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

QUARTERLY FINANCIAL REPORT

for the period ended

MARCH 31, 2016

QUARTER ENDED MARCH 31, 2016

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CH ENERGY GROUP CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

(In Thousands)

	Three Months Ended March 31, 2016	2015
Operating Revenues		
Electric	$ 129,573	$ 165,018
Natural gas	51,841	70,595
Total Operating Revenues	181,414	235,613
Operating Expenses		
Operation:		
Purchased electricity and fuel used in electric generation	41,542	73,489
Purchased natural gas	17,150	33,963
Other expenses of operation - regulated activities	58,521	65,246
Other expenses of operation - non-regulated	424	(47)
Depreciation and amortization	11,472	11,185
Taxes, other than income tax	17,554	15,667
Total Operating Expenses	146,663	199,503
Operating Income	34,751	36,110
Other Income and Deductions		
Income from unconsolidated affiliates	73	(63)
Interest on regulatory assets and other interest income	675	1,161
Regulatory adjustments for interest costs	53	315
Other - net	(91)	24
Total Other Income	710	1,437
Interest Charges		
Interest on long-term debt	5,958	5,773
Interest on regulatory liabilities and other interest	1,839	2,257
Total Interest Charges	7,797	8,030
Income before income taxes	27,664	29,517
Income Tax Expense	10,928	12,581
Net Income from Continuing Operations	16,736	16,936
Discontinued Operations		
Net Income Attributable to CH Energy Group	16,736	16,936
Dividends declared on Common Stock	5,500	5,500
Change in Retained Earnings	$ 11,236	$ 11,436

CH ENERGY GROUP CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

(In Thousands)

	Three Months Ended March 31, 2016	2015
Net Income	$ 16,736	$ 16,936
Other Comprehensive Income:		
Net unrealized losses on investments held by equity method investees - net of tax of $28 and $210, respectively	(42)	(316)
Other comprehensive income (loss)	(42)	(316)
Comprehensive income	16,694	16,620
Comprehensive income attributable to CH Energy Group	$ 16,694	$ 16,620

The Notes to Financial Statements are an integral part hereof.

CH ENERGY GROUP CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

(In Thousands)

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Operating Activities:		
Net income	$ 16,736	$ 16,936
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	10,484	10,486
Amortization	988	699
Deferred income taxes - net	6,829	(10,633)
Bad debt expense	1,229	1,850
Undistributed equity in earnings of unconsolidated affiliates	(73)	63
Pension expense	4,773	6,021
Other post-employment benefits ("OPEB") expense	(775)	1,988
Regulatory liability - rate moderation	(4,528)	-
Revenue decoupling mechanism recorded	(470)	9,514
Changes in operating assets and liabilities - net:		
Accounts receivable, unbilled revenues and other receivables	(3,024)	(38,986)
Fuel, materials and supplies	730	2,371
Special deposits and prepayments	(418)	(658)
Income and other taxes	28,306	35,832
Accounts payable	(1,218)	(9,120)
Accrued interest	2,343	2,542
Customer advances	(2,532)	(5,931)
Pension plan contribution	(252)	(8,438)
OPEB contribution	(1,560)	(1,536)
Revenue decoupling mechanism collected/(refunded)	(3,609)	(3,414)
Regulatory asset - manufactured gas plant ("MGP") site remediation	977	909
Regulatory asset - Temporary State Assessment	(1,826)	(74)
Energy efficiency programs	7,232	3,432
Deferred natural gas and electric costs	(1,550)	13,252
Other - net	2,621	(4,092)
Net cash provided by operating activities	61,413	23,013
Investing Activities:		
Additions to utility and other property and plant	(41,941)	(26,983)
Other - net	614	(5,577)
Net cash used in investing activities	(41,327)	(32,560)
Financing Activities:		
Proceeds from issuance of long-term debt	-	20,000
Proceeds (Redemption) of short-term debt - net	(13,000)	10,000
Dividends paid on Common Stock	(5,500)	(5,500)
Other - net	-	(241)
Net cash provided by (used in) financing activities	(18,500)	24,259
Net Change in Cash and Cash Equivalents	1,586	14,712
Cash and Cash Equivalents at Beginning of Period	13,582	22,647
Cash and Cash Equivalents at End of Period	$ 15,168	$ 37,359
Supplemental Disclosure of Cash Flow Information:		
Interest paid	$ 3,718	$ 3,316
Federal and state income taxes paid	$ -	$ 920
Additions to plant included in liabilities	$ 7,701	$ 4,291

The Notes to Financial Statements are an integral part hereof.

CH ENERGY GROUP CONSOLIDATED BALANCE SHEET (UNAUDITED)

(In Thousands)

	March 31, 2016	December 31, 2015	March 31, 2015
ASSETS			
Utility Plant (Note 2)			
Electric	$ 1,241,413	$ 1,230,663	$ 1,171,514
Natural gas	422,837	417,455	386,637
Common	202,985	201,193	186,939
Gross Utility Plant	1,867,235	1,849,311	1,745,090
Less: Accumulated depreciation	485,965	478,384	465,657
Net	1,381,270	1,370,927	1,279,433
Construction work in progress	66,329	51,517	58,573
Net Utility Plant	1,447,599	1,422,444	1,338,006
Non-utility property & plant	524	524	524
Net Non-Utility Property & Plant	524	524	524
Current Assets			
Cash and cash equivalents	15,168	13,582	37,359
Accounts receivable from customers - net of allowance for doubtful accounts of $5.4 million, $5.6 million and $5.1 million, respectively.	60,597	55,340	98,466
Accounts receivable - affiliates	155	195	6
Accrued unbilled utility revenues	28,091	28,216	17,704
Other receivables	3,956	7,873	10,644
Fuel, materials and supplies (Note 1)	18,053	18,783	15,175
Regulatory assets (Note 3)	34,829	30,788	35,254
Income tax receivable	10,329	38,139	-
Fair value of derivative instruments	566	-	35
Special deposits and prepayments	26,714	26,296	26,133
Total Current Assets	198,458	219,212	240,776
Deferred Charges and Other Assets			
Regulatory assets - pension plan (Note 3)	89,130	94,488	87,743
Regulatory assets - other (Note 3)	138,483	140,166	202,558
Fair value of derivative instruments (Note 14)	-	2,218	-
Investments in unconsolidated affiliates (Note 5)	1,143	1,417	1,198
Other investments (Note 15)	33,067	33,575	33,916
Other	4,017	3,514	3,397
Total Deferred Charges and Other Assets	265,840	275,378	328,812
Total Assets	$ 1,912,421	$ 1,917,558	$ 1,908,118

The Notes to Financial Statements are an integral part hereof.

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

(In Thousands, except share amounts)

	March 31, 2016	December 31, 2015	March 31, 2015
CAPITALIZATION AND LIABILITIES			
Capitalization (Note 8)			
CH Energy Group Common Shareholders' Equity			
Common Stock (30,000,000 shares authorized: $0.01 par value; 15,961,400 shares issued and outstanding)	$ 160	$ 160	$ 160
Paid-in capital	335,906	335,906	325,906
Retained earnings	230,415	219,179	208,875
Accumulated other comprehensive income	152	194	194
Total Equity	566,633	555,439	535,135
Long-term debt (Note 9)			
Principal amount	534,730	534,730	544,045
Unamortized debt issuance costs	(3,894)	(3,894)	(4,250)
Long-term debt less unamortized debt issuance costs	530,836	530,836	539,795
Total Capitalization	1,097,469	1,086,275	1,074,930
Current Liabilities			
Current maturities of long-term debt (Note 9)	9,315	9,315	1,230
Notes payable (Note 7)	12,000	25,000	10,000
Accounts payable	33,643	39,305	31,209
Accrued interest	7,846	5,503	8,215
Accrued vacation and payroll	7,048	7,030	11,218
Customer advances	15,445	17,977	8,236
Customer deposits	8,655	8,366	8,062
Regulatory liabilities (Note 3)	39,526	42,429	10,734
Fair value of derivative instruments (Note 14)	10,698	10,142	5,928
Accrued environmental remediation costs (Note 12)	23,665	22,998	18,367
Accrued income and other taxes	-	-	25,141
Other	6,867	8,806	10,787
Total Current Liabilities	174,708	196,871	149,127
Deferred Credits and Other Liabilities			
Regulatory liabilities - OPEB (Note 3)	24,474	25,663	48,864
Regulatory liabilities - other (Note 3)	142,227	132,988	174,864
Operating reserves	3,288	3,703	4,207
Fair value of derivative instruments (Note 14)	7,319	1,476	4,255
Accrued environmental remediation costs (Note 12)	68,397	69,121	89,982
Accrued OPEB costs (Note 10)	17,464	18,995	23,524
Accrued pension costs (Note 10)	60,427	59,570	60,908
Tax reserve (Note 4)	3,913	3,520	3,146
Other	19,988	19,910	19,204
Total Deferred Credits and Other Liabilities	347,497	334,946	428,954
Accumulated Deferred Income Tax (Note 4)	292,747	299,466	255,107
Commitments and Contingencies			
Total Capitalization and Liabilities	$ 1,912,421	$ 1,917,558	$ 1,908,118

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							
	Shares Issued	Amount	Shares (Repurchased) / Issued	Amount	Paid-In Capital	Capital Stock Expense	Retained Earnings	Accumulated Other Comprehensive Income	Non-controlling Interest	Total Equity
Balance at December 31, 2014	15,961,400	$ 160	-	$ -	$ 325,906	$ -	$ 197,439	$ 510	$ -	$ 524,015
Comprehensive income:										
Net income							16,936			16,936
Change in fair value:										
Investments								(316)		(316)
Dividends declared on common stock							(5,500)			(5,500)
Balance at March 31, 2015	15,961,400	$ 160	-	$ -	$ 325,906	$ -	$ 208,875	$ 194	$ -	$ 535,135
Balance at December 31, 2015	15,961,400	$ 160	-	$ -	$ 335,906	$ -	$ 219,179	$ 194	$ -	$ 555,439
Comprehensive income:										
Net income							16,736			16,736
Change in fair value:										
Investments								(42)		(42)
Dividends declared on common stock							(5,500)			(5,500)
Balance at March 31, 2016	15,961,400	$ 160	-	$ -	$ 335,906	$ -	$ 230,415	$ 152	$ -	$ 566,633

The Notes to Financial Statements are an integral part hereof.

CENTRAL HUDSON STATEMENT OF INCOME (UNAUDITED)

(In Thousands)

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Operating Revenues		
Electric	$ 129,573	$ 165,018
Natural gas	51,841	70,595
Total Operating Revenues	181,414	235,613
Operating Expenses		
Operation:		
Purchased electricity and fuel used in electric generation	41,542	73,489
Purchased natural gas	17,150	33,963
Other expenses of operation	58,521	65,246
Depreciation and amortization	11,472	11,185
Taxes, other than income tax	17,537	15,462
Total Operating Expenses	146,222	199,345
Operating Income	35,192	36,268
Other Income and Deductions		
Interest on regulatory assets and other interest income	667	1,152
Regulatory adjustments for interest costs	53	315
Other - net	169	81
Total Other Income	889	1,548
Interest Charges		
Interest on long-term debt	5,650	5,444
Interest on regulatory liabilities and other interest	1,842	2,257
Total Interest Charges	7,492	7,701
Income Before Income Taxes	28,589	30,115
Income Tax Expense	11,149	11,975
Net Income	17,440	18,140
Income Available for Common Stock	$ 17,440	$ 18,140

CENTRAL HUDSON STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

(In Thousands)

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Net Income	$ 17,440	$ 18,140
Other Comprehensive Income	-	-
Comprehensive Income	$ 17,440	$ 18,140

The Notes to Financial Statements are an integral part hereof.

CENTRAL HUDSON STATEMENT OF CASH FLOWS (UNAUDITED)

(In Thousands)

	Three Months Ended March 31, 2016	2015
Operating Activities:		
Net income	$ 17,440	$ 18,140
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	10,484	10,486
Amortization	988	699
Deferred income taxes - net	6,939	(10,718)
Bad debt expense	1,229	1,850
Pension expense	4,773	6,021
OPEB expense	(775)	1,988
Regulatory liability - rate moderation	(4,528)	-
Revenue decoupling mechanism recorded	(470)	9,514
Changes in operating assets and liabilities - net:		
Accounts receivable, unbilled revenues and other receivables	(3,013)	(38,972)
Fuel, materials and supplies	730	2,371
Special deposits and prepayments	(428)	(674)
Income and other taxes	28,405	35,783
Accounts payable	(809)	(9,156)
Accrued interest	2,036	2,213
Customer advances	(2,532)	(5,931)
Pension plan contribution	(252)	(8,438)
OPEB contribution	(1,560)	(1,536)
Revenue decoupling mechanism collected/(refunded)	(3,609)	(3,414)
Regulatory asset - MGP site remediation	977	909
Regulatory asset - Temporary State Assessment	(1,826)	(74)
Energy efficiency programs	7,232	3,432
Deferred natural gas and electric costs	(1,550)	13,252
Other - net	2,267	(3,733)
Net cash provided by operating activities	62,148	24,012
Investing Activities:		
Additions to utility plant	(41,941)	(26,983)
Other - net	298	(5,509)
Net cash used in investing activities	(41,643)	(32,492)
Financing Activities:		
Proceeds from issuance of long-term debt	-	20,000
Proceeds (Redemption) of notes payable	(15,000)	10,000
Dividends paid to parent - CH Energy Group	-	(5,500)
Other - net	-	(241)
Net cash provided by/(used in) financing activities	(15,000)	24,259
Net Change in Cash and Cash Equivalents	5,505	15,779
Cash and Cash Equivalents - Beginning of Period	5,935	18,303
Cash and Cash Equivalents - End of Period	$ 11,440	$ 34,082
Supplemental Disclosure of Cash Flow Information:		
Interest paid	$ 3,718	$ 3,316
Federal and state income taxes paid	$ -	$ 920
Additions to plant included in liabilities	$ 7,701	$ 4,291

The Notes to Financial Statements are an integral part hereof.

CENTRAL HUDSON BALANCE SHEET (UNAUDITED)

(In Thousands)

	March 31, 2016	December 31, 2015	March 31, 2015
ASSETS			
Utility Plant (Note 2)			
Electric	$ 1,241,413	$ 1,230,663	$ 1,171,514
Natural gas	422,837	417,455	386,637
Common	202,985	201,193	186,939
Gross Utility Plant	1,867,235	1,849,311	1,745,090
Less: Accumulated depreciation	485,965	478,384	465,657
Net	1,381,270	1,370,927	1,279,433
Construction work in progress	66,329	51,517	58,573
Net Utility Plant	1,447,599	1,422,444	1,338,006
Non-Utility Property and Plant	524	524	524
Net Non-Utility Property and Plant	524	524	524
Current Assets			
Cash and cash equivalents	11,440	5,935	34,082
Accounts receivable from customers - net of allowance for doubtful accounts of $5.4 million, $5.6 million and $5.1 million, respectively.	60,597	55,340	98,466
Accrued unbilled utility revenues	28,091	28,216	17,704
Other receivables	4,080	8,047	9,629
Fuel, materials and supplies - at average cost (Note 1)	18,053	18,783	15,175
Regulatory assets (Note 3)	34,829	30,788	35,254
Income tax receivable	6,791	35,196	-
Fair value of derivative instruments (Note 14)	566	-	35
Special deposits and prepayments	26,671	26,243	26,092
Total Current Assets	191,118	208,548	236,437
Deferred Charges and Other Assets			
Regulatory assets - pension plan (Note 3)	89,130	94,488	87,743
Regulatory assets - other (Note 3)	138,483	140,166	202,558
Fair value of derivative instruments (Note 14)	-	2,218	-
Other investments (Note 15)	32,310	32,779	33,097
Other	3,486	2,865	2,807
Total Deferred Charges and Other Assets	263,409	272,516	326,205
Total Assets	$ 1,902,650	$ 1,904,032	$ 1,901,172

The Notes to Financial Statements are an integral part hereof.

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

(In Thousands, except share amounts)

	March 31, 2016	December 31, 2015	March 31, 2015
CAPITALIZATION AND LIABILITIES			
Capitalization (Note 8)			
Common Stock (30,000,000 shares authorized: $5 par value; 16,862,087 shares issued and outstanding)	$ 84,311	$ 84,311	$ 84,311
Paid-in capital	239,952	239,952	239,952
Retained earnings	254,960	237,520	229,096
Capital stock expense	(4,633)	(4,633)	(4,633)
Total Equity	574,590	557,150	548,726
Long-term debt (Note 9)			
Principal amount	517,950	517,950	525,950
Unamortized debt issuance costs	(3,803)	(3,894)	(4,250)
Long-term debt less unamortized debt issuance costs	514,147	514,056	521,700
Total Capitalization	1,088,737	1,071,206	1,070,426
Current Liabilities			
Current maturities of long-term debt (Note 9)	8,000	8,000	-
Notes payable (Note 7)	12,000	27,000	10,000
Accounts payable	34,226	39,478	31,299
Accrued interest	7,487	5,451	7,831
Accrued vacation and payroll	7,044	7,025	7,362
Customer advances	15,445	17,977	8,236
Customer deposits	8,655	8,366	8,062
Regulatory liabilities (Note 3)	39,526	42,429	10,734
Fair value of derivative instruments (Note 14)	10,698	10,142	5,928
Accrued environmental remediation costs (Note 12)	23,665	22,998	18,310
Accumulated deferred income tax	-	-	23,115
Other	6,700	8,644	9,839
Total Current Liabilities	173,446	197,510	140,716
Deferred Credits and Other Liabilities			
Regulatory liabilities - OPEB (Note 3)	24,474	25,663	48,864
Regulatory liabilities - other (Note 3)	142,227	132,988	174,864
Operating reserves	3,288	3,703	4,207
Fair value of derivative instruments (Note 14)	7,319	1,476	4,255
Accrued environmental remediation costs (Note 12)	68,397	69,121	89,882
Accrued OPEB costs (Note 10)	17,464	18,995	23,524
Accrued pension costs (Note 10)	60,195	59,337	60,353
Tax reserve (Note 4)	3,913	3,520	3,146
Other	17,978	18,225	17,494
Total Deferred Credits and Other Liabilities	345,255	333,028	426,589
Accumulated Deferred Income Tax (Note 4)	295,212	302,288	263,441
Commitments and Contingencies			
Total Capitalization and Liabilities	$ 1,902,650	$ 1,904,032	$ 1,901,172

The Notes to Financial Statements are an integral part hereof.

CENTRAL HUDSON STATEMENT OF EQUITY (UNAUDITED)

(In Thousands, except share amounts)

	Central Hudson Common Shareholders								
	Common Stock		Treasury Stock						
	Shares Issued	Amount	Shares Repurchased	Amount	Paid-In Capital	Capital Stock Expense	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
Balance at December 31, 2014	16,862,087	$ 84,311	-	$ -	$ 239,952	$ (4,633)	$ 216,456	$ -	$ 536,086
Net income							18,140		18,140
Dividends declared:									
On Common Stock to parent - CH Energy Group							(5,500)		(5,500)
Balance at March 31, 2015	16,862,087	$ 84,311	-	$ -	$ 239,952	$ (4,633)	$ 229,096	$ -	$ 548,726
Balance at December 31, 2015	16,862,087	$ 84,311	-	$ -	$ 239,952	$ (4,633)	$ 237,520	$ -	$ 557,150
Net income							17,440		17,440
Dividends declared:									
On Common Stock to parent - CH Energy Group							-		-
Balance at March 31, 2016	16,862,087	$ 84,311	-	$ -	$ 239,952	$ (4,633)	$ 254,960	$ -	$ 574,590

The Notes to Financial Statements are an integral part hereof.

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 – Summary of Significant Accounting Policies

Corporate Structure

CH Energy Group is the holding company parent corporation of four principal, wholly owned subsidiaries, Central Hudson Gas & Electric Corporation ("Central Hudson"), Central Hudson Electric Transmission LLC ("CHET"), Central Hudson Enterprises Corporation ("CHEC") and Central Hudson Gas Transmission LLC ("CHGT"). CH Energy Group's common stock is indirectly owned by Fortis Inc. ("Fortis"), which is the largest investor-owned gas and electric distribution utility in Canada. Central Hudson is a regulated electric and natural gas subsidiary. CHET was formed to engage in Federal Energy Regulatory Commission ("FERC") transmission projects and has 6.1% ownership in New York Transco LLC ("Transco"). In the first quarter of 2016, CHGT was formed to hold CH Energy Group's ownership stake in a possible new gas transmission pipeline to address gas transmission opportunities in New York. As of March 31, 2016 there has been no activity at CHGT. CHEC has ownership interests in certain subsidiaries that are less than 100% owned.

Basis of Presentation

This Quarterly Report is a combined report of CH Energy Group and Central Hudson. The Notes to the Consolidated Financial Statements apply to both CH Energy Group and Central Hudson. CH Energy Group's Consolidated Financial Statements include the accounts of CH Energy Group and its wholly owned subsidiaries, which include Central Hudson, CHET, and CHEC. Inter-company balances and transactions have been eliminated in consolidation.

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

The Financial Statements 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 3 – "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 are included in the December 31, 2015 audited Financial Statements and, accordingly, should be read in conjunction with the Notes thereto.

The balance sheets of CH Energy Group and Central Hudson as of March 31, 2015 are included for supplemental analysis purposes.

Regulatory Accounting Policies

Regulated companies such as Central Hudson, defer costs and credits on the balance sheet as regulatory assets and liabilities (see Note 3 – “Regulatory Matters”) when it is probable that those costs and credits will be recoverable through the rate-making process in a period different from when they otherwise would have been reflected in income. For Central Hudson, these deferred regulatory assets and liabilities, and the related deferred taxes, are then either eliminated by offset as directed by the PSC or reflected in the Consolidated Statement of Income in the period in which the same amounts are reflected in rates. In addition, current accounting practices reflect the regulatory accounting authorized in the most recent rate order.

Use of Estimates

Preparation of the financial statements in accordance with GAAP includes the use of estimates and assumptions by management that affects the reported amounts of assets, liabilities and disclosures of contingent asset and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. As with all estimates, actual results may differ from those estimated. Expense items most affected by the use of estimates are depreciation and amortization (including amortization of intangible assets), reserves for uncollectible accounts receivable, tax reserves, other operating reserves, unbilled revenues, pension and other post-retirement benefits.

Estimates are also reflected for certain commitments and contingencies where there is sufficient basis to project a future obligation. Disclosures related to these certain commitments and contingencies are included in Note 12 - “Commitments and Contingencies”.

Revenue Recognition

Central Hudson records revenue on the basis of meters read. In addition, Central Hudson records an estimate of unbilled revenue for service rendered to bimonthly customers whose meters are read in the prior month. The estimate covers 30 days subsequent to the meter read date. Prior to July 1, 2015, pursuant to regulatory requirements, a portion of unbilled electric revenues was not recorded. As of March 31, 2015, the portion of estimated electric unbilled revenues that was unrecognized in accordance with then current regulatory agreements was $10.8 million. On July 1, 2015, per the Order Approving Rate Plan (“2015 Rate Order”) in Cases 14-E-0318 and 14-G-0319, Central Hudson was granted authorization to record all unbilled electric revenues and defer the residual unbilled revenue greater than the 30 day estimate. The full amounts of estimated natural gas unbilled revenues are recognized on the Balance Sheets in all periods presented and as of March 31, 2016 and December 31, 2015 also include estimated electric unbilled revenues.

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 Central Hudson are accounted for on a net basis (excluded from revenue).

Inventory

The following is a summary of CH Energy Group's and Central Hudson's inventories valued using the average cost method (In Thousands):

	March 31, 2016	December 31, 2015	March 31, 2015
Natural gas	$ 3,088	$ 5,148	$ 2,646
Fuel used in electric generation	471	482	388
Materials and supplies	14,494	13,153	12,141
Total	$ 18,053	$ 18,783	$ 15,175

Utility Plant - Central Hudson

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

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

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

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

For additional information see Note – 2 "Utility Plant – Central Hudson."

Depreciation and Amortization

For financial statement purposes, Central Hudson's depreciation provisions are computed on the straight-line method using PSC approved rates based on studies of the estimated useful lives and estimated net salvage values of properties. The anticipated costs of removing assets upon retirement are generally provided for over the life of those assets as a component of depreciation expense. In accordance with current accounting guidance for regulated operations, Central Hudson accrues for the future cost of removal for its rate-regulated natural gas and electric utility assets by recording a regulatory liability. This depreciation method is consistent with industry practice and is not allowed to be shown as accumulated depreciation in accordance with GAAP, therefore, a reclassification to regulatory liabilities for reporting purposes is required.

Impairment of Long-Lived Assets

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

Allowance For Funds Used During Construction

Central Hudson's regulated utility plant includes AFUDC, which is defined as the net cost of borrowed funds used for construction purposes and a reasonable rate on other funds when so used. The concurrent credit for the amount so capitalized is reported in the Consolidated Statement of Income as follows: the portion applicable to borrowed funds is reported as a reduction of interest charges while the portion applicable to other funds (the equity component, a noncash item) is reported as other income.

Operating Leases

CH Energy Group and its subsidiaries recognize operating lease payments as an expense in the Statement of Income on a straight line basis over the lease term.

Asset Retirement Obligations

Each Asset Retirement Obligation ("ARO") is recorded as a liability at fair value, with a corresponding increase to utility capital assets. Central Hudson recognizes AROs in the periods in which they are known and estimable. The fair value of AROs is based on an estimate of the present value of expected future cash outlays, discounted at a credit-adjusted risk-free interest rate. AROs are adjusted at the end of each reporting period to reflect that passage of time and any changes in the estimated future cash flows underlying the obligation. Actual costs incurred upon the settlement of AROs are recorded as a reduction in the liabilities.

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.

Research and Development

Central Hudson is engaged in the conduct and support of research and development ("R&D") activities, which are focused on the improvement of existing energy technologies and the development of new technologies for the delivery and customer use of energy. R&D expenditures are provided for in Central Hudson's rates charged to customers for electric and natural gas delivery service, with any differences between R&D expense and the rate allowances deferred for future recovery from or return to customers. See Note 6 – "Research and Development" for additional details.

Deferred Financing Costs

Expenses incurred in connection with CH Energy Group's or Central Hudson's debt issuance and any discount or premium on debt are deferred and amortized over the lives of the related issues. When Long-term debt is reacquired or redeemed, regulatory accounting permits deferral of related unamortized debt expense and reacquisition costs. These costs are being amortized over the remaining life of the original life of the debt issue retired. The amortization of debt costs for reacquired debt is incorporated in the revenue requirement for delivery rates as authorized by the PSC.

Income Tax

CH Energy Group and its subsidiaries file consolidated federal and state income tax returns. Income taxes are deferred under the asset and liability method in accordance with current accounting guidance for income taxes, resulting in deferred income taxes for all differences between the financial statement and the tax basis of assets and liabilities. Additional deferred income taxes and offsetting regulatory assets or liabilities are recorded by Central Hudson to recognize that income taxes will be recovered or refunded through future revenues. For federal and state income tax purposes, CH Energy Group and its subsidiaries use an accelerated method of depreciation and generally use the shortest life permitted for each class of assets. Deferred investment tax credits are amortized over the estimated life of the properties giving rise to the credits. For state income tax purposes, Central Hudson uses book depreciation for property placed in service in 1999 or earlier in accordance with transition property rules under Article 9-A of the New York State Tax Law. CHEC files state income tax returns in the states in which it conducts business. For more information, see Note 4 – "Income Tax". Central Hudson follows the normalization method of accounting, whereas the tax benefits associated with utility assets are spread over the same time period that the costs of those assets are recovered from customers. Normalization is required as a prerequisite for utilities claiming accelerated depreciation and certain tax credits.

Post-Employment and Other Benefits

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

Central Hudson recognizes the underfunded status of the defined benefit pension plans as a liability on the balance sheets. The underfunded status is measured as the difference between the fair value of the pension plans' assets and the projected benefit obligation for the pension plans. Central Hudson recognizes a regulatory asset for the underfunded amount because these future costs are probable for recovery in the rates charged to customers and Central Hudson expects to recover these costs over the estimated service lives of employees.

Retirement Plan and OPEB benefit expenses are determined by actuarial valuations based on assumptions that Central Hudson evaluates annually.

Central Hudson sponsors a contributory plan, the 401(k) retirement plan ("401(k) plan") for its employees. The 401(k) plan provides for employee tax-deferred salary deductions for participating employees and employer match contributions.

Equity-Based Compensation

Central Hudson has Share Unit Plans ("SUPs") that grant share units to CH Energy Group and Central Hudson's officers as part of the officers' total compensation. Central Hudson records the compensation expense and liability associated with the SUPs based on the fair value at each reporting date until settlement reflecting expected future payout and time elapsed within the terms of the award. The fair value of the SUPs' liability is based on Fortis' common share 5 day volume weighted average trading price at the end of each reporting period. For more information, see Note 11 – "Equity-Based Compensation".

Common Stock Dividends

CH Energy Group's ability to pay dividends is affected by the ability of its subsidiaries to pay dividends. The Federal Power Act limits the payment of annual dividends by Central Hudson to its retained earnings. More restrictive is the PSC's limit on the dividends Central Hudson may pay to CH Energy Group, which is 100% of the average annual income available for common stock, calculated on a two-year rolling average basis. See Note 8 – "Capitalization-Common and Preferred Stock" for information regarding dividends declared.

Derivatives

From time to time, Central Hudson enters into derivative contracts in conjunction with the Company's energy risk management program to hedge certain risk exposure related to its business operations. Central Hudson uses derivative contracts to reduce the impact of volatility in the supply prices of natural gas and electricity and to hedge exposure to volatility in interest rates for its variable rate long-term debt.

Realized gains and losses on Central Hudson's derivative instruments are conveyed to or recovered from customers through PSC-authorized deferral accounting mechanisms, with no material impact on cash flows, results of operations or liquidity. Realized gains and losses on Central Hudson's energy derivative instruments are reported as part of purchased natural gas, purchased electricity and fuel used in electric generation in CH Energy Group's and Central Hudson's Statements of Income as the corresponding amounts are either recovered from or returned to customers through fuel cost adjustment clauses in revenues. See Note 14 – "Accounting for Derivative Instruments and Hedging Activities" for further details.

Normal Purchases and Normal Sales

Central Hudson enters into forward energy purchase and sales contracts, including options, with counterparties that have generating capacity to support current load forecasts or counterparties that can meet Central Hudson's load serving obligations. Central Hudson has elected the normal purchase or normal sales exception for these contracts, which are not required to be measured at fair value and are accounted for on an accrual basis. See Note 12 – "Commitments and Contingencies" for further details.

Reclassification

Certain amounts in the 2015 Financial Statements have been reclassified to conform to the 2016 presentation on CH Energy Group or Central Hudson's financial statements. See below "New Accounting Policies" for further details.

New Accounting Policies

Simplifying the Presentation of Debt Issuance Costs
Effective October 1, 2015, CH Energy Group and Central Hudson early adopted ASU No. 2015-03 that requires debt issuance costs to be presented on the consolidated balance sheet as a direct deduction from the carrying amount of debt liability, consistent with debt discounts or premiums. The adoption of this update was applied retrospectively and resulted in the reclassification of debt issuance costs of approximately $4.3 million from long-term other assets to long-term debt on the CH Energy Group and Central Hudson consolidated balance sheet at March 31, 2015.

Balance Sheet Classification of Deferred Taxes
Effective October 1, 2015, CH Energy Group and Central Hudson early adopted ASU No. 2015-17 that requires deferred tax assets and liabilities to be classified and presented as long term on the consolidated balance sheet. The adoption of this update was applied retrospectively and resulted in the reclassification from current to long-term of deferred income tax assets of $20 million for CH Energy Group and $13.7 million for Central Hudson at March 31, 2015.

NOTE 2 – Utility Plant - Central Hudson

Utility Plant

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

	Estimated Depreciable Life in Years[1]	Utility Plant March 31, 2016	Utility Plant December 31, 2015	Utility Plant March 31, 2015
Electric:				
Production	25-85	$ 37,970	$ 37,967	$ 37,964
Transmission	30-80	300,606	299,078	276,345
Distribution	7-80	898,578	889,404	853,024
Other	40	4,259	4,214	4,181
Total		$ 1,241,413	$ 1,230,663	$ 1,171,514
Natural Gas:				
Transmission	19-80	55,959	56,075	54,095
Distribution	28-95	366,436	360,938	332,100
Other	N/A	442	442	442
Total		$ 422,837	$ 417,455	$ 386,637
Common:				
Land and Structures	50	$ 68,734	$ 68,683	$ 67,042
Office and Other Equipment, Radios and Tools	8-35	45,370	44,611	43,406
Transportation Equipment	10-12	57,617	57,381	55,138
Other	5-10	31,264	30,518	21,353
Total		$ 202,985	$ 201,193	$ 186,939
Gross Utility Plant		$ 1,867,235	$ 1,849,311	$ 1,745,090

[1] Effective July 1, 2015, the PSC approved 2015 Rate Order included an extension of the useful lives of certain utility plant assets, therefore March 2015 numbers reported will not correspond to the depreciable life stated.

Total AFUDC borrowed for both the three months ended March 31, 2016 and 2015 were $0.1 million. The equity component of AFUDC recorded for the three months ended March 31, 2016 and 2015 was $0.3 million and $0.2 million, respectively.

Included in the Net Utility Plant balance of $1,448 million, $1,422 million and $1,338 million at March 31, 2016, December 31, 2015 and March 31, 2015 is $61.5 million, $58.8 million, and $51.6 million of intangible utility plant assets and the related accumulated amortization of $27.0 million, $26.0 million and $23.2 million, respectively.

As of March 31, 2016, December 31, 2015 and March 31, 2015, Central Hudson has classified $46.5 million, $46.6 million and $48.3 million of cost of removal charged in excess of the amount reported as an ARO under GAAP as a regulatory liability.

As of March 31, 2016, December 31, 2015 and March 31, 2015, AROs for Central Hudson were approximately $1.0 million, $1.0 million and $1.2 million, respectively. These amounts have been classified in the above chart under "Electric - Other" and "Common - Other" based on the nature of the ARO and is also reflected as "Other" long-term liabilities in the CH Energy Group and Central Hudson Balance Sheets, respectively.

NOTE 3 – Regulatory Matters

Summary of Regulatory Assets and Liabilities

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

	March 31, 2016	December 31, 2015	March 31, 2015
Regulatory Assets (Debits):			
Current:			
Deferred purchased electric costs (Note 1)	$ 9,659	$ 8,154	$ 14,089
Deferred purchased natural gas costs (Note 1)	1,278	1,233	2,141
Deferred unrealized losses on derivatives - Electric (Note 14)	10,693	9,152	5,821
Deferred unrealized losses on derivatives - Gas (Note 14)	5	990	107
PSC General and Temporary State Assessment and carrying charges	6,036	4,139 (1)	2,782
Deferred debt expense on re-acquired debt	520	520	520
Deferred and accrued costs - MGP site remediation (Note 12)	6,280	6,242	4,605
Deferred storm costs and carrying charges	-	- (1)	5,098
Other	358	358 (1)	91
	$ 34,829	$ 30,788	$ 35,254
Long-term:			
Deferred pension costs (Note 10)	$ 89,130	$ 94,488	$ 87,743
Deferred unrealized losses on derivatives - Electric (Note 14)	7,319	1,476	4,255
Carrying charges - pension reserve	1,712	1,181	17,720
Deferred and accrued costs - MGP site remediation and carrying charges (Note 12)	79,826	80,959 (1)	101,501
Deferred debt expense on re-acquired debt	3,808	3,938	4,329
Deferred Medicare Subsidy taxes	-	- (1)	8,997
Residual natural gas deferred balances and carrying charges	-	- (1)	1,130
Income taxes recoverable through future rates	20,847	29,734	34,042
Energy efficiency incentives and carrying charges	5,133	5,061	3,547
Deferred property taxes and carrying charges	-	541 (1)	3,874
Deferred storm costs and carrying charges	5,171	5,281	-
Other	14,667	11,995 (1)	23,163
	$ 227,613	$ 234,654	$ 290,301
Total Regulatory Assets	$ 262,442	$ 265,442	$ 325,555
Regulatory Liabilities (Credits):			
Current:			
Rate moderator - Electric	$ 12,376	$ 12,655	$ -
Rate moderator - Gas	4,974	3,411	-
RDM and carrying charges - Electric	2,873	5,419	412
RDM and carrying charges - Gas	1,905	3,492	5,283
Deferred unrealized gains on derivatives - Electric (Note 14)	528	-	35
Deferred unrealized gains on derivatives - Gas (Note 14)	38	-	-
Deferred unbilled electric and gas revenues (Note 1)	16,832	17,452	5,004 (2)
	$ 39,526	$ 42,429	$ 10,734
Long-term:			
Rate moderator - Electric and carrying charges	$ 38,336	$ 40,778	$ -
Rate moderator - Gas and carrying charges	4,531	6,423	-
Customer benefit fund	5,265	5,665	6,302
Deferred cost of removal (Note 2)	46,487	46,561	48,262
Rate Base impact of tax repair project and carrying charges	-	- (1)	13,665
Excess electric depreciation reserve carrying charges	-	- (1)	1,586
Deferred unrealized gains on derivatives - Electric (Note 14)	-	2,218	-
Income taxes refundable through future rates	28,673	23,810 (1)	35,104
Deferred OPEB costs (Note 10)	24,474	25,663 (1)	48,864
Carrying charges - OPEB reserve	2,130	1,384 (1)	22,523
PBA - Electric and carrying charges	-	- (1)	13,196
PBA - Gas and carrying charges	-	- (1)	3,347
Deferred property taxes and carrying charges	1,300	-	-
Other	15,505	6,149 (1)	30,879
	$ 166,701	$ 158,651	$ 223,728
Total Regulatory Liabilities	$ 206,227	$ 201,080	$ 234,462
Net Regulatory Assets/Liabilities	$ 56,215	$ 64,362	$ 91,093

(1) Central Hudson offset all or a portion of certain regulatory assets and liabilities as of June 30, 2015 in accordance with the PSC prescribed 2015 Rate Order ("2015 Rate Order") issued on June 17, 2015.

(2) Prior to July 1, 2015, pursuant to regulatory requirements, unbilled electric revenues were not recorded. Amounts reported as of March 31, 2015 consists only of estimated natural gas unbilled revenues.

2013 Acquisition Order/2015 Rate Order

From July 1, 2010 through June 30, 2013, Central Hudson operated under the terms of the 2010 Rate Order. On June 26, 2013 the PSC issued its Order Authorizing Acquisition Subject to Conditions in Case 12-M-0192 (the "2013 Acquisition Order"), which was accepted on June 27, 2013. The 2013 Acquisition Order adopted the terms of the 2013 Joint Proposal dated January 25, 2013 for the acquisition of CH Energy Group, owner of Central Hudson, by Fortis along with additional commitments by the companies to enhance financial protection for ratepayers and other community and economic development benefits. The 2013 Acquisition Order included a 2 year rate freeze on electric and natural gas delivery rates and extended certain terms of the 2010 Rate Order through June 30, 2015. On June 17, 2015, the PSC issued an Order establishing the Rate Plan ("2015 Rate Order"). The 2015 Rate Order adopted the terms set forth in the April 22, 2015 Joint Proposal with minor modifications. The 2015 Rate Order became effective July 1, 2015, with Rate Year 1 ("RY1"), Rate Year 2 ("RY2") and Rate Year 3 ("RY3") defined as the twelve months ending June 30, 2016, June 30, 2017 and June 30, 2018, respectively. A summary of the key terms of the 2013 Joint Proposal and 2015 Rate Order are as follows:

		2015 Rate Order		
Description	2013 Acquisition Order	Rate Year 1	Rate Year 2	Rate Year 3
Electric delivery rate increases	$0 through June 30, 2015	$15.3 Million	$16.0 Million	$14.1 Million
Natural gas delivery rate increases	$0 through June 30, 2015	$1.8 Million	$4.6 Million	$4.4 Million
ROE	10.00%	9.00%	9.00%	9.00%
Earnings sharing	Yes(1)	Yes(2)	Yes(2)	Yes(2)
Capital structure – common equity	48%	48%	48%	48%
Positive benefit adjustments	$35.0 million(3)	N/A	N/A	N/A
Community benefit fund	$5.0 million(3)	N/A	N/A	N/A
Bill Credits - Electric	N/A	$13.0 Million	$12.0 Million	$2.0 Million
Bill Credits - Gas	N/A	$2.548 Million	$1.7 Million(5)	$0(5)
Major Storm Reserve - Electric	N/A	$0.7 Million	$0.7 Million	$0.7 Million
Synergy Savings	$1.85 million(4)	N/A	N/A	N/A
RDMs – electric and natural gas	Yes	Yes	Yes	Yes

(1) ROE > 10.0% and up to 10.5%, 50% to customers, > 10.5%, 90% to customers.
(2) ROE > 9.5% and up to 10.0%, 50% to customers, > 10.0% and up to 10.5%, 80% to customers, > 10.5%, 90% to customers.
(3) To cover expenses typically recovered from rate payers, such as storm restoration costs and for economic development and low-income customer assistance programs.
(4) Guaranteed annual synergy savings of $1.85 million to ratepayers for 5 years.
(5) In addition to gas bill credits, 50% of gas delivery revenues from the Danskammer Generating Station in RY1 will be refunded to customers via bill credit in RY2. In addition, 50% of revenues from RY2 will be refunded as a gas bill credit in RY3.

Other key provisions of the 2015 Rate Order include:

- The Rate Order provides for partial or full reconciliation of certain expenses including, but not limited to: property taxes; pensions/OPEBs; environmental site investigation and remediation costs; variable and fixed rate debt; and stray voltage. In addition, the Rate Order includes downward-only reconciliations for net plant; distribution and transmission right-of-way maintenance costs; security costs and rate case expenses. The Rate Order also authorizes a continuation of full cost recovery of electric and natural gas commodity costs.

- Central Hudson's Customer Service Quality Performance Mechanisms (consisting of the PSC Annual Compliant Rate, the Customer Satisfaction Index and Appointments Kept measures) and more stringent electric reliability and gas safety performance metrics continue. The Company will be subject to a negative revenue adjustment if it fails to meet specific metrics as set forth in the Rate Order.

- The Rate Order directs Central Hudson to replace or eliminate 13 miles of leak prone pipe in calendar year 2016, 14 miles in 2017 and 15 miles in 2018. In the event the Company fails to meet its leak prone pipe target in any calendar year, the Company will be subject to an 8 basis point negative revenue adjustment. The Rate Order also limits the amount provided in rates associated with the replacement of leak prone pipes. The Rate Order provides the Company with an incentive to surpass its leak prone pipe target for a positive revenue adjustment for each mile replaced or eliminated in excess of the applicable target, capped at maximum of 5 miles for a total of 10 basis points per calendar year, which the Company will defer for future recovery.

- The Rate Order provides for a $1 million annual program funding each Rate Year to provide additional incentives and support for customer conversion to gas. Central Hudson will receive an annual incentive in the form of 1 basis point for every 200 gas customers added above the combined total customer count forecast for residential and commercial customers for each Rate Year.

- The Rate Order directs the Company to transition to monthly billing for all customers by July 2016.

- The Rate Order provides for Network Strategy and Distribution Automation capital expenditures. Full implementation of the Network Strategy and Distribution Automation project beyond Rate Year 1 will be dependent upon the PSC agreement that the Company has successfully demonstrated the functional capability and operation/integration of these investments.

Other PSC Proceedings

On August 7, 2015, Central Hudson filed a petition with the PSC seeking recovery of $5.284 million of incremental electric storm restoration expense plus carrying charges incurred during the twelve months ended June 30, 2015 from the 2014 Thanksgiving Storm. These incremental costs represent the amount Central Hudson deferred on its books based on actual costs incurred and bills received. On January 22, 2016, under Case 15-E-0464, the PSC approved the deferral of incremental storm restoration costs together with carrying charges at the allowed pre-tax rate of return. The method of recovery will be addressed in the Company's next rate case filing.

Deferral of incremental costs exceeding 2% of net income related to governmental mandates was authorized in the 2010 Rate Order, Case 09-E-0588, and was extended for two additional rate years in Case 12-M-0192. There are currently regulatory asset balances associated with two deferrals for costs included during the last rate year of the extended rate freeze:

- On October 14, 2015, Central Hudson filed a deferral petition seeking approval and recovery of $2.2 million of incremental expense associated with new compliance and reporting requirements resulting from multiple Commission Orders stemming from a natural gas incident in Horseheads, New York. On February 5, 2016, Central Hudson received a letter from the PSC's Office of Accounting, Audits and Finance indicating that the PSC had reviewed and audited the deferred balances and was in agreement of the amount deferred at December 31, 2015. The method of recovery will be addressed in the Company's next rate case filing.

- On September 1, 2015, Central Hudson filed a deferral petition with the PSC seeking approval and recovery of $1.0 million of incremental expense associated with new compliance requirements resulting from the North American Reliability Corporation's ("NERC's") change to the definition of the Bulk Electric System, as approved by Federal Energy Regulation Committee ("FERC"). On February 5, 2016, Central Hudson received a letter from the PSC's Office of Accounting, Audits and Finance indicating that the PSC had reviewed and audited the deferred balances and was in agreement of the amount deferred at December 31, 2015. The method of recovery will be addressed in the Company's next rate case filing.

NOTE 4 – Income Tax

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

In September 2012, Central Hudson filed corporate income tax returns for the year ended December 31, 2011. With that filing, Central Hudson included an election to adopt the provisions of Revenue Procedure 2011-43 ("Rev Proc"), which provided IRS guidance related to the repair deduction previously taken on electric transmission and distribution property. As such, tax reserves related to the electric transmission and distribution repair deductions, which were established prior to issuance of the Rev Proc, were reclassified to deferred tax liability accounts.

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

Other than the uncertain tax position related to Central Hudson's accounting method change for gas transmission and distribution repairs, there are no other uncertain tax positions. Changes in the tax reserve reflect the ongoing uncertainty related to gas transmission and distribution repair deductions taken in the current period.

The following is a summary of activity related to uncertain tax positions (In Thousands):

	Three Months Ended March 31,	
	2016	2015
Tax reserve balance at the beginning of the period	$ 3,520	$ 2,693
Adjustments related to tax accounting method change	393	453
Tax reserve balance at the end of the period	$ 3,913	$ 3,146

Jurisdiction	Tax Years Open for Audit
Federal	2012 – 2014
New York State	2013 – 2014

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 March 31, 2016	Three Months Ended March 31, 2015
Net income from Continuing Operations	$ 16,736	$ 16,936
Federal income tax	2,988	20,067
State income tax	1,111	3,147
Deferred federal income tax (1)	6,061	(10,325)
Deferred state income tax (1)	768	(308)
	$ 27,664	$ 29,517
Computed federal tax at 35% statutory rate	$ 9,682	$ 10,331
State income tax net of federal tax benefit	1,299	1,797
State income tax rate change	(78)	(60)
Depreciation flow-through	676	902
Cost of Removal	(642)	(614)
Other	(9)	225
Total income tax	$ 10,928	$ 12,581
Effective tax rate - federal	32.7%	33.0%
Effective tax rate - state	6.8%	9.6%
Effective tax rate - combined	39.5%	42.6%

(1) In 2016, there was a change in presentation of the above chart related to federal and state deferred taxes. The federal benefit of state deferred tax in 2016 is shown on the "Deferred federal income tax" line, whereas in 2015, it was shown net within the "Deferred state income tax" line. If the federal and state effective tax rates for 2016 were presented in line with the 2015 presentation, the federal and state effective tax rates would have been 33.7% and 5.8%, respectively.

The higher NYS effective rate for the three months ended March 31, 2015 was the result of Central Hudson having more losses from prior years available to reduce its NYS taxable income than were available at the consolidated level. This resulted in a higher tax liability at CH Energy Group on a consolidated basis.

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 March 31, 2016	Three Months Ended March 31, 2015
Net income	$ 17,440	$ 18,140
Federal income tax	3,269	20,805
State income tax	941	1,888
Deferred federal income tax [(1)]	6,160	(10,419)
Deferred state income tax [(1)]	779	(299)
Income before taxes	$ 28,589	$ 30,115
Computed federal tax at 35% statutory rate	$ 10,006	$ 10,540
State income tax net of federal tax benefit	1,196	988
State income tax rate change	(78)	(60)
Depreciation flow-through	676	902
Cost of Removal	(642)	(614)
Other	(9)	219
Total income tax	$ 11,149	$ 11,975
Effective tax rate - federal	33.0 %	34.5 %
Effective tax rate - state	6.0 %	5.3 %
Effective tax rate - combined	39.0 %	39.8 %

(1) In 2016, there was a change in presentation of the above chart related to federal and state deferred taxes. The federal benefit of state deferred tax in 2016 is shown on the "Deferred federal income tax" line, whereas in 2015, it was shown net within the "Deferred state income tax" line. If the federal and state effective tax rates for 2016 were presented in line with the 2015, the federal and state effective tax rates would have been 34.0% and 5.0%, respectively.

NOTE 5 – Investments

The value of CHEC's investments as of March 31, 2016, December 31, 2015 and March 31, 2015 are as follows (In Thousands):

		Equity Investment		
CHEC Investment	Description	March 31, 2016	December 31, 2015	March 31, 2015
CH-Community Wind	50% equity interest in a joint venture that owns 18% interest in two operating wind projects	-	-	-
Other	Partnerships and an energy sector venture capital fund	786	1,078	1,053
		$ 786	$ 1,078	$ 1,053

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

In 2014, CH Energy Group formed CHET to engage in transmission projects. The first undertaking of CHET was the execution of the Transco agreement. CHET ownership interest in Transco is 6.1%. As of March 31, 2016, December 31, 2015 and March 31, 2015, the value of CHET's investment in Transco was $0.4 million, $0.3 million and $0.1 million, respectively.

In the first quarter of 2016, CH Energy Group formed CHGT to hold an ownership stake in a possible new gas transmission pipeline to address gas transmission opportunities in New York. As of March 31, 2016 there has been no activity at CHGT.

NOTE 6 – Research and Development

Central Hudson's R&D expenditures for the three months ended March 31, 2016 and 2015 were $0.8 million and $1.5 million, respectively. These expenditures were for internal research programs and for contributions to research administered by New York State Energy Research and Development Authority ("NYSERDA"), the Electric Power Research Institute and other industry organizations.

NOTE 7 – Short-Term Borrowing Arrangements

CH Energy Group and Central Hudson borrowings under their committed and uncommitted short-term borrowing arrangements are as follows:

Description	CH Energy Group	Central Hudson
Revolving Credit Facilities:[(1)]		
Limit	\$50 million[(2)] / \$200 million[(3)]	\$200 million[(3)]
Expiration	July 10, 2020 / October 15, 2020	October 15, 2020

	CH Energy Group			Central Hudson		
	March 31, 2016	December 31, 2015	March 31, 2015	March 31, 2016	December 31, 2015	March 31, 2015
Outstanding (In Thousands):						
Committed Credit	\$ 12,000	\$ 12,000	\$ 10,000	\$ 12,000	\$ 12,000	\$ 10,000
Uncommitted Credit[(4)]	-	13,000	-	-	13,000	-
Intercompany Borrowing[(5)]	-	-	-	-	2,000	-
Total	\$ 12,000	\$ 25,000	\$ 10,000	\$ 12,000	\$ 27,000	\$ 10,000
Weighted Average Interest Rate	1.19%	1.16%	0.94%	1.19%	1.15%	0.94%

(1) Providing committed credit.

(2) Participating banks in the credit facility for CH Energy Group are JPMorgan Chase Bank, N.A., Bank of America, N.A., Wells Fargo Bank, N.A. and KeyBank National Association. If these lenders are unable to fulfill their commitments under these facilities, funding may not be available as needed.

(3) Participating banks in the credit facility for Central Hudson are JPMorgan Chase Bank, N.A., Bank of America, N.A., Wells Fargo Bank, N.A., KeyBank National Association, Bank of Nova Scotia, N.A. and Citizens Bank, N.A. If these lenders are unable to fulfill their commitments under these facilities, funding may not be available as needed.

(4) To diversify cash sources and provide competitive options to minimize Central Hudson's cost of short-term debt.

(5) Central Hudson uncommitted credit outstanding at December 31, 2015 included \$2 million of intercompany debt from CH Energy Group.

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 Statement of Equity for Central Hudson.

During both the three months ended March 31, 2016 and 2015, CH Energy Group paid dividends to FortisUS Inc. ("FortisUS") of $5.5 million.

During the three months ended March 31, 2015, Central Hudson paid dividends to parent CH Energy Group of $5.5 million. No dividends were paid to parent CH Energy Group during the three months ended March 31, 2016.

Common Stock Dividends

CH Energy Group's ability to pay dividends is affected by the ability of its subsidiaries to pay dividends. The Federal Power Act limits the payment of annual dividends by Central Hudson to its retained earnings. More restrictive is the PSC's limit on the dividends Central Hudson may pay to CH Energy Group, which is 100% of the average annual income available for common stock, calculated on a two-year rolling average basis. Based on this calculation, Central Hudson is currently restricted to a maximum annual payment of $40.3 million in dividends to CH Energy Group. Central Hudson's ability to pay dividends would be reduced to 75% of its average annual income in the event of a downgrade of its senior debt rating below "BBB+" by more than one rating agency if the stated reason for the downgrade is related to any of CH Energy Group's or Central Hudson's affiliates. Further restrictions are imposed for each downgrade below this level. In addition, Central Hudson would not be allowed to pay dividends if its average common equity ratio for the 13 months prior to a proposed dividend was more than 200 basis points below the ratio used in setting rates (currently 48%).

NOTE 9 – Capitalization – Long-Term Debt

At March 31, 2016, Central Hudson has $30 million of 10-year Series E notes with a floating interest rate of 3 month LIBOR plus 1%. To mitigate the potential cash flow impact from unexpected increases in short-term interest rates, Central Hudson purchased a 3-year interest rate cap that will expire on April 1, 2017. The rate cap has a notional amount equal to the outstanding principal amount of the 2014 Series E notes and is based on the quarterly reset of the LIBOR rate on the quarterly interest payment dates. Central Hudson would receive a payout if the LIBOR rate exceeds 4% at the start of any quarterly interest period during the term of the cap.

The principal amount of Central Hudson's outstanding 1999 Series B NYSERDA Bonds totaled $33.7 million at March 31, 2016. These are tax-exempt multi-modal bonds that are currently in a variable rate mode. To mitigate the potential cash flow impact from unexpected increases in short-term interest rates on Series B NYSERDA Bonds, on March 24, 2016, Central Hudson purchased an interest rate cap. The rate cap has a notional amount equal to the outstanding principal amount of the Series B bonds and expires on April 1, 2019. 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.

This interest rate cap replaces a similar interest rate cap that expires on April 1, 2016. There has been no payout on the expiring interest rate cap during its two-year term.

In its 2015 Rate Order, the PSC has authorized the continued deferral accounting treatment for variations in the interest costs of the 1999 Series B NYSERDA Bonds and beginning July 1, 2015, the Series E 10-year notes. As such, variations between the actual interest rates on these bonds and the interest rate included in the current delivery rate structure for these bonds are deferred for future recovery from or refund to customers and therefore do not impact earnings.

See Note 14 – "Accounting for Derivative Instruments and Hedging Activities" for fair value disclosures related to this instrument.

NOTE 10 – Post-Employment Benefits

Central Hudson has a non-contributory Retirement Plan covering all of its employees hired before January 1, 2008 and a non-qualified SERP for certain executives. Central Hudson provides certain health care and life insurance benefits for retired employees through its post-retirement benefit plans.

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

The following are the components of Central Hudson's net periodic benefit costs for its pension and OPEB plans for the three months ended March 31, 2016 and 2015 (In Thousands):

	Pension Benefits		OPEB	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2016	2015	2016	2015
Service cost	$ 2,846	$ 3,202	$ 578	$ 524
Interest cost	6,694	6,505	1,356	1,418
Expected return on plan assets	(8,416)	(8,868)	(2,041)	(1,988)
Amortization of:				
Prior service cost (credit)	370	405	(1,433)	(1,459)
Recognized actuarial loss (gain)	4,412	4,056	(109)	(116)
Net Periodic Benefit Cost (Income)	$ 5,906	$ 5,300	$ (1,649)	$ (1,621)

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

	March 31, 2016[1]	December 31, 2015[1]	March 31, 2015[1]
Accrued pension costs	$ 61,522	$ 60,651	$ 61,994

[1] Includes approximately $232K at March 31, 2016 and December 31, 2015 and $555K of accrued pension liability at March 31, 2015 recorded at CH Energy Group as a result of the resignation in 2014 of two CH Energy Group officers with change in control agreements.

These balances include the difference between the projected benefit obligation (“PBO”) for pensions and the market value of the pension assets and any 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):

	March 31, 2016[1]	December 31, 2015[1]	March 31, 2015[1]
Prefunded pension costs prior to funding status adjustment	$ 24,856	$ 30,510	$ 32,457
Additional liability required	(86,378)	(91,161)	(94,451)
Total accrued pension costs	$ (61,522)	$ (60,651)	$ (61,994)
Total offset to additional liability - regulatory assets - pension plan	$ 86,378	$ 91,161	$ 94,451

[1] Includes approximately $232K at March 31, 2016 and December 31, 2015 and $555K of accrued pension liability at March 31, 2015 recorded at CH Energy Group only as a result of the resignation in 2014 of two CH Energy Group officers with change in control agreements.

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.

Contribution levels for the Retirement and OPEB Plans are determined by various factors including the funded status, expected return on plan assets, benefit changes and corporate resources. In addition, OPEB plan contribution levels are also impacted by medical claims and mortality assumptions.

Contributions for the three months ended March 31, 2016 and 2015 were as follows (In Thousands):

Retirement Income Plan		OPEB	
Three Months Ended March 31,		Three Months Ended March 31,	
2016	2015	2016	2015
$ -	$ 8,300	$ 1,560	$ 1,536

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. The investment policy also seeks to reduce the volatility of the plan's funded status and the level of contributions by more closely aligning the characteristics of plan assets with liabilities. Due to market value fluctuations, Retirement Plan assets require rebalancing from time to time to maintain the asset allocation within target ranges. Central Hudson cannot guarantee that the Retirement Plan's return objectives or funded status objectives will be achieved.

Asset allocation targets in effect for the three months ended March 31, 2016 as well as actual asset allocations as of March 31, 2016 and December 31, 2015 expressed as a percentage of the market value of Retirement Plan assets, are summarized in the table below:

Asset Class	March 31, 2016	Minimum	Target Average	Maximum	December 31, 2015
Equity Securities	49.7%	41%	50%	59%	49.9%
Debt Securities	48.8%	45%	50%	55%	47.7%
Other[(1)]	1.5%	-%	-%	10%	2.4%

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

NOTE 11 – Equity-Based Compensation

Share Unit Plan Units

In January 2016, 70,056 Units were granted to the officers of CH Energy Group and Central Hudson under the 2016 Share Unit Plan ("SUP"), representing the officers' long-term incentives. Two-thirds of the issued SUP Units are performance based and vest upon achievement of specified performance goals over the three year performance period while the remaining third are time-based and vest at the end of the three year period without regard to performance. Each SUP Unit has an underlying value equivalent to the value of one common share of Fortis and is subject to a three-year vesting period, at which time a cash payment may be made, as determined by the Governance and Human Resource Committee of the Board of Directors. The foreign exchange rate utilized for cash payout in the US dollar equivalent corresponds to the exchange rate on the business day prior to the date of the SUP Unit grant. Each SUP Unit accrues notional dividend equivalents equal to the dividends declared by the Fortis Board of Directors on Fortis common shares.

In January 2015, 47,386 Units were granted to the officers of CH Energy Group and Central Hudson under the 2015 SUP, representing the officers' long-term incentives. Two-thirds of the issued SUP Units are performance based and vest upon achievement of specified performance goals over the three year performance period while the remaining third are time-based and vest at the end of the three year period without regard to performance. Each SUP Unit has an underlying value equivalent to the value of one common share of Fortis and is subject to a three-year vesting period, at which time a cash payment may be made, as determined by the Governance and Human Resource Committee of the Board of Directors. The foreign exchange rate utilized for cash payout in the US dollar equivalent corresponds to the exchange rate on the business day prior to the date of the SUP Unit grant. Each SUP Unit accrues notional dividend equivalents equal to the dividends declared by the Fortis Board of Directors on Fortis common shares.

In January 2014, 78,536 Units were granted to the officers of CH Energy Group and Central Hudson under the 2014 SUP, representing the officers' long-term incentives. Half of the issued SUP Units are performance based and vest upon achievement of specified performance goals over the three year performance period while the remaining half are time-based and vest at the end of the three year period without regard to performance. Each SUP Unit has an underlying value equivalent to the value of one common share of Fortis and is subject to a three-year vesting period, at which time a cash payment may be made, as determined by the Governance and Human Resource Committee of the Board of Directors. The initial grant reflected the foreign exchange rate utilized for cash payout in the US dollar equivalent corresponds to the exchange rate as of the date of the SUP Unit payout. Effective February 23, 2016, the foreign exchange rate utilized for cash payout corresponds to the exchange rate on the business day prior to the date of the SUP Unit grant. Each SUP Unit accrues notional dividend equivalents equal to the dividends declared by the Fortis Board of Directors on Fortis common shares. In the third quarter of 2014, 2,969 SUP Units were forfeited following the resignation of an Officer.

Compensation Expense

The following table summarizes expense for equity-based compensation by award type for the three months ended March 31, 2016 and 2015 (In Thousands):

	CH Energy Group		Central Hudson	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2016	2015	2016	2015
Share Unit Plan Units	$ 1,354	$ 125	$ 1,011	$ 210

The liabilities associated with the SUPs are recorded at fair value at each reporting date until settlement, recognizing compensation expense over the vesting period on a straight line basis. The fair value of the SUPs' liabilities are based on the Fortis common share 5 day volume weighted average trading price at the end of each reporting period and the expected payout based on management's best estimate in accordance with the defined metrics of each grant.

Under the SUP agreements, the amount of any outstanding awards payable to an employee who resigns for Good Reason, as defined in the employee's employment agreement, and who has 25 years or more of service with the Company under the terms of the 2014 SUP or 15 years of service under the terms of the 2015 and 2016 SUP is determined as if the employee continued to be an employee through the end of the performance period. In accordance with ASU 2014-12, in this situation, compensation expense for that individual is recognized over the requisite service period, instead of the performance period. In addition, in the first quarters of 2015 and 2016, additional expense was recognized in accordance with ASU 2014-12 for Central Hudson Officers that are retirement eligible under terms of the SUP agreement in which they have attained the required retirement age and met the required 15 years of service.

NOTE 12 – Commitments and Contingencies

Electricity Purchase Commitments

In 2014, Central Hudson entered into two agreements with Entergy Nuclear Power Marketing, LLC to purchase electricity on a unit contingent basis at defined prices from December 1, 2014 through March 31, 2015. Energy supplied under these agreements cost approximately $11.5 million, of which $8.5 million related to first quarter of 2015. These contracts expired on March 31, 2015 and were not renewed.

In 2015, Central Hudson entered into an agreement with Entergy Nuclear Power Marketing, LLC to purchase electricity on a unit contingent basis at defined prices from December 1, 2015 through March 31, 2016 and June 1, 2016 through August 31, 2016. Energy supplied under the first agreement cost approximately $8.8 million, of which $7.2 million relates to the first quarter 2016. This contract expired on March 31, 2016. The second agreement will become effective in the second quarter of 2016.

Currently, Central Hudson meets its capacity and electricity obligations through contracts with capacity and energy providers, purchases from the New York State Independent Service Operator (“NYISO”) energy and capacity markets and its own generating capacity.

In November 2013, Central Hudson entered into a contract to purchase 200 megawatts of installed capacity from the Roseton Generating Facility from May 2014 through April 2017, with $12.3 million in purchase commitments remaining as of March 31, 2016. In June 2014, Central Hudson entered into a contract to purchase available installed capacity from the Danskammer Generating Facility from October 2014 through August 2018 with approximately $75.9 million in purchase commitments remaining as of March 31, 2016.

Environmental Matters

Central Hudson

- Site Investigation and Remediation ("SIR") Program

Central Hudson and its predecessors owned and operated manufactured gas plants ("MGPs") to serve their customers' heating and lighting needs. These plants manufactured gas from coal and oil beginning in the mid to late 1800s with all sites ceasing operations by the 1950s. 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 ("VCA"), 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. In a June 26, 2013 Order (Case 12-M-192) the PSC modified the deferral for MGP and non-MGP sites to apply to all Environmental SIR costs incurred by Central Hudson during the period from July 1, 2013 to June 30, 2015. Under the 2013 Order, Central Hudson included two additional Environmental SIR sites and is currently permitted to defer for future recovery the differences between actual costs for Environmental SIR costs and the associated rate allowances with carrying charges. In the 2015 Rate Order, the deferral was reaffirmed and extended through June 30, 2018.

SIR can be divided into various stages of completion based on the milestones of activities completed and reports reviewed. Central Hudson accrues for remediation costs based on the amounts that can be reasonably estimated at a point in time. These stages, the types of costs accrued during various stages and the sites currently in each stage include:

1. *Investigation* – Begins with preliminary investigations and is completed upon filing and approval by DEC of a Remedial Investigation ("RI") Report. Central Hudson accrues for estimated investigation costs.

2. *Remedial Alternatives Analysis ("RAA")* – Engineering analysis of alternatives for remediation based on the RI is compiled into a RAA Report. Upon completion of the RAA and the filing with the DEC, management accrues for an estimate of remediation costs

developed and quantified in the RAA based on DEC approved methods, as well as an estimate of post-remediation operation, maintenance and monitoring costs ("OM&M"). These amounts represent a significant portion of the total costs to remediate and are subject to change based on further investigations, final remedial design and associated engineering estimates, regulatory comments and requests, remedial design changes/negotiations and changed or unforeseen conditions during the remediation or additional requirements following the remediation. Prior to the completion of the RAA, management cannot reasonably estimate what cost will be incurred for remediation or post-remediation activities.

- **Site #5 – North Water Street** – RAA in Progress
  - Field activities associated with the former propane tank area investigation have been completed and the DEC has approved the report of findings. Based on the results of this investigation, some level of future remediation may be required in this area.
  - The DEC released a Fact Sheet in October 2015 with a 45-day public comment period. The DEC and New York State Department of Health ("NYSDOH"), assisted by Central Hudson, conducted a public meeting to discuss the RAA Report and Fact Sheet. The DEC is currently developing/finalizing a Decision Document in consideration of comments received during the public comment period. After the Decision Document is finalized, the Remedial Design ("RD") will begin.
  - Approximately $57.5 million was accrued in May 2014 based on the scope of work and cost estimate developed for remediation and OM&M activities in the RAA Report.

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

- **Site # 8 - Eltings Corners** – RD in Progress
  - In July 2014, Central Hudson submitted a draft Corrective Measures Study scoping document for review by the DEC. Subsequently Central Hudson proceeded to prepare and submit a Focused Corrective Measures Study Report ("FCMS") to the DEC for their review and approval.
  - The DEC approved the FCMS in December 2014 and issued a draft Statement of Basis ("SB") for public review and comment in February 2015. The comment period subsequently ended in March 2015 with no significant comments received as determined by the DEC. As a result, the DEC issued the Final SB in March 2015.
  - The DEC is preparing a Draft Permit Modification to the facility's Hazardous Waste Storage Permit and once finalized, Central Hudson will prepare and submit for approval, a Corrective Action Work Plan ("CAWP") that details the implementation of the proposed remediation work activities.

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

- **Site #2 – Newburgh Area A** – FER and Site Management Plan ("SMP") in Progress
  - In 2012, Central Hudson retired and removed propane air facilities located on Area A.
  - In March 2014, approximately $5 million was accrued based on this scope of work and cost estimate developed for remediation of the former propane tank area.
  - Central Hudson submitted a Remedial Action Work Plan ("RAWP"), detailing proposed remedial activities in Area A, to the DEC for review and approval in May 2015. Subsequently, the DEC approved the RAWP in June 2015.
  - Supplemental remedial activities detailed in the RAWP were completed between October 2015 and January 2016. It is anticipated that the FER and SMP will be submitted to the DEC for review and approval in the second quarter of 2016.

- **Site #6 – Kingston** – RD in Progress
  - The DEC approved the RAA Report in July 2014. Additionally, the DEC released a Fact Sheet in November 2014 inviting the public to comment on the proposed site remedy outlined in the RAA. The comment period ended in January 2015 with no comments received. Subsequently, the DEC issued a Decision Document in June 2015.
  - Pre-design investigation activities were completed in mid-2014 and a report of findings was submitted to the DEC for review and approval later that year. The DEC provided comments on the report of findings in January 2015. A follow up meeting was held with the DEC in May 2015, whereby, they agreed to limit dredging of polycyclic aromatic hydrocarbon ("PAH") impacted sediments to a small portion of the area located east of the gas crossing.
  - A revised RD Report was submitted to the DEC in December 2015 and subsequently approved in January 2016.
  - A remedial construction "Design-Build" contract was executed with an Environmental Engineering Firm ("EEF") in February 2016. Currently Central Hudson, in consultation with the EEF, is developing and submitting the RWP and permit packages for regulatory agency review and approval.
  - Site preparation activities commenced in March 2016 and subsequent to applicable regulatory approvals, remedial activities are anticipated to commence in the second quarter of 2016 and be completed in 2017.
  - Approximately $33 million was accrued in December 2013 and an additional $1.5 million in June 2014 based on the scope of work and cost estimate developed for remediation and OM&M activities in the RAA Report. However, based on bids received in 2015, the accrual was reduced by approximately $11.5M.

5. *Post-Remediation Monitoring* – Entails the OM&M as directed by the DEC based on the approved final report of remediation. The activities are typically defined in a SMP which is approved by the DEC. The extent of activities during this phase may increase or decrease based on the results of ongoing monitoring being performed and future potential usage of the property.

- **Site #2 – Newburgh Area B and C** – Post-Remediation In Progress
  - Field activities associated with the sediment documentation sampling of surface sediments in both the non-aqueous phase liquid ("NAPL") and PAH dredge areas in

Area C were completed in September 2014. The results were subsequently submitted to the DEC for review in November 2014.
- Amounts accrued represent an estimate of costs for OM&M and execution of the draft SMP, related to the previously remediated area of site.

- **Site #3 – Laurel Street** – Post-Remediation In Progress
  - The Interim SMP was approved by the DEC in January 2015.
  - The Voluntary Cleanup Agreement ("VCA") Amendment Application was approved by the DEC in July 2015. Additionally, the DEC executed the Environmental Easement ("EE") in August 2015 which was then filed with the Dutchess County Clerk in September 2015.
  - In accordance with the January 2015 SMP, an annual site inspection documenting the status of the Engineering Controls ("ECs") and the Institutional Controls ("ICs"), was performed in March 2016. The Periodic Review Report ("PRR") summarizing the results will be submitted to the DEC for review in April 2016.
  - Amounts accrued represent an estimate of costs for OM&M.

- **Site #4 – Catskill** – Post-Remediation In Progress
  - The final FER, including the executed EEs, were approved by the DEC in December 2014 and a Certificate of Completion ("COC") was issued on the same day.
  - In accordance with the December 2014 SMP, an annual site inspection documenting the status of the ECs and ICs was performed in March 2016. The PRR summarizing the results will be submitted to the DEC for review in April 2016.
  - Amounts accrued represent an estimate of costs to complete the post-remediation and OM&M.

• *No Action Required*

- **Site #1 – Beacon** – No Action Required
  - The SMP was submitted to the DEC and a release letter for the site was received in 2013.
  - No further costs are expected and no amounts are accrued related to this site.
  - If the building at this site were to be removed, further investigation and testing would be required related to the soil under the building, which may require additional remediation. Management cannot currently estimate the likelihood of the building being removed or the costs that may be incurred related to this.

- **Site #7 – Bayeaux Street** – No further investigation or remedial action is currently required. However, per the DEC, this site still remains on the list for potential future investigation.

- **Site # 9 – Little Britain Road** - There has been no change to this site in 2015, however, the relevant historical disclosure is provided, as required.
  - In 2000, Central Hudson and the DEC entered into a 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 groundwater work be done to address groundwater sampling results that showed the presence of certain contaminants at levels exceeding the 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 October 2011, the DEC requested a 'non-committal' meeting with Central Hudson to discuss the site and possible next steps. At the annual MGP meeting with Central Hudson in October 2012, the DEC discussed the Little Britain Road property requesting an upcoming meeting to discuss the site and possible next steps. Central Hudson responded that it was available for such a meeting. A meeting date has yet to be established.
- 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.

A summary of amounts accrued and spent are detailed in the chart below (In Thousands):

Site #	Liability Recorded as of 12/31/15	Amounts Spent in 2016	Liability Adjustment	Liability Recorded as of 3/31/16	Current Portion of Liability at 3/31/16	Long-Term Portion of Liability at 3/31/16
1, 2, 3, 4, 5, 6 and 8	$ 92,119	$ 736	$ 679	$ 92,062	$ 23,665	$ 68,397

Based on a cost model analysis completed in 2014 of possible remediation and future OM&M costs for sites #1 through #6 and #8 above, Central Hudson believes there is a 90% confidence level that the total costs to remediate these sites will not exceed $168.7 million over the next 30 years. The total cost is derived from the summation of the 90% confidence level adjusted for inflation for each individual site. The cost model involves assumptions relating to investigation expenses, results of investigations, remediation costs, potential future liabilities, and post-remedial OM&M 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 SIR 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.

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

Central Hudson expects to recover its remediation costs from its customers. The current components of this recovery include:

- The 2015 Rate Order includes cash recovery of approximately $18.9 million during the three year period ending June 30, 2018.
- As part of the 2015 Rate Order, Central Hudson maintained previously granted deferral authority and subsequent recovery for amounts spent over the rate allowance.
- The Environmental SIR costs recovered through rates and other regulatory mechanisms from July 1, 2007 through March 31, 2016 was approximately $40.7 million, with $1.7 million recovered in 2016.
- The total spent in the first quarter of 2016 related to site investigation and remediation was approximately $0.7 million.
- The regulatory asset balance as of March 31, 2016 was $86.1 million, which represents the difference between amounts spent or currently accrued as a liability and the amounts recovered through a rate allowance as well as carrying charges accrued.

Central Hudson has put its insurers on notice and intends to seek reimbursement from its insurers for its costs. Certain of these insurers have denied coverage. In addition to the rate allowance amounts noted above, Central Hudson has recovered approximately $2.8 million from insurance. There were no insurance recoveries in the first three months of 2016. We do not expect insurance recoveries to offset a meaningful portion of total costs.

Other Matters

Asbestos Litigation

As of March 31, 2016, of the 3,351 asbestos cases brought against Central Hudson, 1,168 remain pending. Of the cases no longer pending against Central Hudson, 2,027 have been dismissed or discontinued without payment by Central Hudson, and Central Hudson has settled 156 cases. Central Hudson is presently unable to assess the validity of the remaining asbestos lawsuits; however, based on information known to Central Hudson at this time, including Central Hudson's experience in settling asbestos cases and in obtaining dismissals of asbestos cases, Central Hudson believes that the costs which may be incurred in connection with the remaining lawsuits will not have a material adverse effect on the financial position, results of operations or cash flows of either CH Energy Group or Central Hudson.

Other Litigation

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

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

NOTE 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. Other activities of CH Energy Group, which do not constitute a business segment, include CHEC's remaining energy investments, CHET's investment in Transco and the holding company's activities, which consist primarily of financing its subsidiaries, and are reported under the heading "Other Businesses and Investments."

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

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. From January 1, 2015 through June 30, 2015, the common allocation was 85% for electric and 15% for gas. Beginning July 1, 2015, per the terms of the 2015 Rate Order, allocation changed to 80% for electric and 20% for gas.

CH Energy Group Segment Disclosure
(In Thousands)

	Three Months Ended March 31, 2016				
	Segments		Other Businesses and Investments	Eliminations	Total
	Central Hudson				
	Electric	Natural Gas			
Revenues from external customers	$ 129,573	$ 51,841	$ -	$ -	$ 181,414
Intersegment revenues	3	84	-	(87)	-
Total revenues	129,576	51,925	-	(87)	181,414
Operating income (loss)	20,024	15,168	(441)	-	34,751
Interest and investment income	676	(9)	10	(2)	675
Interest charges	5,816	1,676	307	(2)	7,797
Income (loss) before income taxes	15,075	13,514	(925)	-	27,664
Net Income (Loss) Attributable to CH Energy Group	9,590	7,850	(704)	-	16,736
Segment assets at March 31	1,444,094	458,556	11,939	(2,168)	1,912,421

CH Energy Group Segment Disclosure
(In Thousands)

	Three Months Ended March 31, 2015				
	Segments		Other Businesses and Investments	Eliminations	Total
	Central Hudson				
	Electric	Natural Gas			
Revenues from external customers	$ 165,018	$ 70,595	$ -	$ -	$ 235,613
Intersegment revenues	3	152	-	(155)	-
Total revenues	165,021	70,747	-	(155)	235,613
Operating income (loss)	20,532	15,736	(158)	-	36,110
Interest and investment income	1,059	93	9	-	1,161
Interest charges	6,021	1,680	329	-	8,030
Income (loss) before income taxes	15,887	14,228	(598)	-	29,517
Net Income (Loss) Attributable to CH Energy Group	9,705	8,435	(1,204)	-	16,936
Segment assets at March 31	1,368,658	532,514	8,558	(1,612)	1,908,118

NOTE 14 - Accounting for Derivative Instruments and Hedging Activities

Accounting for Derivatives

Central Hudson has been authorized to fully recover certain 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 $33.7 million Series B NYSERDA Bonds and, beginning July 1, 2015, the $30 million of variable rate debt, which includes costs and gains or losses associated with its interest rate cap contracts.

The percentage of Central Hudson's electric and gas requirements covered with fixed price forward purchases is as follows:

Central Hudson	% of Requirement Hedged [1]
Electric Derivative Contracts:	
April 2016 – December 2016	35.7%
2017	26.3%
2018	15.7%
2019	7.9%
Natural Gas Derivative Contracts:	
November 2016 – March 2017	7.6%

(1) Projected coverage as of March 31, 2016.

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 offsets the market risk associated with the hedged commodity.

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

To help limit the credit exposure of derivatives, Central Hudson has entered into master netting agreements with counterparties whereby contracts in a gain position can be offset against contracts in a loss position. Of the fifteen total agreements held by Central Hudson, eight contain credit-risk related contingent features. As of March 31, 2016, $7.0 million would be required to settle these instruments if the contingent features were triggered.

The net presentation for CH Energy Group's and Central Hudson's derivative assets and liabilities as of March 31, 2016, December 31, 2015 and March 31, 2015 are as follows (In Thousands):

				Gross Amounts Not Offset in the Statement of Financial Position		
Description	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Financial Position	Net Amount of Assets Presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Received	Net Amount
As of March 31, 2016						
Derivative Contracts:						
Central Hudson - electric	$ 528	$ -	$ 528	$ 528	$ -	$ -
Central Hudson - natural gas	38	-	38	-	-	38
Total Central Hudson and CH Energy Group Assets	$ 566	$ -	$ 566	$ 528	$ -	$ 38
As of December 31, 2015						
Derivative Contracts:						
Central Hudson - electric	$ 2,218	$ -	$ 2,218 [1]	$ 2,218	$ -	$ -
Central Hudson - natural gas	-	-	-	-	-	-
Total Central Hudson and CH Energy Group Assets	$ 2,218	$ -	$ 2,218	$ 2,218	$ -	$ -
As of March 31, 2015						
Derivative Contracts:						
Central Hudson - electric	$ 35	$ -	$ 35	$ 35	$ -	$ -
Central Hudson - natural gas	-	-	-	-	-	-
Total Central Hudson and CH Energy Group Assets	$ 35	$ -	$ 35	$ 35	$ -	$ -

				Gross Amounts Not Offset in the Statement of Financial Position		
Description	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Financial Position	Net Amount of Liabilities Presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Received	Net Amount
As of March 31, 2016						
Derivative Contracts:						
Central Hudson - electric	$ 18,012	$ -	$ 18,012	$ 528	$ -	$ 17,484
Central Hudson - natural gas	5	-	5	-	-	5
Total Central Hudson and CH Energy Group Liabilities	$ 18,017	$ -	$ 18,017	$ 528	$ -	$ 17,489
As of December 31, 2015						
Derivative Contracts:						
Central Hudson - electric	$ 10,628	$ -	$ 10,628	$ 2,218	$ -	$ 8,410
Central Hudson - natural gas	990	-	990	-	-	990
Total Central Hudson and CH Energy Group Liabilities	$ 11,618	$ -	$ 11,618	$ 2,218	$ -	$ 9,400
As of March 31, 2015						
Derivative Contracts:						
Central Hudson - electric	$ 10,076	$ -	$ 10,076	$ 35	$ -	$ 10,041
Central Hudson - natural gas	107	-	107	-	-	107
Total Central Hudson and CH Energy Group Liabilities	$ 10,183	$ -	$ 10,183	$ 35	$ -	$ 10,148

Gross Fair Value of Derivative Instruments

Derivative contracts are measured at fair value on a recurring basis. As of March 31, 2016, December 31, 2015 and March 31, 2015, CH Energy Group's and Central Hudson's derivative assets and liabilities by category and hierarchy level are as follows (In Thousands):

Asset or Liability Category	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of March 31, 2016[1]				
Assets:				
Derivative Contracts:				
Central Hudson - electric	$ 528	$ -	$ -	$ 528
Central Hudson - natural gas	38	38	-	-
Total CH Energy Group and Central Hudson Assets	$ 566	$ 38	$ -	$ 528
Liabilities:				
Derivative Contracts:				
Central Hudson - electric	$ (18,012)	$ -	$ -	$ (18,012)
Central Hudson - natural gas	(5)	(5)	-	-
Total CH Energy Group and Central Hudson Liabilities	$ (18,017)	$ (5)	$ -	$ (18,012)
As of December 31, 2015[1]				
Assets:				
Derivative Contracts:				
Central Hudson - electric	$ 2,218	$ -	$ -	$ 2,218
Total CH Energy Group and Central Hudson Assets	$ 2,218	$ -	$ -	$ 2,218
Liabilities:				
Derivative Contracts:				
Central Hudson - electric	$ (10,628)	$ -	$ -	$ (10,628)
Central Hudson - natural gas	(990)	(990)	-	-
Total CH Energy Group and Central Hudson Liabilities	$ (11,618)	$ (990)	$ -	$ (10,628)
As of March 31, 2015[1]				
Assets:				
Derivative Contracts:				
Central Hudson - electric	$ 35	$ -	$ -	$ 35
Total CH Energy Group and Central Hudson Assets	$ 35	$ -	$ -	$ 35
Liabilities:				
Derivative Contracts:				
Central Hudson - electric	$ (10,076)	$ -	$ -	$ (10,076)
Central Hudson - natural gas	(107)	(107)	-	-
Total CH Energy Group and Central Hudson Liabilities	$ (10,183)	$ (107)	$ -	$ (10,076)

(1) Interest rate cap agreements are not shown in the above chart. These are classified as Level 2 in the fair value hierarchy using SIFMA Municipal Swap Curves and 3 month US Dollar Libor rate forward curves. At March 31, 2016, December 31, 2015 and March 31, 2015 the fair value was $0.

Central Hudson obtains forward pricing for Level 3 derivatives from an independent third party provider of derivative pricing. Significant unobservable inputs utilized in their pricing model are bi-lateral contracts and projected activity of certain major participants.

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 March 31, 2016	Three Months Ended March 31, 2015
Balance at Beginning of Period	$ (8,410)	$ (5,303)
Unrealized losses	(9,074)	(4,738)
Realized gains/(losses)	(7,716)	6,755
Purchases	-	-
Issuances	-	-
Sales and settlements	7,716	(6,755)
Transfers in and/or out of Level 3	-	-
Balance at End of Period	$ (17,484)	$ (10,041)
The amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to derivatives still held at end of period	$ -	$ -

There were no transfers into or out of Levels 1 or 2.

The Effect of Derivative Instruments on the Statements of Income

Realized gains and losses on Central Hudson's derivative instruments are conveyed to or recovered from customers through PSC authorized deferral accounting mechanisms, with no material impact on cash flows, results of operations or liquidity. Realized gains and losses on Central Hudson's energy derivative instruments are reported as part of purchased natural gas, purchased electricity and fuel used in electric generation in CH Energy Group's and Central Hudson's Statements of Income as the corresponding amounts are either recovered from or returned to customers through fuel cost adjustment clauses in revenues.

For the three months ended March 31, 2016 and 2015, 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 as Increase/(Decrease) in the Income Statement		
	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015	Location of Gain (Loss)
Central Hudson:			
Electricity swap contracts	$ (7,716)	$ 6,755	Regulatory (asset)/liability(1)
Natural gas swap contracts	(1,273)	(1,865)	Regulatory (asset)/liability(1)
Total CH Energy Group and Central Hudson	$ (8,989)	$ 4,890	

(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.

Other Hedging Activities

Central Hudson – Electric
On September 3, 2015, Central Hudson entered into a weather option for the period December 15, 2015 through March 15, 2016 to hedge the effect of significant variances in weather conditions on electricity costs. For Central Hudson, this transaction impacted purchased electric expense and revenue, but did not have a net income impact due to the full deferral authority over commodity costs through its electric cost adjustment charge clause. The aggregate limit on the contract was $10 million. This contract was accounted for in accordance with guidance specific to accounting for weather derivatives. The premium paid was amortized to purchased electricity over the term of the contract and the $0.5 million first quarter 2016 payout was recorded as a reduction to purchased electricity in the Statement of Income.

Central Hudson – Gas
On September 4, 2015, Central Hudson entered into a weather option for the period December 1, 2015 through March 31, 2016 to hedge the effect of significant variances in weather conditions and price on natural gas costs. For Central Hudson, this transaction impacted purchased natural gas expense and revenue, but did not have a net income impact due to the full deferral authority over commodity costs through its natural gas cost adjustment charge clause. The aggregate limit on the contract was $10 million. The terms of this contract include both a weather and gas price trigger. However, management believed weather was the predominant trigger for any payout that may be earned under the contract. Therefore, this contract was accounted for in accordance with guidance specific to accounting for weather derivatives. The premium paid was amortized to purchased gas over the term of the contract. There was no payout on the settlement of the contract.

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 and Central Hudson report certain other assets at fair value in the Consolidated Balance Sheets. The following table summarizes the amount reported at fair value related to these assets as of March 31, 2016, December 31, 2015 and March 31, 2015 (In Thousands):

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of March 31, 2016:				
Other Investments	$ 8,849	$ 8,849	$ -	$ -
As of December 31, 2015:				
Other Investments	$ 8,847	$ 8,847	$ -	$ -
As of March 31, 2015:				
Other Investments	$ 10,378	$ 10,378	$ -	$ -

As of March 31, 2016, December 31, 2015 and March 31, 2015 a portion of the trust assets for the funding of SERP were invested in mutual funds and money market accounts, which are measured at fair value on a recurring basis. These investments are valued at quoted market prices in active markets and as such are Level 1 investments as defined in the fair value hierarchy. These amounts are included in the line titled “Other investments” within the Deferred Charges and Other Assets section of the CH Energy Group Consolidated and Central Hudson Balance Sheets.

In 2011, CHEC recorded an impairment loss for the full value of its investment in CH-Community Wind. An impairment analysis was performed and based on this analysis, the present value of the after-tax projected cash flows using a market participant’s expected return, is insufficient for CHEC to recover any of its investment. This analysis used significant unobservable inputs including a discount rate and projected cash flows for the entity and, as such, this is a Level 3 investment. As of March 31, 2016, management believes the fair value of this investment remains at zero and is, therefore, appropriately reserved.

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 (Level 2)
Valuations were obtained for each issue using the observed Treasury market in conjunction with secondary market trading levels and recent new issuances of comparable companies.

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

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

	Fixed Rate		Variable Rate		Total Debt Outstanding	
Expected Maturity Date	Amount	Estimated Effective Interest Rate	Amount	Estimated Effective Interest Rate	Amount	Estimated Effective Interest Rate
As of March 31, 2016:						
2016	$ 9,315	3.36 %	$ -	- %		
2017	34,406	6.13 %	-	- %		
2018	31,503	2.67 %	-	- %		
2019	28,607	5.21 %	-	- %		
2020	17,718	4.57 %	-	- %		
Thereafter	358,796	4.94 %	63,700	0.70 %		
Total	$ 480,345	4.88 %	$ 63,700	0.70 %	$ 544,045	4.40 %
Fair Value	$ 553,822		$ 63,700		$ 617,522	
As of December 31, 2015:						
2016	$ 9,315	3.36 %	$ -	- %		
2017	34,406	6.13 %	-	- %		
2018	31,503	2.67 %	-	- %		
2019	28,607	5.21 %	-	- %		
2020	17,718	4.57 %	-	- %		
Thereafter	358,796	4.94 %	63,700	0.70 %		
Total	$ 480,345	4.88 %	$ 63,700	0.70 %	$ 544,045	4.40 %
Fair Value	$ 527,750		$ 63,700		$ 591,450	
As of March 31, 2015:						
2015	$ 1,230	6.87 %	$ -	- %		
2016	9,315	3.36 %	-	- %		
2017	34,406	6.13 %	-	- %		
2018	31,503	2.67 %	-	- %		
2019	28,607	5.21 %	-	- %		
Thereafter	376,514	4.91 %	63,700	0.64 %		
Total	$ 481,575	4.89 %	$ 63,700	0.64 %	$ 545,275	4.39 %
Fair Value	$ 568,466		$ 63,700		$ 632,166	

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

	Fixed Rate		Variable Rate		Total Debt Outstanding	
Expected Maturity Date	Amount	Estimated Effective Interest Rate	Amount	Estimated Effective Interest Rate	Amount	Estimated Effective Interest Rate
As of March 31, 2016:						
2016	$ 8,000	2.78 %	$ -	- %		
2017	33,000	6.10 %	-	- %		
2018	30,000	2.46 %	-	- %		
2019	27,000	5.11 %	-	- %		
2020	16,000	4.33 %	-	- %		
Thereafter	348,250	4.88 %	63,700	0.70 %		
Total	$ 462,250	4.81 %	$ 63,700	0.70 %	$ 525,950	4.31 %
Fair Value	$ 532,968		$ 63,700		$ 596,668	
As of December 31, 2015:						
2016	$ 8,000	2.78 %	$ -	- %		
2017	33,000	6.10 %	-	- %		
2018	30,000	2.46 %	-	- %		
2019	27,000	5.11 %	-	- %		
2020	16,000	4.33 %	-	- %		
Thereafter	348,250	4.88 %	63,700	0.70 %		
Total	$ 462,250	4.81 %	$ 63,700	0.70 %	$ 525,950	4.31 %
Fair Value	$ 507,345		$ 63,700		$ 571,045	
As of March 31, 2015:						
2015	$ -	- %	$ -	- %		
2016	8,000	2.78 %	-	- %		
2017	33,000	6.10 %	-	- %		
2018	30,000	2.46 %	-	- %		
2019	27,000	5.11 %	-	- %		
Thereafter	364,250	4.84 %	63,700	0.64 %		
Total	$ 462,250	4.81 %	$ 63,700	0.64 %	$ 525,950	4.30 %
Fair Value	$ 545,557		$ 63,700		$ 609,257	

NOTE 16 – Related Party Transactions

Thompson Hine LLP serves as outside counsel to CH Energy Group and Central Hudson. One partner in that firm serves as each corporation's General Counsel and Corporate Secretary. The following are legal fees paid by CH Energy Group and Central Hudson for the three months ended March 31, 2016 and 2015. (In Thousands):

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
CH Energy Group	$ 387	$ 281
Central Hudson	$ 288	$ 303

CH Energy Group may provide general and administrative services ("services") to, and receive services from, Fortis and other subsidiaries of Fortis. The costs of these services are reimbursed by the beneficiary company through accounts receivable and accounts payable, as necessary. CH Energy Group also incurs charges from Fortis for the recovery of general corporate expenses incurred by Fortis or other affiliates. Central Hudson also provides services to, and receives services from, its parent company, CH Energy Group or other affiliates and incurs charges from CH Energy Group for the recovery of general corporate expenses incurred. Central Hudson also incurs charges directly with Fortis or other subsidiaries of Fortis. These transactions are in the normal course of business and are recorded at the United States exchange amounts. Related party transactions included in operating expenses, accounts receivable and accounts payable in the periods ended March 31, 2016, December 31, 2015 and March 31, 2015 are as follows (in Thousands):

Period Ending	March 31, 2016	December 31, 2015	March 31, 2015
CH Energy Group(1)	Fortis	Fortis	Fortis
Operating Expenses	$ 708	$ 629	$ 128
Accounts Receivable	$ 155	$ 195	$ 6

Period Ending	March 31, 2016			December 31, 2015			March 31, 2015		
Central Hudson(1)	CHEG	Fortis	Other Affiliates	CHEG	Fortis	Other Affiliates	CHEG	Fortis	Other Affiliates
Operating Expenses	$ 807	$ -	$ -	$ 1,119	$ -	$ -	$ 152	$ -	$ -
Accounts Receivable	$ 58	$ 155	$ 5	$ 65	$ 195	$ 9	$ 62	6	$ 12
Accounts Payable	$ 854	$ -	$ -	$ 336	$ -	$ -	$ 279	-	$ -

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

NOTE 17 – New Accounting Guidance

Newly adopted and soon to be adopted accounting guidance is summarized below, including explanations for any new guidance issued in 2016 (except that which is not currently applicable) and the expected impact on CH Energy Group and its subsidiaries.

Impact	Category	Accounting Reference	Title	Issued Date	Effective Date
1	Revenue from Contracts with Customers (Topic 606)	ASU No. 2014-09 ASU No. 2016-08	Revenue from Contracts with Customers / Principal vs Agent	May-14 May-14	Jan-18 Jan-18
1	Financial Instruments (Subtopic 825-10)	ASU No. 2016-01	Recognition & Measurement of Financial Assets and Liabilities	Jan-16	Jan-18
1	Leases (Topic 842)	ASU No. 2016-02	Recognition & Measurement of Leases	Feb-16	Jan-19
1	Derivatives & Hedging (Topic 815)	ASU No. 2016-05 ASU No. 2016-06	Effect of Derivative Contract Novations on Existing Hedging Relationships / Contingent Put & Call Options in Debt Instruments	Mar-16 Mar-16	Jan-17 Jan-17
1	Compensation (Topic 718)	ASU No. 2016-09	Compensation Stock Based Compensation	Mar-16	Jan-17
2	Inventory (Topic 330)	ASU No. 2015-11	Simplifying the Measurement of Inventory	Jul-15	Jan-17
3	Compensation-Stock Compensation (Topic 718)	ASU No. 2014-12	Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period	Jun-14	Jan-16
4	Consolidation (Topic 810)	ASU No. 2015-02	Amendment to Consolidation Analysis	Feb-15	Jan-16
4	Intangibles - Goodwill & Other, Internal Use Software (Topic 810)	ASU No. 2015-05	Customers Accounting for Fees Paid in a Cloud Computing Arrangement	Apr-15	Jan-16
4	Plan Accounting (Topics 960, 962 & 965)	ASU No. 2015-12	Amendments to Accounting Standards Codification, Investment Contracts (I), Investment Disclosures (II) and Measurement Date Practical Expedient (III)	Jul-15	Jan-16
4	Presentation of Financial Statements-Going Concern (Subtopic 205-40)	ASU No. 2014-15	Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern	Aug-14	Jan-16
5	Interest - Imputation of Interest (Subtopic 835-30)	ASU No. 2015-03	Simplifying the Presentation of Debt Issuance Costs	Apr-15	Jan-16
5	Classification of Deferred Taxes (Topic 740)	ASU No. 2015-17	Balance Sheet Classification of Deferred Taxes	Nov-15	Jan-17

Impact Key:

(1) CH Energy Group and its subsidiaries are assessing the impact, if any, that the adoption of this standard will have on the financial condition, results of operations and cash flows.

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

(3) CH Energy Group and Central Hudson early adopted this ASU during 2014. The impact resulting from the election of a CH Energy Group officer to resign under change in control agreements are reflected in the compensation expense related to performance share units in Note 11 - "Equity-Based Compensation."

(4) CH Energy Group and Central Hudson adopted this ASU on the effective date. No impact on the financial condition, results of operations and cash flows of CH Energy Group and its subsidiaries upon adoption.

(5) CH Energy Group and Central Hudson early adopted these ASUs during 2015. No material impact on the financial condition, results of operations and cash flows of CH Energy Group and its subsidiaries. Certain March 31, 2015 amounts have been reclassified to conform to December 31, 2015 and March 31, 2016 presentation, see Note 1 "Summary of Significant Accounting Policies " for further details.

NOTE 18 – Subsequent Events

In addition to items disclosed in the footnotes, CH Energy Group has performed an evaluation of events subsequent to March 31, 2016 through the date the financial statements were issued and noted the following additional items to disclose.

On April 1, 2016, Central Hudson settled long-term debt with a principal payment of $8.0 million for a 2010 Series G medium term note.

Effective April 1, 2016, Central Hudson appointed Michael L. Mosher as its President and Chief Executive Officer, and Central Hudson and Mr. Mosher entered into an Employment Agreement dated as of April 1, 2016. On that same day, Mr. Mosher was appointed Chief Operating Officer of CH Energy Group.

On April 1, 2016, CH Energy Group and James P. Laurito entered into an Executive Employment Agreement and his November 1, 2014 Employment Agreement with Central Hudson was terminated. As part of that transition, CH Energy Group adopted a 2016 Performance Share Unit Plan ("2016 PSUP"), effective April 1, 2016, and issued 18,806 performance units under the 2016 PSUP. At that same time, Central Hudson rescinded 16,356 performance units issued in January 2016 under Central Hudson's 2016 SUP, resulting in a reduction in the number of units granted under Central Hudson's 2016 SUP from 70,056 (as reporting in Note 11) to 53,700 units.

Effective April 1, 2016, Barry Perry resigned from the Board of Directors of CH Energy Group and of Central Hudson.

On April 15, 2016, Central Hudson's Board of Directors approved a $6.762 million dividend payment to CH Energy Group that was paid on April 29, 2016.

On April 15, 2016, CH Energy Group's Board of Directors approved a $5.5 million dividend payment to parent FortisUS that was paid on April 29, 2016.

INTERIM MANAGEMENT'S DISCUSSION and ANALYSIS of FINANCIAL CONDITION and RESULTS of OPERATIONS
For the Three Months Ended March 31, 2016

This Management Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the first quarter Financial Statements and the notes thereto and the MD&A for the year ended December 31, 2015.

Company: CH Energy Group is the holding company parent corporation of four principal, wholly owned subsidiaries, Central Hudson Gas & Electric Corporation ("Central Hudson"), Central Hudson Enterprises Corporation ("CHEC"), Central Hudson Electric Transmission LLC ("CHET") and Central Hudson Gas Transmission LLC ("CHGT"). In the first quarter of 2016, CHGT was formed to hold CH Energy Group's ownership stake in a possible new gas transmission pipeline to address gas transmission opportunities in New York. Central Hudson is a regulated electric and natural gas subsidiary. All of CH Energy Group's common stock is indirectly owned by Fortis Inc. ("Fortis"), which is the largest investor-owned gas and electric distribution utility in Canada. Fortis is a leader in the North American electric and gas utility business, with total assets of approximately $28 billion and fiscal year end December 31, 2015 revenue of $6.7 billion.

Central Hudson purchases, sells at wholesale and retail, and distributes electricity and natural gas at retail, in portions of New York State to approximately 300,000 and 79,000 electric and natural gas customers, respectively, and is subject to regulation by the New York Public Service Commission ("PSC").

Mission and Strategy

CH Energy Group:

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

CH Energy Group's strategy is to:

- Invest primarily in electric and gas transmission and distribution; and
- Maintain a financial profile that supports a credit rating for Central Hudson in the "A" category.

Central Hudson:

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

- Practicing continuous improvement in everything we do;
- Investing in transmission and distribution infrastructure to enhance reliability, improve customer satisfaction and reduce risk;

• Moderating cost pressures that increase customer bill levels and commodity exposures that cause customer bill variability;
• Advocating on behalf of customers and other stakeholders; and
• Investing in employee development to meet the business needs of today and the future.

CH Energy Group - Regulated Operations - Central Hudson
Financial Highlights
Period Ended March 31

	Quarter		
	2016	**2015**	**Change**
Electricity Sales (GWh)	1,255	1,415	(160)
Natural Gas Sales (PJ)	9.0	10.7	(1.7)
(In millions)			
Revenues	$ 181.4	$ 235.6	$ (54.2)
Energy Supply Costs - Matched to Revenues	58.9	107.8	(48.9)
Operating Expenses - Matched to Revenues	21.1	31.3	(10.2)
Operating Expenses - Other	54.7	49.0	5.7
Depreciation and amortization	11.5	11.2	0.3
Other Income, net	0.9	1.5	(0.6)
Finance Charges	7.5	7.7	(0.2)
Income Taxes	11.1	12.0	(0.9)
Net income	$ 17.4	$ 18.1	$ (0.7)

Earnings: Earnings for the first quarter as compared to the same period in 2015 decreased by $0.7 million. There were several offsetting items impacting earnings in the first quarter. Higher operating expenses are now recovered through increased delivery rates, which became effective July 1, 2015. Warmer than normal weather, coupled with favorable contractor pricing and resource availability lead to the acceleration of tree trimming activity during the first quarter of 2016 in comparison to the first quarter of 2015. Additionally, tax law changes at the end of 2015 resulted in less capital invested in the business, with the return on this capital required to be deferred for future refund to customers.

The current quarter's revenue and energy supply costs reflect significantly lower commodity prices. This did not have a direct impact on earnings due to the full deferral of commodity costs and the revenue decoupling mechanism ("RDM").

Electricity Sales & Natural Gas Sales: Electricity and natural gas sales decreased 11% and 16%, respectively, as result of significantly warmer than normal weather and the impacts of the colder winter in the first quarter of 2015. These variations do not materially impact Central Hudson's revenue as a result of its RDM structure.

Depreciation and Amortization: Depreciation and amortization for the first quarter increased compared to 2015 due to the investment in Central Hudson's electric and gas infrastructure in accordance with its capital expenditure program partially offset by the PSC-approved extension of the useful lives of certain utility plant, effective July 1, 2015 per the 2015 Rate Order. The net impact resulted in only a slight increase in depreciation expense.

Other Income, net: Other income, net decreased for the first quarter of 2016 primarily due to lower carrying charges related to an overall decrease in the underlying balances as a result of the offset of certain regulatory assets and liabilities per the 2015 Rate Order.

Finance Charges: Finance charges (interest charges) were relatively unchanged.

Corporate Taxes: Corporate taxes decreased primarily as a result of a decrease in taxable income.

Central Hudson Revenues - Electric
Period Ended March 31

(In millions)	Quarter 2016	Quarter 2015	Change
Revenues with Matching Expense Offsets:(1)			
Recovery of commodity purchases	$ 40.4	$ 72.4	$ (32.0)
Sales to others for resale	1.1	1.1	-
Other revenues with matching offsets	17.1	25.1	(8.0)
Subtotal	58.6	98.6	(40.0)
Revenues Impacting Earnings:			
Customer sales	67.0	67.7	(0.7)
RDM and other regulatory mechanisms	1.8	(3.9)	5.7
Energy efficiency incentives	-	0.8	(0.8)
Other revenues	2.2	1.8	0.4
Subtotal	71.0	66.4	4.6
Total Electric Revenues	$ 129.6	$ 165.0	$ (35.4)

(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 entities for resale also do not affect earnings since any related profits or losses are returned or charged, respectively, to customers.

Central Hudson Revenues - Natural Gas
Period Ended March 31

(In millions)	Quarter 2016	Quarter 2015	Change
Revenues with Matching Expense Offsets:(1)			
Recovery of commodity purchases	$ 11.3	$ 25.8	$ (14.5)
Sales to others for resale	6.1	8.5	(2.4)
Other revenues with matching offsets	3.8	6.1	(2.3)
Subtotal	21.2	40.4	(19.2)
Revenues Impacting Earnings:			
Customer sales	24.3	27.9	(3.6)
RDM and other regulatory mechanisms	4.6	(0.7)	5.3
Other revenues	1.7	3.0	(1.3)
Subtotal	30.6	30.2	0.4
Total Natural Gas Revenues	$ 51.8	$ 70.6	$ (18.8)

(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.

Central Hudson's revenues consist of two major categories: those that offset specific expenses in the current period (matching revenues), and those that impact earnings. Matching revenues recover Central Hudson's actual costs for particular expenses (most notably, purchased electricity and purchased natural gas, pensions and OPEBs, the NYS Temporary State Assessment, and NYS energy efficiency programs). Any difference between these revenues and the actual expenses incurred is deferred for future recovery from or refund to customers and, therefore, does not impact earnings, with the exception of related carrying charges, which are recorded within income or interest charges in the CH Energy Group and Central Hudson Statement of Income.

Electric Revenue: The decrease in revenues in the first quarter of 2016 was primarily driven by significantly lower wholesale prices for commodity purchases coupled with a decrease in delivered volumes as a result of warmer than normal weather. Additionally, in accordance with the 2015 Rate Order, Central Hudson is required to defer the revenue requirement effect of the bonus depreciation legislation enacted at the end of 2015, which resulted in a decrease in revenues in the first quarter of 2016. Partially offsetting these decreases was an increase in customer delivery rates beginning on July 1, 2015, as approved in the 2015 Rate Order.

Gas Revenue: The decrease in revenues in the first quarter of 2016 was primarily driven by the significantly lower wholesale gas prices coupled with a decrease in delivered volumes. This impacted both the revenue recovered by Central Hudson for commodity purchases as well as revenues generated from natural gas sales for resale. Gas revenues also decreased as a result of the bonus depreciation legislation enacted at the end of 2015, as discussed above. These decreases were partially offset by an increase in customer delivery rates beginning on July 1, 2015, as approved in the 2015 Rate Order.

Central Hudson Operating Expenses
Period Ended March 31

(In millions)	Quarter		
	2016	**2015**	**Change**
Expenses Currently Matched to Revenues:[1]			
Purchased electricity	$ 41.5	$ 73.5	$ (32.0)
Purchased natural gas	17.4	34.3	(16.9)
Pension & OPEB	3.9	8.0	(4.1)
NYS energy programs	8.8	12.5	(3.7)
Other matched expenses	8.4	10.8	(2.4)
Subtotal	80.0	139.1	(59.1)
Other Operating Expense Variations:			
Tree trimming	4.4	2.3	2.1
Property and school taxes[2]	13.0	11.1	1.9
Weather related service restoration	1.0	1.2	(0.2)
Distribution maintenance	2.7	2.1	0.6
Uncollectible accounts and reserve	1.2	1.9	(0.7)
Depreciation and amortization	11.5	11.2	0.3
Other expenses	32.4	30.4	2.0
Subtotal	66.2	60.2	6.0
Total Operating Expenses	$ 146.2	$ 199.3	$ (53.1)

(1) Includes expenses that, in accordance with the 2013 Joint Proposal and the 2015 Rate Order, are adjusted in the current period to equal the revenues earned for the applicable expenses and the differences are deferred.
(2) In accordance with the 2013 Joint Proposal and the 2015 Rate Order, Central Hudson is authorized to defer for the benefit of or recovery from customers 90% of any difference between actual property tax expense and the amounts provided in rates for each Rate Year. Central Hudson's portion is limited to 10%, with a maximum of approximately $0.8 million per Rate Year.

Operating Expenses: Operating expenses decreased quarter over quarter primarily as a result of the lower commodity prices and decreased sales volumes. Variations in purchased gas and electricity costs do not have a direct impact on earnings due to Central Hudson's regulatory mechanism for the full deferral of commodity costs. Partially offsetting the decrease in commodity costs is an increase in Other Operating Expenses, as detailed in the above chart. Through June 30, 2015, these increases did not have a corresponding increase in revenues due to the continuing effect of the rate freeze implemented in 2013. Rates increased on July 1, 2015 as authorized in the 2015 Rate Order, covering higher operating expenses, primarily consisting of higher property taxes and tree trimming. Additionally, warmer than normal weather, coupled with favorable contractor pricing and resource availability lead to the acceleration of tree trimming activity during the first quarter of 2016 in comparison to the first quarter of 2015.

CH Energy Group - Non-regulated and Holding Company Operations Financial Highlights

Period Ended March 31

	Year To Date		
(In millions)	**2016**	**2015**	**Change**
Loss from continuing operations	(0.7)	(1.2)	0.5

Financial Position

The following table outlines the significant changes in the Balance Sheet of Central Hudson as of March 31, 2016 and December 31, 2015:

CH Energy Group – Regulated – Central Hudson
Significant Changes in the Balance Sheets
as of March 31, 2016 and December 31, 2015

(In millions)

Balance Sheet Account	Increase (Decrease)	Explanation
Accounts receivable	5.2	Increase primarily due to the seasonality of the business and colder first quarter of 2016 as compared to the fourth quarter of 2015, resulting in higher customer bills.
Income tax receivable	(28.4)	Decrease primarily due to a tax refund received related to bonus depreciation, which was retroactively reinstated with legislation passed in December 2015.
Regulatory assets - related to pension plan costs	(5.4)	Decrease primarily due to the amortization of net periodic benefit of pension costs.
Notes payable - current	(15.0)	Decrease due to the repayment of short term borrowings based on lower working capital needs.
Accounts payable	(5.3)	Decrease is primarily a result of the timing of purchases related to the capital program, particularly related to informational and operational technology, as well as timing of remediation work associated with the Newburgh MGP site.
Regulatory liabilities - long term	9.2	Increase primarily due to the over collection of costs related to NYS energy efficiency programs and income tax refundable through future rates partially offset by customer bill credits utilized, as established in the 2015 Rate Order.
Fair value of derivative instruments, (net)	8.1	Increase due to unrealized mark-to-market gains related to open electric and gas derivative contracts.
Accumulated deferred income tax	(7.1)	The decrease is primarily due to the accounting requirement to recognize deferred taxes for the difference between tax basis of assets and liabilities and the book basis. These amounts are fully deferred for future return to or recovery from customers.

Liquidity And Capital Resources

The following table outlines the summary of cash flow:

CH Energy Group - Regulated, Non-regulated and Holding Company Summary of Cash Flow
Period Ended March 31,
($millions)

	Year to Date	
	2016	**2015**
Cash, beginning of period	$ 13.6	$ 22.6
Operating Activities	61.4	23.0
Investing Activities	(41.3)	(32.5)
Financing Activities	(18.5)	24.3
Cash, end of period	$ 15.2	$ 37.4
Dividends paid on Common Stock - CH Energy Group	$ (5.5)	$ (5.5)
Dividends paid to parent - Central Hudson	$ -	$ (5.5)

Operating Activities: Operating activities generated more cash in the first quarter of 2016 primarily due to lower working capital requirements as a result of lower wholesale energy, as well as a tax refund associated with bonus depreciation legislation enacted at the end of 2015.

Investing Activities: There was more cash used in investing activities in the first quarter of 2016 primarily due to an increase in capital expenditures for Central Hudson's electric and gas, transmission and distribution systems.

Financing Activities: The first quarter of 2016 resulted in the use of cash to pay down short-term borrowings due to lower working capital needs. In the first quarter of 2015, short and long-term debt borrowings provided cash to finance capital expenditures, working capital and general corporate purposes at Central Hudson.

Committed Credit Facilities

Committed Credit Facilities for CH Energy Group and Central Hudson at March 31, 2016:
(In millions)

		March 31, 2016		
	Credit Limit	**Outstanding**	**Available**	**Maturity**
CH Energy Group (unregulated)	$ 50	$ -	$ 50	July 10, 2020
Central Hudson (regulated)	200	12	188	October 15, 2020
Total	$ 250	$ 12	$ 238	

CH Energy Group is well positioned with a strong balance sheet and strong liquidity.

On July 10, 2015, CH Energy Group entered into a third amended and restated credit agreement with four commercial banks. The credit commitment of the banks under the agreement is $50 million, a reduction from the previous $100 million credit agreement, reflecting CH Energy Group's lower liquidity needs following the divestiture of Griffith.

By Order issued and effective September 18, 2015, the PSC authorized the increase in Central Hudson's committed credit to $200 million. On October 15, 2015, Central Hudson entered into a new credit agreement with six commercial banks, replacing the existing credit agreement. The credit commitment of the banks was increased by $50 million to $200 million, bringing the consolidated CH Energy Group committed credit back to a total of $250 million.

Uncommitted Credit

Central Hudson has uncommitted short-term credit arrangements with two commercial banks totaling $25 million of which, there were no related borrowings outstanding at March 31, 2016.

Central Hudson's Bond Ratings

	March 31, 2016		December 31, 2015	
	Rating[(1)]	**Outlook**	**Rating[(1)]**	**Outlook**
S&P	A	Negative	A	Stable
Moody's	A2	Stable	A2	Stable
Fitch	A-	Stable	A-	Stable

On July 2, 2015, Fitch downgraded the rating on Central Hudson's senior unsecured debt to A- from A and revised the rating outlook to stable from negative. The rating downgrade reflects Fitch's expectation of the impact of persistently elevated capital expenditures and deferral of the recovery of manufactured gas plant site remediation costs on Central Hudson's financial profile.

On February 9, 2016, Standard & Poor's Ratings Services ("S&P") affirmed its ratings on Central Hudson, including the 'A' issuer credit rating and the 'A' senior unsecured debt rating and revised the outlook to negative from stable. S&P based the negative outlook on Fortis's planned acquisition of ITC Holdings Corp. On April 27, 2016, S&P again affirmed its 'A' ratings and negative outlook on Central Hudson, however, the rationale for the negative outlook is no longer based on Fortis's planned acquisition of ITC, but rather is based on a reduced confidence that Central Hudson will be able to sustain a durable regulatory advantage that differentiates it from its peers in New York.

Central Hudson's strong investment-grade credit ratings help facilitate access to long-term debt, however, management can make no assurance regarding the availability of financing or its terms and costs.

(1) These senior unsecured debt ratings reflect only the views of the rating agency issuing the rating, are not recommendations to buy, sell, or hold securities of Central Hudson and may be subject to revision or withdrawal at any time by the rating agency issuing the rating. Each rating should be evaluated independently of any other rating.

CH Energy Group's capital structure follows:

CH Energy Group's Capital Structure

	March 31, 2016		December 31, 2015	
	$millions	%	$millions	%
Long-term Debt	$ 544.1	48.5	$ 544.1	48.4
Short-term Debt	12.0	1.1	25.0	2.2
Common Equity	566.6	50.5	555.4	49.4
Total	$ 1,122.7	100.0	$ 1,124.5	100.0

Central Hudson's Capital Structure

	March 31, 2016		December 31, 2015	
	$millions	%	$millions	%
Long-term Debt	$ 525.9	47.3	$ 525.9	47.4
Short-term Debt	12.0	1.1	27.0	2.4
Common Equity	574.6	51.6	557.2	50.2
Total	$ 1,112.5	100.0	$ 1,110.1	100.0

Central Hudson's customer rates reflect a capital structure, excluding short-term debt, with 48% common equity. Central Hudson is currently managing its financing to maintain its common equity at no less than 48%. Central Hudson may change its long term capitalization targets to match the capital structure reflected in future customer rates.

In March 2015, Central Hudson issued $20 million of 10-year Series F notes with an interest rate of 2.98%, per annum. Central Hudson used the proceeds from the sale of the notes for capital expenditures, working capital and general corporate purposes.

Central Hudson meets its need for long-term debt financing primarily through privately placed debt. As a regulated electric and natural gas utility company, Central Hudson is required to obtain authorization from the PSC to issue securities with maturities greater than 12 months.

CH Energy Group and Central Hudson believe they will be able to meet their short-term and long-term cash requirements, assuming that Central Hudson's future rate plans reflect the costs of service, including a reasonable return on invested capital.

Summary of Changes in Accounting Policies from December 31, 2015

Regulation: There were no material changes to Central Hudson's regulatory accounting policies in the three months ended March 31, 2016.

Critical Accounting Estimates: There were no material changes to CH Energy Group's or Central Hudson's critical accounting estimates in the three months ended March 31, 2016.

GAAP: There were no material changes to CH Energy Group's or Central Hudson's accounting policies in the three months ended March 31, 2016.

Business Outlook and Summary of Significant Business Risks

Outlook

There were no material changes to the Company's mission and strategy since its 2015 Annual Financial Report.

Risk Factors

The were no material changes to the Company's risk factors, as set forth in its 2015 Annual Report, during the first three months of 2016.

Regulatory Proceedings

2015 Rate Order

On June 17, 2015, the PSC issued an Order Approving Rate Plan ("Rate Order") in Cases 14-E-0318 and 14-G-0319. The Rate Order adopted the terms set forth in the April 22, 2015 Joint Proposal with minor modifications. The Rate Order became effective July 1, 2015, with Rate Year 1 ("RY1"), Rate Year 2 ("RY2") and Rate Year 3 ("RY3") defined as the twelve months ending June 30, 2016, June 30, 2017 and June 30, 2018, respectively.

Key provisions of the Rate Order include:

- Electric delivery rate increases of $15.3 million, $16.0 million and $14.1 million in RY1, RY2 and RY3, respectively

- Gas delivery rate increases of $1.8 million, $4.6 million and $4.4 million RY1, RY2 and RY3, respectively

- To mitigate customer bill impacts from the delivery rate increases, the Company will utilize available regulatory liabilities as electric bill credits of $13.0 million in RY1, $12.0 million in RY2, and $2.0 million in RY3; and gas bill credits of $2.548 million in RY1 and $1.7 million in RY2. In addition, to the extent that the Company receives gas delivery revenues from the Danskammer Generating Station ("Danskammer") in RY1, 50% of those revenues will be refunded via a bill credit to the Company's gas customers in RY2. Similarly, 50% of the gas delivery revenues received from Danskammer in RY2 will be refunded via a bill credit to the Company's gas customers in RY3. The remaining amounts will accrue carrying charges and be available to offset future rate increases.

- The Company's electric and gas revenue requirements reflect a common equity ratio of 48% and a return on equity ("ROE") of 9.0%.

- Earnings above 9.5% and up to 10.0% will be shared 50% / 50% between the shareholder and ratepayers. Earnings above 10.0% and up to 10.5% will be shared 20% / 80% between the shareholder and ratepayers. Earnings above 10.5% will be shared 10% / 90% between the shareholder and ratepayers.

- The Rate Order includes the establishment of a major storm reserve for electric operations, with related deferral provisions, and provides $0.7 million each rate year as funding for the reserve.

- The Rate Order provides for partial or full reconciliation of certain expenses including, but not limited to: property taxes, pensions/OPEBs, environmental site investigation and remediation costs, variable and fixed rate debt, and stray voltage. In addition, the Rate Order includes downward-only reconciliations for net plant, distribution and transmission right-of-way maintenance costs, security costs and rate case expenses. The Rate Order also authorizes a continuation of full cost recovery of electric and natural gas commodity costs.

- Central Hudson will continue its RDMs for its electric and gas businesses. The structure and provisions of the RDMs will generally continue per Central Hudson's 2010 Rate Order except that the provisions for annual and interim RDM periods will be replaced with provisions for semi-annual RDM periods.

- Central Hudson's Customer Service Quality Performance Mechanism (consisting of the PSC Annual Complaint Rate, the Customer Satisfaction Index and Appointments Kept measures) and associated reporting requirements will continue in accordance with the PSC's Order issued on June 26, 2013 in Case 12-M-0192. The Company will be subject to a negative revenue adjustment if it fails to meet any metric as set forth in the Order.

- To reduce service terminations, the PSC authorized an annual incentive in the form of a 5 basis point positive revenue adjustment for each Rate Year in which the Company reduces service terminations to residential customers in occupied buildings below 11,000.

- The Rate Order modifies the electric reliability and gas safety performance measures, which generally hold the Company to more stringent standards and to a higher performance than those measures currently in place.

- The Rate Order directs Central Hudson to replace or eliminate 13 miles of leak prone pipe in calendar year 2016, 14 miles in 2017, and 15 miles in 2018. In the event the Company fails to meet its leak prone pipe target in any calendar year, the Company will be subject to an 8 basis point negative revenue adjustment. The Rate Order provides the Company with an incentive to surpass its leak prone pipe target by providing for a positive revenue adjustment for each mile replaced or eliminated in excess of the applicable target, capped at maximum of 5 miles for a total 10 basis points per calendar year, which the Company will defer for future recovery.

- The Rate Order directs the Company to transition to monthly billing for all customers from its current bi-monthly billing of certain customer classes by July 2016.

- The Rate Order provides $1 million annual program funding each Rate Year to provide additional incentives and support for customer conversion to gas. Central Hudson will receive an annual incentive in the form of 1 basis point for every 200 gas customers added above the combined total customer count forecast for residential and commercial customers for each Rate Year.

- The Rate Order provides for Network Strategy and Distribution Automation capital expenditures. Full implementation of the Network Strategy and Distribution Automation project beyond Rate Year 1 would be dependent upon PSC agreement that the Company remains on track for the successful demonstration of the functional capability and operation/integration of these investments.

- The Rate Order reflects removal of energy efficiency funds (both electric and gas) from base delivery rates and recovers utility-run energy efficiency budgets via a surcharge mechanism. The internal labor component associated with energy efficiency portfolio budgets is included in base rates to facilitate integrating the administrative function of energy efficiency into base rates.

Reforming the Energy Vision Proceeding

During the second quarter of 2014, Governor Cuomo and the PSC announced the commencement of its Reforming the Energy Vision ("REV") proceeding. REV is an initiative that aims to improve the efficiency of the electric system, reduce emissions, encourage greater development of clean generation, fuel diversity and energy efficiency measures, and provide customers with knowledge and tools for effective management of their total energy use through the adoption of new technologies on both the utility and customer side of the meter.

During the first quarter of 2015, the PSC issued the REV Track 1 "Order Adopting Regulatory Policy Framework and Implementation Plans". The Order addresses the vision of the future for the industry and the need for change, provides an overview of the Distributed System Platform Provider ("DSP") and their role in integrated system planning, grid and market operations. The Order identifies and concludes that utilities will be required to serve as DSPs. Central Hudson expects to continue its efforts working with the other New York electric utilities and various stakeholders in the energy industry to develop policy positions in order to facilitate the formation and implementation of REV.

Additionally, during 2015 Central Hudson formed the Energy Transformation & Solutions Division, which has been formed to lead the Company's efforts associated with REV. The group's first initiative is CenHub, a web based platform which provides personalized information, energy efficiency tips and access to discounted energy-saving products and services for customers. On August 4, 2015, the PSC approved CenHub, as one of seven statewide demonstration projects. Along with CenHub, the Energy Transformation & Solutions Division is tasked with continuing the successful operation of the Company's energy efficiency efforts and initiating a territory wide Dynamic Load Management program and a targeted demand response program. The goal of the targeted demand response program is to reduce peak demand in specific areas, which will allow Central Hudson to defer the need for capital investments and produce savings for its customers.

The outcome of REV and the many related proceedings cannot be predicted at this time, but they could result in an increased or decreased scope of regulated activities, earnings potential, and risk.

<u>Large Scale Renewables ("LSR") and Clean Energy Standard ("CES") Proceedings</u>

On February 26, 2015, the PSC's REV Track 1 Order instituted a new LSR track and directed the Department of Public Service Staff ("Staff") to work with the New York State Energy Research and Development Authority ("NYSERDA") to prepare an LSR options paper no later than June 1, 2015 in anticipation of reforms to New York's Renewable Portfolio Standard ("RPS") and to increase the penetration of renewable resources to meet state policy goals and proposed federal requirements. On June 1, 2015, Staff filed a Large Scale Renewable Energy Development in New York: Options and Assessment Report

- The report examined a range of policies, frameworks and structures available for procuring and financing LSR resources in New York, along with economic modeling and analysis to support the PSC in its decision making on how to move forward to achieve greater levels of renewable resources.
- In addition, the LSR Report examined three primary options, along with several variants:
  - <u>Option 1</u>: NYSERDA solicitation and contracting with LSR developers for renewable energy, under Renewable Energy Credits ("RECs") only, or RECs and energy (financial contract for differences) contracts.
  - <u>Option 2</u>: State entity solicitation and contracting with LSR developers for renewable energy, under long-term Power Purchase Agreements ("PPAs").
  - <u>Option 3</u>: State entity/utility solicitation for long-term PPAs with LSR developers for renewable energy or utility owned generation.
- The Report recommended long term PPAs between developers and utilities as the most effective option, along with a number of program design principles, and further recommended $1.5 billion of ratepayer investment over the next decade. Joint utility ("JU") initial and reply comments on the Options and Assessment paper were filed supporting the continued model of NYSERDA procurement and opposed long term PPAs.
- In June 2015, the Governor announced New York's 2015 State Energy Plan ("SEP") as a comprehensive roadmap to build a clean, resilient and affordable energy system for New York.
- The SEP included three primary clean energy goals to be achieved by 2030:
  - 50% generation of electricity from renewable energy sources,
  - 40% reduction in greenhouse gas ("GHG") emissions (from 1990 levels) and,
  - 23% decrease in energy consumption in buildings (from 2012 levels).

On January 21, 2016, the PSC issued an Order expanding the scope of the LSR proceeding to incorporate consideration and implementation of a CES that is designed to meet the Governor's SEP 50 by 30 renewable mandate. The Order directed Staff to issue a Whitepaper for comment, developed in consultation with NYSERDA. The Whitepaper presents and addresses the issues associated with the design of a CES. On January 25, 2016, Staff issued its Clean Energy Standard Whitepaper, which outlines the policy objectives of a CES mandate and recommended elements for the CES.

- The Staff Whitepaper recommends:
  - All electric retail load serving entities ("LSEs") share the obligation of the CES mandate in proportion to their annual retail electricity sales, including 'jurisdictional' LSEs, subject to the PSC's authority and all 'non-jurisdictional' LSEs (the New York Power Authority, or "NYPA", and the Long Island Power Authority, or "LIPA");

    - Establishment of CES tiers to support a growing quantity of new renewable generation, as well as continued contribution of existing renewables and zero emission resources;
    - Specification of eligibility requirements for resources within each tier (resource type, vintage, geographic, other);
    - For each tier, a firm set of requirements through 2020, with targets through 2030 to be developed in an implementation plan;
      - Tier 1 – New resources
      - Tier 2A (competitive) and 2B (non-competitive) – Existing resources
      - Tier 3 – Nuclear resources
    - Demonstration of compliance through the use of tradable RECs for renewable energy purchases and zero emission credits ("ZECs") for qualified nuclear generation purchases, both as created and tracked within a newly designed New York Generation Attribute Tracking System ("NYGATS");
    - Use of an alternative compliance payment ("ACP") mechanism for each CES tier to cap REC and ZEC prices and provide for a flexible alternative means of compliance;
    - Competitive long-term procurements by NYSERDA and utilities, as needed, for specific tiers to support project financing, reduce compliance costs and provide both generators and customers with price stability;
    - A method for disposition of procured RECs and ZECs;
    - Triennial program assessments by the PSC; and
    - Development of an Implementation Plan.
  - On February 24, 2016, the PSC issued a second Order expanding the scope of the LSR proceeding to include the consideration of an expedited program to provide financial support for the benefit of the electric system to maintain the viability of certain nuclear power plants that can demonstrate the lack of financial viability absent additional financial support. The Order also solicited comments on the Staff proposal. Comments on the Staff proposal are due on May 2, 2016.

No prediction can be made regarding the outcome of this matter or the potential impacts on Central Hudson at this time.

<u>Petition of Central Hudson Gas & Electric Corporation for Commission Approval and Recovery of Deferred Incremental Costs Associated with the Commission's Multiple Orders Requiring Risk Assessment and Remediation of New York Gas Facilities in Case 11-G-0565</u>

<u>(Cases 09-G-0589 and 12-M-0192)</u>

On October 14, 2015, Central Hudson filed a deferral petition seeking approval and recovery of $2.2 million of incremental expense associated with new compliance and reporting requirements resulting from multiple PSC orders stemming from a natural gas incident in Horseheads, New York. On February 5, 2016, Central Hudson received a letter from the PSC's Office of Accounting, Audits and Finance indicating agreement of the amount deferred at December 31, 2015. The method of recovery will be addressed in the Company's next rate case filing.

Petition of Central Hudson Gas & Electric Corporation for Commission Approval of Deferred Incremental Costs Associated with 2014 Thanksgiving "Snowbird" Storm (Case 15-E-0464)

On August 7, 2015, Central Hudson filed a petition with the PSC seeking approval for future recovery of $5.284 million of incremental electric storm restoration expense plus carrying charges incurred during the twelve months ended June 30, 2015, which is the third rate year established by the PSC in its approved Joint Proposal (Case 09-E-0588). These incremental costs represent the amount Central Hudson deferred on its books as of June 30, 2015 based on actual costs incurred, bills received and an estimate for bills outstanding. On January 22, 2016, the PSC approved deferral of incremental storm restoration costs together with carrying charges at the allowed pre-tax rate of return. The method of recovery will be addressed in the Company's next rate case filing.

Petition of Central Hudson Gas & Electric Corporation for Commission Approval for Recovery of Deferred Incremental Costs Associated with New Compliance Requirements Resulting from NERC's Changes to the Bulk Electric System (Cases 09-E-0588 and 12-M-0192)

On September 1, 2015, Central Hudson filed a deferral petition seeking approval and recovery of $1.0 million of incremental expense associated with new compliance requirements resulting from the North American Reliability Corporation's ("NERC's") change to the definition of the Bulk Electric System as approved by Federal Energy Regulation Committee ("FERC"). On February 5, 2016, Central Hudson received a letter from the PSC's Office of Accounting, Audits and Finance indicating agreement of the amount deferred at December 31, 2015. The method of recovery will be addressed in the Company's next rate case filing.

Gas/Electric Energy Efficiency Programs

On June 19, 2015, the PSC issued an Order authorizing Gas Energy Efficiency programs and their implementation for 2016 in Case15-M-0252 and adopted budgets and targets for 2016. The electric 2016 targets and budgets had been included in the PSC's REV Track 1 Order and are the same as the 2015 targets and budgets. Effective January 1, 2016, a new energy efficiency tracker was established for the recovery of costs (excluding labor).

Comprehensive Management and Operations Audit

On March 17, 2016, the PSC approved and issued a Request for Proposal ("RFP") seeking a consultant to perform a comprehensive management and operation audit of Central Hudson. The audit will be performed in accordance with Public Service Law 66(19). The anticipated schedule for the audit as set forth in the RFP identifies selection of the audit consultant in July 2016, initial work plan due in September 2016 and Final Report due in April 2017. The schedule can be altered at the direction of the PSC. The last comprehensive audit of Central Hudson was conducted in 2010 and 2011 and Central Hudson completed implementation of the resulting recommendations in 2015.

Other Regulatory Proceedings

There were no material updates to the Gas Plastic Fusion Practices Proceeding since the 2015 Annual Financial Report.

FORWARD-LOOKING STATEMENTS

Statements included in this quarterly report, which are not historical in nature, are intended to be "forward-looking statements." Forward-looking statements may be identified by words such as "anticipates," "intends," "estimates," "believes," "projects," "expects," "plans," "assumes," "seeks" and other similar words and expressions. CH Energy Group, and its subsidiaries are subject to risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements. The risks and uncertainties include, but are not limited to: deviations from normal seasonal temperatures and storm activity; changes in energy and commodity prices; availability of energy supplies; changes in interest rates; poor operating performance; legislative and regulatory developments; the outcome of litigations; and the resolution of current and future environmental issues. Additional information concerning risks and uncertainties may be found in the Management Discussion & Analysis section of CH Energy Group's quarterly and annual financial reports. These reports are available in the Financial Information section of website of CH Energy Group at www.CHEnergyGroup.com. CH Energy Group undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.