 2010 are discussed in the Results of Operations section of this Management Discussion and Analysis. There are no significant updates to the strategy specifically focused on either of the business units Central Hudson or Griffith since the Annual Report on Form 10-K for the year ended December 31, 2010.

On September 23, 2011, the Board of Directors of CH Energy Group declared a quarterly dividend of 55.5 cents per share. This dividend is an increase from the previously consistent 54 cents per share declared to shareholders each quarter since 1998. This increase is consistent with CH Energy Group's strategy outlined above and a result of the successful progress of the strategy transition.

- 59 -

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## EARNINGS PER SHARE AND OVERVIEW OF THIRD QUARTER AND YEAR-TO-DATE RESULTS

The following discussion and analyses include explanations of significant changes in revenues and expenses between the three and nine months ended September 30, 2011, and 2010, for Central Hudson's regulated electric and natural gas businesses, Griffith, and the Other Businesses and Investments.

The discussions and tables below present the change in earnings of CH Energy Group's business units in terms of earnings for each outstanding share of CH Energy Group's Common Stock. Management believes that expressing the results in terms of the impact on shares of CH Energy Group is useful to investors because it shows the relative contribution of the various business units to CH Energy Group's earnings. This information is considered a non-GAAP financial measure and not an alternative to earnings per share determined on a consolidated basis, which is the most directly comparable GAAP measure. Additionally, Management believes that the disclosure of Significant Events within each business unit provides investors with the context around the Company's results that is important in enabling them to ascertain the likelihood that past performance is indicative of future performance. A reconciliation of each business unit's earnings per share to CH Energy Group's earnings per share, determined on a consolidated basis, is included in the table below.

## CH Energy Group Consolidated

## Earnings per Share (Basic)

|   | Three Months Ended<br>September 30, |               |               | Nine Months Ended<br>September 30, |               |               |
|---|-------------------------------------|---------------|---------------|------------------------------------|---------------|---------------|
|   | 2011                                | 2010          | Change        | 2011                               | 2010          | Change        |
| Central Hudson - Electric   | \$0.79                              | \$0.64        | \$0.15        | \$1.54                             | \$1.70        | \$(0.16)      |
| Central Hudson - Natural Gas  | (0.03)                              | (0.04)        | 0.01          | 0.47                               | 0.56          | (0.09)        |
| Griffith  | (0.15)                              | (0.14)        | (0.01)        | 0.03                               | 0.01          | 0.02          |
| Other Businesses and<br>Investments                                     | (0.06)                              | (0.35)        | 0.29          | (0.01)                             | (0.43)        | 0.42          |
| <b>Total CH Energy Group<br/>Consolidated Earnings, as<br/>reported</b> | <b>\$0.55</b>                       | <b>\$0.11</b> | <b>\$0.44</b> | <b>\$2.03</b>                      | <b>\$1.84</b> | <b>\$0.19</b> |

Earnings for CH Energy Group totaled \$0.55 and \$2.03 per share for the three and nine months ended September 30, 2011.

Details by business unit were as follows:

## Central Hudson

## Earnings per Share (Basic)

|  | Three Months Ended<br>September 30, |         |                          | Nine Months Ended<br>September 30, |         |                         |
|--|-------------------------------------|---------|--------------------------|------------------------------------|---------|-------------------------|
|  | 2011                                | 2010    | Change                   | 2011                               | 2010    | Change                  |
| Central Hudson - Electric                | \$ 0.79                             | \$ 0.64 | \$ 0.15                  | \$ 1.54                            | \$ 1.70 | \$ (0.16)               |
| Central Hudson - Natural Gas             | (0.03)                              | (0.04)  | 0.01                     | 0.47                               | 0.56    | (0.09)                  |
| Total Central Hudson Earnings            | \$ 0.76                             | \$ 0.60 | \$ 0.16                  | \$ 2.01                            | \$ 2.26 | \$ (0.25)               |
|  |                                     |         | Three<br>Month<br>Change |                                    |         | Nine<br>Month<br>Change |
| Uncollectible deferral in 2010           |                                     |         | \$ -                     |                                    |         | \$ (0.14)               |
| Sales tax                                |                                     |         | -                        |                                    |         | (0.01)                  |
| Storm deferral petition disallowance     |                                     |         | -                        |                                    |         | (0.03)                  |
| Delivery revenue                         |                                     |         | 0.11                     |                                    |         | 0.32                    |
| Lower/(higher) trimming costs            |                                     |         | 0.08                     |                                    |         | (0.10)                  |
| Higher weather related restoration costs |                                     |         | (0.04)                   |                                    |         | (0.15)                  |
| Higher depreciation                      |                                     |         | (0.02)                   |                                    |         | (0.09)                  |
| Higher property and other taxes          |                                     |         | (0.02)                   |                                    |         | (0.14)                  |
| Other                                    |                                     |         | 0.05                     |                                    |         | 0.09                    |
|  |                                     |         | \$ 0.16                  |                                    |         | \$ (0.25)               |

Earnings from Central Hudson's electric and natural gas operations increased during the three months ended September 30, 2011 and decreased during the nine month period when compared to the same periods in 2010.

For the three month period, the increase in earnings per share was primarily due to higher delivery revenues and reduced expenses that resulted from an acceleration of tree trimming into the first half of 2011 to take advantage of cost savings and favorable tree trimming weather. These positives were partially reduced by the impact of expenses associated with restoring service following Tropical Storm Irene during the third quarter of 2011.

During the nine months ended September 30, 2011 as compared to the same period in 2010, the decrease in earnings was primarily due to a 2010 regulatory deferral related to uncollectible expenses, the impact of weather related service restoration and the accelerated tree trimming expenses in the first six months of 2011 discussed above. Higher delivery revenues helped to reduce the unfavorable impact of these items.

Normal increases in the cost of doing business, such as depreciation and property taxes in both periods in 2011 compared to the same periods in 2010 were covered by the higher delivery revenues discussed above.



## Griffith

## Earnings per Share (Basic)

|  | Three Months Ended<br>September 30, |           |                          | Nine Months Ended<br>September 30, |         |                         |
|--|-------------------------------------|-----------|--------------------------|------------------------------------|---------|-------------------------|
|  | 2011                                | 2010      | Change                   | 2011                               | 2010    | Change                  |
| Griffith - Fuel Distribution Earnings                | \$ (0.15)                           | \$ (0.14) | \$ (0.01)                | \$ 0.03                            | \$ 0.01 | \$ 0.02                 |
|  |                                     |           | Three<br>Month<br>Change |                                    |         | Nine<br>Month<br>Change |
| Discontinued operations                              |                                     |           | \$ -                     |                                    |         | \$ 0.02                 |
| Margin on petroleum sales                            |                                     |           | 0.01                     |                                    |         | 0.04                    |
| Weather impact on sales (including<br>hedging)       |                                     |           | -                        |                                    |         | 0.04                    |
| Weather-normalized sales<br>(including conservation) |                                     |           | (0.01)                   |                                    |         | (0.08)                  |
| Operating expenses                                   |                                     |           | -                        |                                    |         | 0.02                    |
| Other  |                                     |           | (0.01)                   |                                    |         | (0.02)                  |
|  |                                     |           | \$ (0.01)                |                                    |         | \$ 0.02                 |

Griffith's earnings decreased in the three months ended September 30, 2011 compared to the same period in 2010 due to reduced weather normalized volumes and other expenses partially offset by increased margins.

For the nine months ended September 30, 2011 compared to the same period in 2010, Griffith's earnings increased due to increased margins, colder weather and the related hedge. Additionally, a reduction to the environmental reserve related to the 2009 divestiture favorably impacted the nine month year-over-year earnings. These improvements were partially offset by lower weather normalized volumes, which Management believes is a response by customers to delivered heating oil prices which were 43% higher in 2011 compared to a similar period in 2010.

## Other Businesses and Investments

## Earnings per Share (Basic)

|  | Three Months Ended<br>September 30, |           |                          | Nine Months Ended<br>September 30, |           |                         |
|--|-------------------------------------|-----------|--------------------------|------------------------------------|-----------|-------------------------|
|  | 2011                                | 2010      | Change                   | 2011                               | 2010      | Change                  |
| Other Businesses & Investments Earnings                      | \$ (0.06)                           | \$ (0.35) | \$ 0.29                  | \$ (0.01)                          | \$ (0.43) | \$ 0.42                 |
|  |                                     |           | Three<br>Month<br>Change |                                    |           | Nine<br>Month<br>Change |
| Divested operations:   |                                     |           |                          |                                    |           |                         |
| Operations   |                                     |           | \$ (0.03)                |                                    |           | \$ -                    |
| Gain from sales  |                                     |           | 0.24                     |                                    |           | 0.20                    |
| Penalty on early retirement of debt<br>following divestiture |                                     |           | (0.11)                   |                                    |           | (0.11)                  |
| Income taxes related to 2010 deductions for<br>prior periods |                                     |           | (0.11)                   |                                    |           | (0.06)                  |
| Ethanol investment impairment in 2010                        |                                     |           | 0.44                     |                                    |           | 0.44                    |
| Wind investment impairment in 2011                           |                                     |           | (0.14)                   |                                    |           | (0.14)                  |
| Other  |                                     |           | -                        |                                    |           | 0.09                    |
|  |                                     |           | \$ 0.29                  |                                    |           | \$ 0.42                 |

The earnings of CH Energy Group Holding Company and CHEC's partnerships and other investments increased in the three and nine months ended September 30, 2011 compared to the same periods in 2010. For both periods, the year-over-year change was impacted by an impairment charge recorded on CHEC's ethanol investment in the third quarter of 2010 and an impairment charge on a wind investment in the third quarter of 2011. The net increase to earnings resulting from CHEC's sale of its investments in Shirley Wind and CH-Auburn in the third quarter favorably impacted both periods. Proceeds from the sale of these investments were used to repurchase CH Energy Group Common Stock and to pay down debt at CH Energy Group Holding Company, which provided corporate financing for these investments. As a result of the early retirement of debt, a prepayment penalty was incurred in the third quarter of 2011. The decrease noted above for income taxes relates to favorable adjustments recorded by CH Energy Group Holding Company in the third quarter of the prior year.

## RESULTS OF OPERATIONS

A breakdown by business unit of CH Energy Group's operating revenues (net of divestitures) and net income for the three and nine months ended September 30, 2011 and 2010 are illustrated below (Dollars in Thousands):

| Business Unit                       | Three Months Ended<br>September 30, 2011 |       |   |         |           |       | Three Months Ended<br>September 30, 2010 |          |   |  |  |  |
|-------------------------------------|--|-------|---|---------|-----------|-------|--|----------|---|--|--|--|
|                                     | Operating Revenues                       |       | Net Income (loss) attributable to CH Energy Group |         |           |       | Operating Revenues                       |          | Net Income (loss) attributable to CH Energy Group |  |  |  |
| Electric(1)                         | \$149,706                                | 68 %  | \$12,060  | 145 %   | \$165,304 | 74 %  | \$10,112                                 | 568 %    |   |  |  |  |
| Gas(1)                              | 18,462                                   | 8 %   | (637 )  | (8 ) %  | 18,823    | 8 %   | (614 )                                   | (34 ) %  |   |  |  |  |
| Total Central Hudson                | 168,168                                  | 76 %  | 11,423  | 137 %   | 184,127   | 82 %  | 9,498                                    | 534 %    |   |  |  |  |
| Griffith(1),(3)                     | 52,587                                   | 24 %  | (2,269 )  | (27 ) % | 39,230    | 18 %  | (2,254 )                                 | (127 ) % |   |  |  |  |
| Other Businesses and Investments(2) | 300                                      | - %   | (826 )  | (10 ) % | 300       | - %   | (5,465 )                                 | (307 ) % |   |  |  |  |
| Total CH Energy Group               | \$221,055                                | 100 % | \$8,328   | 100 %   | \$223,657 | 100 % | \$1,779                                  | 100 %    |   |  |  |  |

(1) A portion of the revenues above represent amounts collected from customers for the recovery of purchased electric and natural gas costs at Central Hudson and the cost of purchased petroleum products at Griffith and therefore have no material impact on net income. A breakout of these components is as follows:

Electric 3rd Quarter 2011: 28% cost recovery revenues + 40% other revenues = 68%

Electric 3rd Quarter 2010: 34% cost recovery revenues + 40% other revenues = 74%

Natural gas 3rd Quarter 2011: 3% cost recovery revenues + 5% other revenues = 8%

Natural gas 3rd Quarter 2010: 3% cost recovery revenues + 5% other revenues = 8%

Griffith 3rd Quarter 2011: 20% commodity costs + 4% other revenues = 24%

Griffith 3rd Quarter 2010: 14% commodity costs + 4% other revenues = 18%

(2) Net income for Other Businesses and Investments for the three months ended September 30, 2011 and 2010 includes net income from discontinued operations of \$3,671 and \$333, respectively.

(3) Net income for Griffith for the three months ended September 30, 2011 includes a loss from discontinued operations of \$12.

| Business Unit                       | Nine Months Ended<br>September 30, 2011 |       |   |        |           |       | Nine Months Ended<br>September 30, 2010 |         |   |  |  |  |
|-------------------------------------|---|-------|---|--------|-----------|-------|---|---------|---|--|--|--|
|                                     | Operating Revenues                      |       | Net Income (loss) attributable to CH Energy Group |        |           |       | Operating Revenues                      |         | Net Income (loss) attributable to CH Energy Group |  |  |  |
| Electric(1)                         | \$418,511                               | 55 %  | \$23,774  | 76 %   | \$436,362 | 60 %  | \$26,800                                | 92 %    |   |  |  |  |
| Gas(1)                              | 127,941                                 | 17 %  | 7,175   | 23 %   | 120,371   | 17 %  | 8,847                                   | 31 %    |   |  |  |  |
| Total Central Hudson                | 546,452                                 | 72 %  | 30,949  | 99 %   | 556,733   | 77 %  | 35,647                                  | 123 %   |   |  |  |  |
| Griffith(1),(3)                     | 208,342                                 | 28 %  | 449   | 2 %    | 165,808   | 23 %  | 204                                     | 1 %     |   |  |  |  |
| Other Businesses and Investments(2) | 900                                     | - %   | (168 )  | (1 ) % | 901       | - %   | (6,869 )                                | (24 ) % |   |  |  |  |
| Total CH Energy Group               | \$755,694                               | 100 % | \$31,230  | 100 %  | \$723,442 | 100 % | \$28,982                                | 100 %   |   |  |  |  |

- (1) A portion of the revenues above represent amounts collected from customers for the recovery of purchased electric and natural gas costs at Central Hudson and the cost of purchased petroleum products at Griffith and therefore have no material impact on net income. A breakout of these components is as follows:
- Electric YTD 2011: 22% cost recovery revenues + 33% other revenues = 55%
  - Electric YTD 2010: 27% cost recovery revenues + 33% other revenues = 60%
  - Natural gas YTD 2011: 8% cost recovery revenues + 9% other revenues = 17%
  - Natural gas YTD 2010: 8% cost recovery revenues + 9% other revenues = 17%
  - Griffith YTD 2011: 22% commodity costs + 6% other revenues = 28%
  - Griffith YTD 2010: 17% commodity costs + 6% other revenues = 23%
- (2) Net income for Other Businesses and Investments for the nine months ended September 30, 2011 and 2010 includes net income from discontinued operations of \$3,349 and (\$643), respectively.
- (3) Net income for Griffith for the nine months ended September 30, 2011 includes net income from discontinued operations of \$310.

## Central Hudson

The following discussions and analyses include explanations of significant changes in operating revenues, operating expenses, volumes delivered, other income, interest charges, and income taxes between the three and nine months ended September 30, 2011 and the three and nine months ended 2010 for Central Hudson's regulated electric and natural gas businesses.

Income Statement Variances  
(Dollars In Thousands)

|   | Three Months Ended    |            | Increase/(Decrease) in |           |
|---|-----------------------|------------|------------------------|-----------|
|   | September 30,<br>2011 | 2010       | Amount                 | Percent   |
| Operating Revenues                          | \$ 168,168            | \$ 184,127 | \$(15,959 )            | (8.7 ) %  |
| Operating Expenses:                         |                       |            |                        |           |
| Purchased electricity, fuel and natural gas | 67,071                | 84,107     | (17,036 )              | (20.3 ) % |
| Depreciation and amortization               | 8,909                 | 8,526      | 383                    | 4.5 %     |
| Other operating expenses                    | 67,124                | 69,637     | (2,513 )               | (3.6 ) %  |
| Total Operating Expenses                    | 143,104               | 162,270    | (19,166 )              | (11.8 ) % |
| Operating Income                            | 25,064                | 21,857     | 3,207                  | 14.7 %    |
| Other Income, net                           | 1,855                 | 258        | 1,597                  | 619.0 %   |
| Interest Charges                            | 7,401                 | 6,064      | 1,337                  | 22.0 %    |
| Income before income taxes                  | 19,518                | 16,051     | 3,467                  | 21.6 %    |
| Income Taxes                                | 7,853                 | 6,311      | 1,542                  | 24.4 %    |
| Net income                                  | \$ 11,665             | \$ 9,740   | \$ 1,925               | 19.8 %    |

|   | Nine Months Ended     |            | Increase/(Decrease) in |           |
|---|-----------------------|------------|------------------------|-----------|
|   | September 30,<br>2011 | 2010       | Amount                 | Percent   |
| Operating Revenues                          | \$ 546,452            | \$ 556,733 | \$(10,281 )            | (1.8 ) %  |
| Operating Expenses:                         |                       |            |                        |           |
| Purchased electricity, fuel and natural gas | 232,221               | 256,032    | (23,811 )              | (9.3 ) %  |
| Depreciation and amortization               | 26,791                | 25,362     | 1,429                  | 5.6 %     |
| Other operating expenses                    | 217,763               | 198,644    | 19,119                 | 9.6 %     |
| Total Operating Expenses                    | 476,775               | 480,038    | (3,263 )               | (0.7 ) %  |
| Operating Income                            | 69,677                | 76,695     | (7,018 )               | (9.2 ) %  |
| Other Income, net                           | 5,042                 | 2,605      | 2,437                  | 93.6 %    |
| Interest Charges                            | 22,185                | 18,801     | 3,384                  | 18.0 %    |
| Income before income taxes                  | 52,534                | 60,499     | (7,965 )               | (13.2 ) % |
| Income Taxes                                | 20,858                | 24,125     | (3,267 )               | (13.5 ) % |
| Net income                                  | \$ 31,676             | \$ 36,374  | \$(4,698 )             | (12.9 ) % |

## Delivery Volumes

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

The following chart reflects the change in the level of electric and natural gas deliveries for Central Hudson in the three and nine months ended September 30, 2011 compared to the same period in 2010. Deliveries of electricity and natural gas to residential and commercial customers have historically contributed the most to Central Hudson's earnings. Industrial sales and interruptible sales have a negligible impact on earnings. Effective July 1, 2009 and continuing in the 2010 Rate Order, Central Hudson's delivery rate structure includes a RDM which provides the ability to record revenues equal to those forecasted in the development of current rates for most of Central Hudson's customers. As a result, fluctuations in actual delivery volumes do not have a significant impact on Central Hudson's earnings.

Electric Deliveries  
(In Gigawatt-Hours)

|                      | Actual Deliveries     |       |              |         | Weather Normalized Deliveries(1) |       |              |         |
|----------------------|-----------------------|-------|--------------|---------|----------------------------------|-------|--------------|---------|
|                      | Three Months Ended    |       | Variation in |         | Three Months Ended               |       | Variation in |         |
|                      | September 30,<br>2011 | 2010  | Amount       | Percent | September 30,<br>2011            | 2010  | Amount       | Percent |
| Residential          | 585                   | 618   | (33)         | (5)%    | 548                              | 572   | (24)         | (4)%    |
| Commercial           | 542                   | 551   | (9)          | (2)%    | 525                              | 533   | (8)          | (2)%    |
| Industrial and other | 299                   | 314   | (15)         | (5)%    | 298                              | 315   | (17)         | (5)%    |
| Total Deliveries     | 1,426                 | 1,483 | (57)         | (4)%    | 1,371                            | 1,420 | (49)         | (3)%    |

|                      | Actual Deliveries     |       |              |         | Weather Normalized Deliveries(1) |       |              |         |
|----------------------|-----------------------|-------|--------------|---------|----------------------------------|-------|--------------|---------|
|                      | Nine Months Ended     |       | Variation in |         | Nine Months Ended                |       | Variation in |         |
|                      | September 30,<br>2011 | 2010  | Amount       | Percent | September 30,<br>2011            | 2010  | Amount       | Percent |
| Residential          | 1,654                 | 1,630 | 24           | 1 %     | 1,600                            | 1,593 | 7            | - %     |
| Commercial           | 1,516                 | 1,503 | 13           | 1 %     | 1,493                            | 1,483 | 10           | 1 %     |
| Industrial and other | 839                   | 875   | (36)         | (4)%    | 836                              | 874   | (38)         | (4)%    |
| Total Deliveries     | 4,009                 | 4,008 | 1            | - %     | 3,929                            | 3,950 | (21)         | (1)%    |

(1)Central Hudson uses an internal analysis based on historical weather data to remove the estimated impacts of weather on delivery volumes.

Natural Gas Deliveries  
(In Million Cubic Feet)

|                            | Actual Deliveries     |       |              |         | Weather Normalized Deliveries(1) |       |              |         |
|----------------------------|-----------------------|-------|--------------|---------|----------------------------------|-------|--------------|---------|
|                            | Three Months Ended    |       | Variation in |         | Three Months Ended               |       | Variation in |         |
|                            | September 30,<br>2011 | 2010  | Amount       | Percent | September 30,<br>2011            | 2010  | Amount       | Percent |
| Residential                | 301                   | 295   | 6            | 2 %     | 340                              | 320   | 20           | 6 %     |
| Commercial                 | 577                   | 585   | (8)          | (1)%    | 604                              | 600   | 4            | 1 %     |
| Industrial and<br>other(2) | 2,573                 | 4,583 | (2,010)      | (44)%   | 486                              | 568   | (82)         | (14)%   |
| Total Deliveries           | 3,451                 | 5,463 | (2,012)      | (37)%   | 1,430                            | 1,488 | (58)         | (4)%    |

|                            | Actual Deliveries     |        |              |         | Weather Normalized Deliveries(1) |        |              |         |
|----------------------------|-----------------------|--------|--------------|---------|----------------------------------|--------|--------------|---------|
|                            | Nine Months Ended     |        | Variation in |         | Nine Months Ended                |        | Variation in |         |
|                            | September 30,<br>2011 | 2010   | Amount       | Percent | September 30,<br>2011            | 2010   | Amount       | Percent |
| Residential                | 4,127                 | 3,679  | 448          | 12 %    | 4,096                            | 3,934  | 162          | 4 %     |
| Commercial                 | 5,142                 | 4,422  | 720          | 16 %    | 5,132                            | 4,675  | 457          | 10 %    |
| Industrial and<br>other(2) | 5,579                 | 7,512  | (1,933)      | (26)%   | 1,664                            | 1,738  | (74)         | (4)%    |
| Total Deliveries           | 14,848                | 15,613 | (765)        | (5)%    | 10,892                           | 10,347 | 545          | 5 %     |

(1) Central Hudson uses an internal analysis based on historical weather data to remove the estimated impacts of weather on delivery volumes.

(2) Actual deliveries include interruptible natural gas deliveries. Weather normalized deliveries exclude interruptible natural gas deliveries.

Electric deliveries to residential and commercial customers decreased during the three months ended September 30, 2011 as compared to the prior period primarily due to lower sales per customer. Electric delivery volumes to residential and commercial customers for the first nine months of 2011 were consistent with the same period in 2010. Favorable impacts of colder weather in the first half of the year were offset by the decreases in the third quarter.

The year-over-year variance for natural gas deliveries to residential and commercial customers during the three months ended September 30, 2011 when compared to the same periods in 2010 was driven by an increase in sales per customer, which was partially offset by warmer weather experienced in the third quarter of 2011 as compared to the prior year. For the nine months ended September 30, 2011, the year-over-year variance in natural gas deliveries to residential and commercial customers also included the favorable impacts of colder weather experienced during the first half of 2011 compared to 2010.

The decrease in natural gas industrial and other deliveries for the three and nine months ended September 30, 2011 as compared to the prior year was driven primarily by a decrease in transportation delivery volumes to electric generation facilities, which sell their electricity to the NYISO market and whose output increased in the third quarter of 2010 to meet the increased electric demand during that period.

## 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.

- 68 -

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Change in Central Hudson Revenues - Electric  
(In Thousands)

|   | Three Months Ended    |                       | Increase /<br>(Decrease) | Nine Months Ended     |                       | Increase /<br>(Decrease) |
|---|-----------------------|-----------------------|--------------------------|-----------------------|-----------------------|--------------------------|
|   | September 30,<br>2011 | September 30,<br>2010 |                          | September 30,<br>2011 | September 30,<br>2010 |                          |
| <b>Revenues with Matching Expense Offsets:(1)</b> |                       |                       |                          |                       |                       |                          |
| Energy cost adjustment                            | \$59,609              | \$76,236              | \$(16,627 )              | \$165,547             | \$193,043             | \$(27,496 )              |
| Sales to others for resale                        | 1,125                 | 654                   | 471                      | 3,249                 | 3,370                 | (121 )                   |
| Other revenues with matching offsets              | 22,315                | 23,826                | (1,511 )                 | 64,799                | 61,332                | 3,467                    |
| <b>Subtotal</b>                                   | <b>83,049</b>         | <b>100,716</b>        | <b>(17,667 )</b>         | <b>233,595</b>        | <b>257,745</b>        | <b>(24,150 )</b>         |
| <b>Revenues Impacting Earnings:</b>               |                       |                       |                          |                       |                       |                          |
| Customer sales                                    | 62,536                | 61,848                | 688                      | 175,923               | 167,304               | 8,619                    |
| RDM and other regulatory mechanisms               | 1,340                 | 141                   | 1,199                    | 1,462                 | 3,609                 | (2,147 )                 |
| Pole attachments and other rents                  | 1,231                 | 1,025                 | 206                      | 3,136                 | 3,123                 | 13                       |
| Finance charges                                   | 843                   | 852                   | (9 )                     | 2,557                 | 2,446                 | 111                      |
| Other revenues                                    | 707                   | 722                   | (15 )                    | 1,838                 | 2,135                 | (297 )                   |
| <b>Subtotal</b>                                   | <b>66,657</b>         | <b>64,588</b>         | <b>2,069</b>             | <b>184,916</b>        | <b>178,617</b>        | <b>6,299</b>             |
| <b>Total Electric Revenues</b>                    | <b>\$149,706</b>      | <b>\$165,304</b>      | <b>\$(15,598 )</b>       | <b>\$418,511</b>      | <b>\$436,362</b>      | <b>\$(17,851 )</b>       |

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

Change in Central Hudson Revenues - Natural Gas  
(In Thousands)

|   | Three Months Ended    |                       | Increase /<br>(Decrease) | Nine Months Ended     |                       | Increase /<br>(Decrease) |
|---|-----------------------|-----------------------|--------------------------|-----------------------|-----------------------|--------------------------|
|   | September 30,<br>2011 | September 30,<br>2010 |                          | September 30,<br>2011 | September 30,<br>2010 |                          |
| <b>Revenues with Matching Expense Offsets:(1)</b> |                       |                       |                          |                       |                       |                          |
| Energy cost adjustment                            | \$2,323               | \$2,741               | \$(418 )                 | \$46,445              | \$40,856              | \$5,589                  |
| Sales to others for resale                        | 3,290                 | 3,839                 | (549 )                   | 15,106                | 17,129                | (2,023 )                 |
| Other revenues with matching offsets              | 2,223                 | 2,152                 | 71                       | 17,032                | 14,608                | 2,424                    |
| <b>Subtotal</b>                                   | <b>7,836</b>          | <b>8,732</b>          | <b>(896 )</b>            | <b>78,583</b>         | <b>72,593</b>         | <b>5,990</b>             |
| <b>Revenues Impacting Earnings:</b>               |                       |                       |                          |                       |                       |                          |
| Customer sales                                    | 8,636                 | 7,990                 | 646                      | 46,309                | 38,534                | 7,775                    |

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|                                     |          |          |          |           |           |          |
|-------------------------------------|----------|----------|----------|-----------|-----------|----------|
| RDM and other regulatory mechanisms | 569      | 774      | (205 )   | (1,538 )  | 4,796     | (6,334 ) |
| Interruptible profits               | 687      | 629      | 58       | 1,981     | 1,704     | 277      |
| Finance charges                     | 228      | 193      | 35       | 923       | 823       | 100      |
| Other revenues                      | 506      | 505      | 1        | 1,683     | 1,921     | (238 )   |
| Subtotal                            | 10,626   | 10,091   | 535      | 49,358    | 47,778    | 1,580    |
| Total Natural Gas Revenues          | \$18,462 | \$18,823 | \$(361 ) | \$127,941 | \$120,371 | \$7,570  |

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

- 69 -

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Electric revenues decreased in the three and nine months ended September 30, 2011 as compared to the same periods in 2010, primarily due to lower energy cost adjustment revenues. The lower energy cost adjustment revenues are due to lower purchased volumes and lower wholesale prices in both periods. During the three month period, lower revenues collected for previously deferred purchased electricity costs contributed to the additional decrease. During the nine month period, higher revenues collected for previously deferred purchased electricity costs partially reduced the change in energy cost adjustment revenues.

Partially offsetting the decrease in electric revenues for the nine month period were increased revenues from customer sales due to higher delivery rates and other revenues with matching offsets.

Natural gas revenues were relatively unchanged during the three months ended September 30, 2011 as compared to the prior period and increased year-to-date compared to 2010. This increase was primarily due to higher customer sales, energy cost adjustment revenues and revenues with matching offsets. These increases were partially reduced by lower revenue stabilization revenue, primarily related to RDMs and lower sales to others for resale. Increased gas revenues from customer sales are due to higher delivery rates as compared to prior periods. The higher gas energy cost adjustment revenues for the nine months resulted primarily from higher revenues required to be recovered from previously deferred gas costs partially reduced by lower wholesale gas prices. Lower RDMs are a result of greater excess of actual delivery revenue in the current year over the levels provided in PSC approved rates as compared to the excess in the prior year. Central Hudson set aside this excess revenue for future customer benefit.

Revenues with matching offsets increased for both electric and gas during the nine months ended September 30, 2011 as compared to the same periods in 2010 due to an increase in rates related to new NYS energy efficiency programs.

#### 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 costs that are matched to revenues largely from customer billings, notably the cost of pensions and OPEBs, the Temporary State Assessment, and NYS energy efficiency programs.

Total utility operating expenses decreased 12% and 1% in the three and nine months ended September 30, 2011 compared to the same periods in 2010. The following summarizes the change in operating expenses:

Change in Central Hudson Operating Expenses  
(In Thousands)

|   | Three Months Ended    |           | Increase /<br>(Decrease) | Nine Months Ended     |           | Increase /<br>(Decrease) |
|---|-----------------------|-----------|--------------------------|-----------------------|-----------|--------------------------|
|   | September 30,<br>2011 | 2010      |                          | September 30,<br>2011 | 2010      |                          |
| <b>Expenses Currently Matched to Revenues:(1)</b> |                       |           |                          |                       |           |                          |
| Purchased electricity                             | \$60,734              | \$76,890  | \$(16,156 )              | \$168,796             | \$196,413 | \$(27,617 )              |
| Purchased natural gas                             | 5,613                 | 6,580     | (967 )                   | 61,551                | 57,985    | 3,566                    |
| Temporary State Assessment                        | 4,744                 | 4,686     | 58                       | 16,014                | 14,224    | 1,790                    |
| Pension   | 5,699                 | 6,501     | (802 )                   | 20,195                | 22,194    | (1,999 )                 |
| OPEB  | 1,581                 | 1,572     | 9                        | 5,059                 | 5,209     | (150 )                   |
| NYS energy programs                               | 7,038                 | 7,707     | (669 )                   | 21,998                | 18,435    | 3,563                    |
| MGP site remediations                             | 1,120                 | 1,100     | 20                       | 3,393                 | 2,552     | 841                      |
| Other matched expenses                            | 4,356                 | 4,412     | (56 )                    | 15,172                | 13,326    | 1,846                    |
| Subtotal  | 90,885                | 109,448   | (18,563 )                | 312,178               | 330,338   | (18,160 )                |
| <b>Other Expense Variations:</b>                  |                       |           |                          |                       |           |                          |
| Tree trimming                                     | 2,316                 | 4,382     | (2,066 )                 | 12,816                | 10,238    | 2,578                    |
| Property taxes(2)                                 | 8,769                 | 8,022     | 747                      | 26,226                | 23,095    | 3,131                    |
| Weather related service restoration (3), (4)      | 2,927                 | 1,313     | 1,614                    | 9,061                 | 3,910     | 5,151                    |
| Depreciation                                      | 8,909                 | 8,526     | 383                      | 26,791                | 25,362    | 1,429                    |
| Uncollectible expense                             | 1,830                 | 1,766     | 64                       | 5,176                 | 5,538     | (362 )                   |
| Uncollectible deferrals                           | -                     | -         | -                        | -                     | (3,702 )  | 3,702                    |
| Purchased natural gas incentive arrangements      | 724                   | 637       | 87                       | 1,874                 | 1,634     | 240                      |
| Other expenses                                    | 26,744                | 28,176    | (1,432 )                 | 82,653                | 83,625    | (972 )                   |
| Subtotal  | 52,219                | 52,822    | (603 )                   | 164,597               | 149,700   | 14,897                   |
| Total Operating Expenses                          | \$143,104             | \$162,270 | \$(19,166 )              | \$476,775             | \$480,038 | \$(3,263 )               |

(1) Includes expenses that, in accordance with the 2009 and 2010 Rate Orders, are adjusted in the current period to equal the revenues earned for the applicable expenses.

(2) Central Hudson is authorized to defer 90% of any difference between actual property tax expense and the rate allowances for each Rate Year.

(3) Three and nine months ended September 30, 2010 does not include \$19.3 million in incremental costs related to the February 2010 significant storm event deferred for future recovery from customers. See further discussion below.

(4) Three and nine months ended September 30, 2011 does not include \$12.8 million in incremental costs related to the August 2011 Tropical Storm Irene event deferred for future recovery from customers. See further discussion below.

In addition to the required adjustment to match revenues collected from customers, the variation in purchased electricity for the three and nine months ended September 30, 2011 compared to the same period in the prior year was driven primarily by lower purchased volumes and lower wholesale prices. On a year-over-year comparison, higher

revenues collected for previously deferred purchased electricity cost partially offset the decrease. The increase in purchased natural gas for the nine months ended September 30, 2011 compared to 2010 is the result of higher revenues collected for previously deferred purchased gas costs partially reduced by lower wholesale gas prices and lower purchased volumes.

- 71 -

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Variations in other expenses currently matched to revenues, including increases in NYS energy programs, Temporary State Assessment, MGP site remediations and other matched expenses and decreases in pensions and OPEBs are due to a change in the level of expenses recorded, with a corresponding change in revenues resulting from a change in the amounts included in delivery rates as authorized in the 2010 Rate Order.

Weather related service restoration costs can fluctuate from year-to-year based on changes in the number and severity of storms each year. The decrease in expenses associated with tree-trimming in the third quarter and increase in year-to-date is a result of accelerated trimming in the first half of 2011 to take advantage of contractor crew availability, favorable trimming and pricing conditions. In addition, the reassignment of tree trimming crews to assist with the restoration efforts of Tropical Storm Irene during the last week of August 2011 contributed to the decrease in third quarter tree-trimming expenses. In February 2010, another significant storm event and the reassignment of tree trimming crews to assist with restoration efforts also impacts year-over-year results. The 2010 and 2011 costs do not include incremental costs from these major storm events except the incremental storm costs related to gas emergencies as a result of the impacts of Tropical Storm Irene during the August 2011 storm. Approximately \$0.6 million of incremental gas costs are included in 2011 weather related storm restoration costs and Central Hudson is currently analyzing the gas costs incurred during the storm and will evaluate the results to determine if the costs meet the requirements for deferral accounting treatment. Incremental costs include such items as the costs of mutual aid crews and contractors from other areas and overtime costs for Central Hudson crews, which were deferred for future recovery from customers. For the February 2010 storm, Central Hudson filed a petition with the PSC for approval and recovery on September 23, 2010. On April 14, 2011 the Commission issued an Order authorizing deferral of \$18.8 million of the incremental electric storm restoration expense related to the February 2010 storm. Central Hudson recorded \$0.8 million of storm costs from the February 2010 storm disallowed by the Commission in its April 14th Order in the first quarter of 2011. For the August 2011 storm, Management believes that the incremental electricity restoration costs associated with Tropical Storm Irene of approximately \$12.8 million are probable of future recovery from customers.

The increase in expenses related to the uncollectible deferral during the nine months ended September 30, 2011 as compared to the same period in 2010 is due to Central Hudson deferring for future recovery \$2.6 million in uncollectible expense over rate allowances for the rate year ended June 30, 2010. In addition, Central Hudson deferred an additional \$1.1 million of gas uncollectible expense during the second quarter of 2010 based on the PSC Order issued in May 2010, which covered the calendar year 2009 rather than the rate year ended June 30, 2009 as requested by the company. Central Hudson did not record uncollectible deferrals in the three or nine month periods ending September 30, 2011.

#### Other Income

Other income and deductions for Central Hudson for the three and nine months ended September 30, 2011, increased \$1.6 million and \$2.4 million compared to the prior periods. For both the three and nine month period, increases in regulatory adjustments related to changes in interest costs on Central Hudson's variable rate debt resulted from the redemption of Series C and D notes in December 2010 with proceeds from the Series G medium-term notes. Additional increases during the nine month period included increase in regulatory carrying charges from customers related to pension costs and MGP and interest on undercollected gas cost adjustments. These increases were partially offset by decreases in carrying charges from customers relating to deferral costs of the February 2010 storm event and the deferred uncollectible expense noted above. For the three months ended September 30, 2011, the increase in regulatory carrying charges from customers was due primarily to pension costs.

#### Interest Charges

Central Hudson's interest charges increased \$1.3 million and \$3.4 million for the three and nine months ended September 30, 2011 compared to the same period in 2010. The increase is primarily the result of the higher interest rates associated with the \$82.2 million medium-term notes issued in December 2010 compared to the \$82.2 million variable rate series C and D notes retired in December 2010. An overall higher outstanding debt balance during the three and nine months ended September 30, 2011 as compared to the same periods in 2010 also resulted in increased interest charges.

#### Income Taxes

Income taxes for Central Hudson increased \$1.5 million and decreased \$3.3 million for the three and nine months ended September 30, 2011 when compared to the same period in 2010 primarily due to the respective change in pre-tax book income for both periods noted.

#### CH Energy Group

In addition to the impacts on 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. The results of Griffith and the other businesses described below exclude inter-company interest income and expense which are eliminated in consolidation.

Income Statement Variances  
(Dollars In Thousands)

|  | Three Months Ended    |                       | Increase/(Decrease) in |         |   |
|--|-----------------------|-----------------------|------------------------|---------|---|
|  | September 30,<br>2011 | September 30,<br>2010 | Amount                 | Percent |   |
| Operating Revenues   | \$221,055             | \$223,657             | \$(2,602)              | (1.2)   | % |
| Operating Expenses:  |                       |                       |                        |         |   |
| Purchased electricity, fuel, natural gas and petroleum                                     | 110,635               | 114,375               | (3,740)                | (3.3)   | % |
| Depreciation and amortization  | 10,180                | 9,766                 | 414                    | 4.2     | % |
| Other operating expenses   | 78,237                | 80,818                | (2,581)                | (3.2)   | % |
| Total Operating Expenses   | 199,052               | 204,959               | (5,907)                | (2.9)   | % |
| Operating Income   | 22,003                | 18,698                | 3,305                  | 17.7    | % |
| Other Income (Deductions), net   | (2,387)               | (11,379)              | 8,992                  | 79.0    | % |
| Interest Charges   | 11,155                | 6,879                 | 4,276                  | 62.2    | % |
| Income before income taxes, non-controlling interest and preferred dividends of subsidiary | 8,461                 | 440                   | 8,021                  | 1,823.0 | % |
| Income Taxes (Benefit)   | 3,550                 | (1,360)               | 4,910                  | 361.0   | % |
| Net income from continuing operations  | 4,911                 | 1,800                 | 3,111                  | 172.8   | % |
| Net income from discontinued operations, net of tax  | 3,659                 | 333                   | 3,326                  | 998.8   | % |
| Non-controlling interest in subsidiary   | -                     | 112                   | (112)                  | (100.0) | % |
| Dividends declared on Preferred Stock of subsidiary  | 242                   | 242                   | -                      | -       | % |
| Net income attributable to CH Energy Group   | \$8,328               | \$1,779               | \$6,549                | 368.1   | % |

|  | Nine Months Ended     |                       | Increase/(Decrease) in |         |   |
|--|-----------------------|-----------------------|------------------------|---------|---|
|  | September 30,<br>2011 | September 30,<br>2010 | Amount                 | Percent |   |
| Operating Revenues   | \$755,694             | \$723,442             | \$32,252               | 4.5     | % |
| Operating Expenses:  |                       |                       |                        |         |   |
| Purchased electricity, fuel, natural gas and petroleum                                     | 399,780               | 381,384               | 18,396                 | 4.8     | % |
| Depreciation and amortization  | 30,599                | 29,049                | 1,550                  | 5.3     | % |
| Other operating expenses   | 253,017               | 234,238               | 18,779                 | 8.0     | % |
| Total Operating Expenses   | 683,396               | 644,671               | 38,725                 | 6.0     | % |
| Operating Income   | 72,298                | 78,771                | (6,473)                | (8.2)   | % |
| Other Income (Deductions), net   | 853                   | (10,126)              | 10,979                 | 108.4   | % |
| Interest Charges   | 27,640                | 21,287                | 6,353                  | 29.8    | % |
| Income before income taxes, non-controlling interest and preferred dividends of subsidiary | 45,511                | 47,358                | (1,847)                | (3.9)   | % |
| Income Taxes   | 17,213                | 17,278                | (65)                   | (0.4)   | % |
| Net income from continuing operations  | 28,298                | 30,080                | (1,782)                | (5.9)   | % |
| Net income (loss) from discontinued operations, net of tax                                 | 3,659                 | (643)                 | 4,302                  | 669.1   | % |
| Non-controlling interest in subsidiary   | -                     | (272)                 | 272                    | 100.0   | % |
| Dividends declared on Preferred Stock of subsidiary  | 727                   | 727                   | -                      | -       | % |
| Net income attributable to CH Energy Group   | \$31,230              | \$28,982              | \$2,248                | 7.8     | % |



## Griffith

## Sales Volumes

Delivery and sales volumes for Griffith vary in response to weather conditions, changes in our customer base and customer behavior. Deliveries of petroleum products used for heating purposes peak in the winter. Sales also vary as customers respond to the price of the particular energy product and changes in local economic conditions.

Changes in sales volumes of petroleum products, including the impact of acquisitions, are set forth below.

Actual & Weather Normalized Deliveries  
(In Thousands of Gallons)

|                          | Actual Deliveries                |        |   |         | Weather Normalized Deliveries(1) |        |   |         |
|--------------------------|----------------------------------|--------|---|---------|----------------------------------|--------|---|---------|
|                          | Three Months Ended September 30, |        | Increase / (Decrease) in Amount Percent |         | Three Months Ended September 30, |        | Increase / (Decrease) in Amount Percent |         |
|                          | 2011                             | 2010   |   |         | 2011                             | 2010   |   |         |
| <b>Heating Oil</b>       |                                  |        |   |         |                                  |        |   |         |
| Base company volume(2)   | 2,383                            | 2,117  | 266                                     | 13 %    | 2,362                            | 2,209  | 153                                     | 7 %     |
| Acquisitions volume      | 45                               | 6      | 39                                      | %       | 45                               | 6      | 39                                      | %       |
| Total Heating Oil        | 2,428                            | 2,123  | 305                                     | 14 %    | 2,407                            | 2,215  | 192                                     | 9 %     |
| <b>Motor Fuels</b>       |                                  |        |   |         |                                  |        |   |         |
| Base company volume(2)   | 10,939                           | 12,132 | (1,193 )                                | (10 ) % | 10,939                           | 12,132 | (1,193 )                                | (10 ) % |
| Acquisitions volume      | 816                              | 4      | 812                                     | %       | 816                              | 4      | 812                                     | %       |
| Total Motor Fuels        | 11,755                           | 12,136 | (381 )                                  | (3 ) %  | 11,755                           | 12,136 | (381 )                                  | (3 ) %  |
| <b>Propane and Other</b> |                                  |        |   |         |                                  |        |   |         |
| Base company volume(2)   | 100                              | 95     | 5                                       | 5 %     | 99                               | 98     | 1                                       | 1 %     |
| Total Propane and Other  | 100                              | 95     | 5                                       | 5 %     | 99                               | 98     | 1                                       | 1 %     |
| <b>Total</b>             |                                  |        |   |         |                                  |        |   |         |
| Base company volume(2)   | 13,422                           | 14,344 | (922 )                                  | (6 ) %  | 13,400                           | 14,439 | (1,039 )                                | (7 ) %  |
| Acquisitions volume      | 861                              | 10     | 851                                     | %       | 861                              | 10     | 851                                     | %       |
| Total                    | 14,283                           | 14,354 | (71 )                                   | - %     | 14,261                           | 14,449 | (188 )                                  | (1 ) %  |

(1) Griffith uses an internal analysis based on historical weather data to remove the estimated impacts of weather on delivery volumes.

(2) For the purpose of this chart, "Base company" excludes any impact from acquisitions made by Griffith in 2011.

Percentage change greater than 500%



Actual & Weather Normalized Deliveries  
(In Thousands of Gallons)

|                            | Actual Deliveries                          |        |   |        | Weather Normalized Deliveries(1)           |        |   |         |
|----------------------------|--|--------|---|--------|--|--------|---|---------|
|                            | Nine Months Ended<br>September 30,<br>2011 |        | Increase /<br>(Decrease) in<br>Amount Percent |        | Nine Months Ended<br>September 30,<br>2011 |        | Increase /<br>(Decrease) in<br>Amount Percent |         |
| <b>Heating Oil</b>         |  |        |   |        |  |        |   |         |
| Base company<br>volume(2)  | 21,248                                     | 22,933 | (1,685 )                                      | (7 ) % | 21,234                                     | 23,549 | (2,315 )                                      | (10 ) % |
| Acquisitions volume        | 439  | 6      | 433   | %      | 439  | 6      | 433   | %       |
| Total Heating Oil          | 21,687                                     | 22,939 | (1,252 )                                      | (5 ) % | 21,673                                     | 23,555 | (1,882 )                                      | (8 ) %  |
| <b>Motor Fuels</b>         |  |        |   |        |  |        |   |         |
| Base company<br>volume(2)  | 32,077                                     | 34,779 | (2,702 )                                      | (8 ) % | 32,077                                     | 34,779 | (2,702 )                                      | (8 ) %  |
| Acquisitions volume        | 2,214                                      | 4      | 2,210   | %      | 2,214                                      | 4      | 2,210   | %       |
| Total Motor Fuels          | 34,291                                     | 34,783 | (492 )  | (1 ) % | 34,291                                     | 34,783 | (492 )  | (1 ) %  |
| <b>Propane and Other</b>   |  |        |   |        |  |        |   |         |
| Base company<br>volume(2)  | 734  | 746    | (12 )   | (2 ) % | 734  | 764    | (30 )   | (4 ) %  |
| Total Propane and<br>Other | 734  | 746    | (12 )   | (2 ) % | 734  | 764    | (30 )   | (4 ) %  |
| <b>Total</b>               |  |        |   |        |  |        |   |         |
| Base company<br>volume(2)  | 54,059                                     | 58,458 | (4,399 )                                      | (8 ) % | 54,045                                     | 59,092 | (5,047 )                                      | (9 ) %  |
| Acquisitions volume        | 2,653                                      | 10     | 2,643   | %      | 2,653                                      | 10     | 2,643   | %       |
| Total                      | 56,712                                     | 58,468 | (1,756 )                                      | (3 ) % | 56,698                                     | 59,102 | (2,404 )                                      | (4 ) %  |

(1) Griffith uses an internal analysis based on historical weather data to remove the estimated impacts of weather on delivery volumes.

(2) For the purpose of this chart, "Base company" excludes any impact from acquisitions made by Griffith in 2011.

Percentage change greater than 500%

Actual and Weather Normalized Delivery Volumes as % of Total Volumes

|                               | Three Months Ended September 30, |                       |        |                       | Nine Months Ended September 30, |                       |        |                       |    |   |    |   |    |   |    |   |
|-------------------------------|----------------------------------|-----------------------|--------|-----------------------|---------------------------------|-----------------------|--------|-----------------------|----|---|----|---|----|---|----|---|
|                               | 2011                             |                       | 2010   |                       | 2011                            |                       | 2010   |                       |    |   |    |   |    |   |    |   |
|                               | Actual                           | Weather<br>Normalized | Actual | Weather<br>Normalized | Actual                          | Weather<br>Normalized | Actual | Weather<br>Normalized |    |   |    |   |    |   |    |   |
| Heating Oil - Base<br>Company | 17                               | %                     | 17     | %                     | 15                              | %                     | 15     | %                     | 37 | % | 37 | % | 39 | % | 40 | % |
| Heating Oil -<br>Acquisitions | -                                | %                     | -      | %                     | -                               | %                     | -      | %                     | 1  | % | 1  | % | -  | % | -  | % |
| Motor Fuels - Base<br>Company | 78                               | %                     | 78     | %                     | 84                              | %                     | 84     | %                     | 57 | % | 57 | % | 60 | % | 59 | % |

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|                     |     |   |     |   |     |   |     |   |     |   |     |   |     |   |     |   |
|---------------------|-----|---|-----|---|-----|---|-----|---|-----|---|-----|---|-----|---|-----|---|
| Motor Fuels -       |     |   |     |   |     |   |     |   |     |   |     |   |     |   |     |   |
| Acquisitions        | 4   | % | 4   | % | -   | % | -   | % | 4   | % | 4   | % | -   | % | -   | % |
| Propane and Other - |     |   |     |   |     |   |     |   |     |   |     |   |     |   |     |   |
| Base Company        | 1   | % | 1   | % | 1   | % | 1   | % | 1   | % | 1   | % | 1   | % | 1   | % |
| Total               | 100 | % | 100 | % | 100 | % | 100 | % | 100 | % | 100 | % | 100 | % | 100 | % |

- 76 -

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Sales of petroleum products decreased slightly (less than 1%) in the three months ended September 30, 2011 compared to the same period in 2010 due primarily to a decrease in motor fuels volume which continues to be depressed by the sluggish economy. This decrease was offset by an increase in the sale of petroleum products related to acquisitions completed in 2011 and the third quarter of 2010.

Sales of petroleum products decreased 3% in the nine months ended September 30, 2011 compared to the same period in 2010 due primarily to customer conservation in response to higher oil prices, partially offset by an increase in sales related to acquisitions.

#### Gross Profit

A breakdown of Griffith's gross profit by product and service line for the three and nine months ended September 30, 2011 and 2010 illustrated below (Dollars in Thousands):

| Product and Service Line                 | Three Months Ended September 30, |            |          |                |            |          |
|--|----------------------------------|------------|----------|----------------|------------|----------|
|  | 2011                             |            |          | 2010           |            |          |
| Heating oil - Base Company               | \$1,208                          | 16         | %        | \$1,115        | 15         | %        |
| Heating oil - Acquisitions               | 25                               | -          | %        | -              | -          | %        |
| Motor fuels - Base Company               | 2,644                            | 36         | %        | 2,724          | 38         | %        |
| Motor fuels - Acquisitions               | 210                              | 3          | %        | -              | -          | %        |
| Propane and Other - Base Company         | 78                               | 1          | %        | 88             | 1          | %        |
| Service and installations - Base Company | 3,064                            | 41         | %        | 3,109          | 43         | %        |
| Service and installations - Acquisitions | 24                               | -          | %        | -              | -          | %        |
| Other - Base Company                     | 222                              | 3          | %        | 233            | 3          | %        |
| <b>Total</b>                             | <b>\$7,475</b>                   | <b>100</b> | <b>%</b> | <b>\$7,269</b> | <b>100</b> | <b>%</b> |