



**CH ENERGY GROUP, INC.
&
CENTRAL HUDSON GAS & ELECTRIC CORP.
QUARTERLY FINANCIAL REPORT**

for the period ended
JUNE 30, 2016

QUARTER ENDED JUNE 30, 2016

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Financial Statements

CH ENERGY GROUP CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

(In Thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Operating Revenues				
Electric	\$ 117,000	\$ 125,819	\$ 246,574	\$ 290,837
Natural gas	26,637	30,765	78,478	101,360
Total Operating Revenues	143,637	156,584	325,052	392,197
Operating Expenses				
Operation:				
Purchased electricity and fuel used in electric generation	35,521	42,317	77,064	115,805
Purchased natural gas	5,525	10,299	22,675	44,262
Other expenses of operation - regulated activities	54,816	59,734	113,338	124,980
Other expenses of operation - non-regulated	145	(5)	570	(51)
Depreciation and amortization	11,508	11,291	22,979	22,476
Taxes, other than income tax	14,600	13,067	32,153	28,735
Total Operating Expenses	122,115	136,703	268,779	336,207
Operating Income	21,522	19,881	56,273	55,990
Other Income and Deductions				
Income from unconsolidated affiliates	143	64	216	1
Interest on regulatory assets and other interest income	646	988	1,320	2,149
Regulatory adjustments for interest costs	77	318	130	633
Other - net	62	(127)	(28)	(102)
Total Other Income	928	1,243	1,638	2,681
Interest Charges				
Interest on long-term debt	5,927	5,928	11,885	11,702
Interest on regulatory liabilities and other interest	1,666	1,925	3,506	4,182
Total Interest Charges	7,593	7,853	15,391	15,884
Income before income taxes	14,857	13,271	42,520	42,787
Income Tax Expense	5,676	5,382	16,603	17,963
Net Income from Continuing Operations	9,181	7,889	25,917	24,824
Discontinued Operations				
Net Income Attributable to CH Energy Group	9,181	7,889	25,917	24,824
Dividends declared on Common Stock	5,500	5,500	11,000	11,000
Change in Retained Earnings	\$ 3,681	\$ 2,389	\$ 14,917	\$ 13,824

The Notes to Financial Statements are an integral part hereof.

CH ENERGY GROUP CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

(In Thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net Income	\$ 9,181	\$ 7,889	\$ 25,917	\$ 24,824
Other Comprehensive Income:				
Net unrealized losses on investments held by equity method investees - net of tax of \$0 and \$28 in the three and six months ended June 30, 2016 and \$0 and \$210 in 2015, respectively	-	-	(42)	(316)
Other comprehensive income (loss)	-	-	(42)	(316)
Comprehensive income	9,181	7,889	25,875	24,508
Comprehensive income attributable to CH Energy Group	<u>\$ 9,181</u>	<u>\$ 7,889</u>	<u>\$ 25,875</u>	<u>\$ 24,508</u>

The Notes to Financial Statements are an integral part hereof.

CH ENERGY GROUP CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

(In Thousands)

	Six Months Ended June 30,	
	2016	2015
Operating Activities:		
Net income	\$ 25,917	\$ 24,824
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	20,970	20,972
Amortization	2,009	1,504
Deferred income taxes - net	12,342	(16,477)
Bad debt expense	2,085	3,296
Undistributed equity in earnings of unconsolidated affiliates	151	(1)
Pension expense	8,356	10,819
Other post-employment benefits ("OPEB") expense	(1,354)	3,573
Regulatory liability - rate moderation	(8,026)	-
Revenue decoupling mechanism recorded	(341)	10,688
Changes in operating assets and liabilities - net:		
Accounts receivable, unbilled revenues and other receivables	9,671	2,351
Fuel, materials and supplies	(2,380)	1,820
Special deposits and prepayments	10,848	10,966
Income and other taxes	39,490	33,202
Accounts payable	318	(8,070)
Accrued interest	16	(190)
Customer advances	(309)	(5,542)
Pension plan contribution	(505)	(8,881)
OPEB contribution	(1,560)	(1,536)
Revenue decoupling mechanism refunded - net	(7,286)	(3,660)
Regulatory asset - manufactured gas plant ("MGP") site remediation	(162)	1,738
Regulatory asset - Temporary State Assessment	(342)	2,843
Regulatory Liability - Energy efficiency programs	14,649	2,601
Deferred natural gas and electric costs	1,925	23,393
Other - net	4,843	(13,883)
Net cash provided by operating activities	<u>131,325</u>	<u>96,350</u>
Investing Activities:		
Additions to utility and other property and plant	(88,844)	(54,205)
Other - net	(5,873)	(5,479)
Net cash used in investing activities	<u>(94,717)</u>	<u>(59,684)</u>
Financing Activities:		
Redemption of long-term debt	(8,645)	(604)
Proceeds from issuance of long-term debt	24,000	20,000
Proceeds (Redemption) of short-term borrowings - net	(21,000)	-
Dividends paid on Common Stock	(11,000)	(11,000)
Other - net	(174)	(157)
Net cash (used in) provided by financing activities	<u>(16,819)</u>	<u>8,239</u>
Net Change in Cash and Cash Equivalents	19,789	44,905
Cash and Cash Equivalents at Beginning of Period	13,582	22,647
Cash and Cash Equivalents at End of Period	<u>\$ 33,371</u>	<u>\$ 67,552</u>
Supplemental Disclosure of Cash Flow Information:		
Interest paid	\$ 12,147	\$ 11,595
Federal and state income taxes paid	\$ -	\$ 14,110
Additions to plant included in liabilities	\$ 10,101	\$ 7,738

The Notes to Financial Statements are an integral part hereof.

CH ENERGY GROUP CONSOLIDATED BALANCE SHEET (UNAUDITED)

(In Thousands)

	June 30, 2016	December 31, 2015	June 30, 2015
ASSETS			
Utility Plant (Note 2)			
Electric	\$ 1,259,856	\$ 1,230,663	\$ 1,182,961
Natural gas	430,735	417,455	390,189
Common	212,212	201,193	192,467
Gross Utility Plant	1,902,803	1,849,311	1,765,617
Less: Accumulated depreciation	492,608	478,384	471,427
Net	1,410,195	1,370,927	1,294,190
Construction work in progress	74,314	51,517	62,994
Net Utility Plant	1,484,509	1,422,444	1,357,184
Non-utility property & plant	524	524	524
Net Non-Utility Property & Plant	524	524	524
Current Assets			
Cash and cash equivalents	33,371	13,582	67,552
Accounts receivable from customers - net of allowance for doubtful accounts of \$5.3 million, \$5.6 million and \$5.3 million, respectively.	47,626	55,340	64,073
Accounts receivable - affiliates	601	195	3
Accrued unbilled utility revenues	22,248	28,216	11,235
Other receivables	5,207	7,873	5,765
Fuel, materials and supplies (Note 1)	21,163	18,783	15,726
Regulatory assets (Note 3)	23,009	30,788	28,255
Income tax receivable	-	38,139	-
Fair value of derivative instruments	2,680	-	33
Special deposits and prepayments	15,448	26,296	14,510
Total Current Assets	171,353	219,212	207,152
Deferred Charges and Other Assets			
Regulatory assets - pension plan (Note 3)	84,815	94,488	92,778
Regulatory assets - other (Note 3)	123,028	140,166	155,512
Fair value of derivative instruments (Note 14)	271	2,218	-
Investments in unconsolidated affiliates (Note 5)	7,756	1,417	1,324
Other investments (Note 15)	33,474	33,575	33,977
Other	3,649	3,514	2,728
Total Deferred Charges and Other Assets	252,993	275,378	286,319
Total Assets	\$ 1,909,379	\$ 1,917,558	\$ 1,851,179

The Notes to Financial Statements are an integral part hereof.

CH ENERGY GROUP CONSOLIDATED BALANCE SHEET (CONT'D)

(UNAUDITED)

(In Thousands, except share amounts)

	June 30, 2016	December 31, 2015	June 30, 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	234,096	219,179	211,263
Accumulated other comprehensive income	152	194	194
Total Equity	<u>570,314</u>	<u>555,439</u>	<u>537,523</u>
Long-term debt (Note 9)			
Principal amount	558,040	534,730	535,399
Unamortized debt issuance costs	(3,979)	(3,894)	(4,075)
Long-term debt less unamortized debt issuance costs	554,061	530,836	531,324
Total Capitalization	<u>1,124,375</u>	<u>1,086,275</u>	<u>1,068,847</u>
Current Liabilities			
Current maturities of long-term debt (Note 9)	1,360	9,315	9,272
Short-term borrowings (Note 7)	4,000	25,000	-
Accounts payable	36,053	39,305	35,294
Accrued interest	5,519	5,503	5,483
Accrued vacation and payroll	8,468	7,030	8,665
Customer advances	17,668	17,977	8,625
Customer deposits	7,585	8,366	8,210
Regulatory liabilities (Note 3)	35,004	42,429	27,032
Fair value of derivative instruments (Note 14)	3,739	10,142	5,591
Accrued environmental remediation costs (Note 12)	20,121	22,998	21,440
Accrued income and other taxes	855	-	22,520
Other	8,520	8,806	5,847
Total Current Liabilities	<u>148,892</u>	<u>196,871</u>	<u>157,979</u>
Deferred Credits and Other Liabilities			
Regulatory liabilities - OPEB (Note 3)	23,436	25,663	23,551
Regulatory liabilities - other (Note 3)	138,366	132,988	150,082
Operating reserves	3,257	3,703	3,558
Fair value of derivative instruments (Note 14)	1,308	1,476	3,719
Accrued environmental remediation costs (Note 12)	68,232	69,121	86,804
Accrued OPEB costs (Note 10)	17,166	18,995	23,362
Accrued pension costs (Note 10)	61,270	59,570	61,379
Tax reserve (Note 4)	4,131	3,520	3,281
Other	21,757	19,910	18,911
Total Deferred Credits and Other Liabilities	<u>338,923</u>	<u>334,946</u>	<u>374,647</u>
Accumulated Deferred Income Tax (Note 4)	<u>297,189</u>	<u>299,466</u>	<u>249,706</u>
Commitments and Contingencies			
Total Capitalization and Liabilities	<u>\$ 1,909,379</u>	<u>\$ 1,917,558</u>	<u>\$ 1,851,179</u>

The Notes to Financial Statements are an integral part hereof.

CH ENERGY GROUP CONSOLIDATED STATEMENT OF EQUITY (UNAUDITED)

(In Thousands, except share amounts)

	CH Energy Group Common Shareholders									
	Common Stock		Treasury Stock		Paid-In Capital	Capital Stock Expense	Retained Earnings	Accumulated Other Comprehensive Income	Non- controlling Interest	Total Equity
	Shares Issued	Amount	Shares (Repurchased) / Issued	Amount						
Balance at December 31, 2014	15,961,400	\$ 160	-	\$ -	\$ 325,906	\$ -	\$ 197,439	\$ 510	\$ -	\$ 524,015
Comprehensive income:										
Net income							24,824			24,824
Change in fair value:										
Investments								(316)		(316)
Dividends declared on common stock							(11,000)			(11,000)
Balance at June 30, 2015	<u>15,961,400</u>	<u>\$ 160</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 325,906</u>	<u>\$ -</u>	<u>\$ 211,263</u>	<u>\$ 194</u>	<u>\$ -</u>	<u>\$ 537,523</u>
Balance at December 31, 2015	15,961,400	\$ 160	-	\$ -	\$ 335,906	\$ -	\$ 219,179	\$ 194	\$ -	\$ 555,439
Comprehensive income:										
Net income							25,917			25,917
Change in fair value:										
Investments								(42)		(42)
Dividends declared on common stock							(11,000)			(11,000)
Balance at June 30, 2016	<u>15,961,400</u>	<u>\$ 160</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 335,906</u>	<u>\$ -</u>	<u>\$ 234,096</u>	<u>\$ 152</u>	<u>\$ -</u>	<u>\$ 570,314</u>

The Notes to Financial Statements are an integral part hereof.

CENTRAL HUDSON STATEMENT OF INCOME (UNAUDITED)

(In Thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Operating Revenues				
Electric	\$ 117,000	\$ 125,819	\$ 246,574	\$ 290,837
Natural gas	26,637	30,765	78,478	101,360
Total Operating Revenues	143,637	156,584	325,052	392,197
Operating Expenses				
Operation:				
Purchased electricity and fuel used in electric generation	35,521	42,317	77,064	115,805
Purchased natural gas	5,525	10,299	22,675	44,262
Other expenses of operation	54,816	59,734	113,338	124,980
Depreciation and amortization	11,508	11,291	22,979	22,476
Taxes, other than income tax	14,405	13,091	31,943	28,553
Total Operating Expenses	121,775	136,732	267,999	336,076
Operating Income	21,862	19,852	57,053	56,121
Other Income and Deductions				
Interest on regulatory assets and other interest income	638	980	1,305	2,132
Regulatory adjustments for interest costs	77	318	130	633
Other - net	172	151	341	231
Total Other Income	887	1,449	1,776	2,996
Interest Charges				
Interest on long-term debt	5,621	5,602	11,271	11,046
Interest on regulatory liabilities and other interest	1,660	1,913	3,502	4,170
Total Interest Charges	7,281	7,515	14,773	15,216
Income Before Income Taxes	15,468	13,786	44,056	43,901
Income Tax Expense	5,895	5,596	17,043	17,571
Net Income	9,573	8,190	27,013	26,330
Income Available for Common Stock	\$ 9,573	\$ 8,190	\$ 27,013	\$ 26,330

CENTRAL HUDSON STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

(In Thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net Income	\$ 9,573	\$ 8,190	\$ 27,013	\$ 26,330
Other Comprehensive Income	-	-	-	-
Comprehensive Income	\$ 9,573	\$ 8,190	\$ 27,013	\$ 26,330

The Notes to Financial Statements are an integral part hereof.

CENTRAL HUDSON STATEMENT OF CASH FLOWS (UNAUDITED)

(In Thousands)

	Six Months Ended June 30,	
	2016	2015
Operating Activities:		
Net income	\$ 27,013	\$ 26,330
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	20,970	20,972
Amortization	2,009	1,504
Deferred income taxes - net	12,437	(16,585)
Bad debt expense	2,085	3,296
Pension expense	8,356	10,819
OPEB expense	(1,354)	3,573
Regulatory liability - rate moderation	(8,026)	-
Revenue decoupling mechanism recorded	(341)	10,688
Changes in operating assets and liabilities - net:		
Accounts receivable, unbilled revenues and other receivables	10,221	(1,121)
Fuel, materials and supplies	(2,380)	1,820
Special deposits and prepayments	10,838	10,936
Income and other taxes	38,997	32,918
Accounts payable	748	(8,123)
Accrued interest	17	(188)
Customer advances	(309)	(5,542)
Pension plan contribution	(505)	(8,575)
OPEB contribution	(1,560)	(1,536)
Revenue decoupling mechanism refunded - net	(7,286)	(3,660)
Regulatory asset - MGP site remediation	(162)	1,738
Regulatory asset - Temporary State Assessment	(342)	2,843
Regulatory Liability - Energy efficiency programs	14,649	2,601
Deferred natural gas and electric costs	1,925	23,393
Other - net	4,034	(10,390)
Net cash provided by operating activities	132,034	97,711
Investing Activities:		
Additions to utility plant	(88,844)	(54,205)
Other - net	672	(5,347)
Net cash used in investing activities	(88,172)	(59,552)
Financing Activities:		
Redemption of long-term debt	(8,000)	-
Proceeds from issuance of long-term debt	24,000	20,000
Proceeds (Redemption) of short-term borrowings - net	(27,000)	-
Dividends paid to parent - CH Energy Group	(6,762)	(12,262)
Other - net	(174)	(157)
Net cash (used in) provided by financing activities	(17,936)	7,581
Net Change in Cash and Cash Equivalents	25,926	45,740
Cash and Cash Equivalents - Beginning of Period	5,935	18,303
Cash and Cash Equivalents - End of Period	\$ 31,861	\$ 64,043
Supplemental Disclosure of Cash Flow Information:		
Interest paid	\$ 11,532	\$ 10,938
Federal and state income taxes paid	\$ -	\$ 15,519
Additions to plant included in liabilities	\$ 10,101	\$ 7,738

The Notes to Financial Statements are an integral part hereof.

CENTRAL HUDSON BALANCE SHEET (UNAUDITED)

(In Thousands)

	June 30, 2016	December 31, 2015	June 30, 2015
ASSETS			
Utility Plant (Note 2)			
Electric	\$ 1,259,856	\$ 1,230,663	\$ 1,182,961
Natural gas	430,735	417,455	390,189
Common	212,212	201,193	192,467
Gross Utility Plant	1,902,803	1,849,311	1,765,617
Less: Accumulated depreciation	492,608	478,384	471,427
Net	1,410,195	1,370,927	1,294,190
Construction work in progress	74,314	51,517	62,994
Net Utility Plant	1,484,509	1,422,444	1,357,184
Non-Utility Property and Plant	524	524	524
Net Non-Utility Property and Plant	524	524	524
Current Assets			
Cash and cash equivalents	31,861	5,935	64,043
Accounts receivable from customers - net of allowance for doubtful accounts of \$5.3 million, \$5.6 million and \$5.3 million, respectively.	47,626	55,340	64,073
Accrued unbilled utility revenues	22,248	28,216	11,235
Other receivables	5,237	8,047	8,230
Fuel, materials and supplies - at average cost (Note 1)	21,163	18,783	15,726
Regulatory assets (Note 3)	23,009	30,788	28,255
Income tax receivable	-	35,196	-
Fair value of derivative instruments (Note 14)	2,680	-	33
Special deposits and prepayments	15,405	26,243	14,482
Total Current Assets	169,229	208,548	206,077
Deferred Charges and Other Assets			
Regulatory assets - pension plan (Note 3)	84,815	94,488	92,778
Regulatory assets - other (Note 3)	123,028	140,166	155,512
Fair value of derivative instruments (Note 14)	271	2,218	-
Other investments (Note 15)	32,694	32,779	33,158
Other	3,151	2,865	2,164
Total Deferred Charges and Other Assets	243,959	272,516	283,612
Total Assets	\$ 1,898,221	\$ 1,904,032	\$ 1,847,397

The Notes to Financial Statements are an integral part hereof.

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

(In Thousands, except share amounts)

	June 30, 2016	December 31, 2015	June 30, 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	257,771	237,520	230,524
Capital stock expense	(4,633)	(4,633)	(4,633)
Total Equity	577,401	557,150	550,154
Long-term debt (Note 9)			
Principal amount	541,950	517,950	517,950
Unamortized debt issuance costs	(3,891)	(3,894)	(4,075)
Long-term debt less unamortized debt issuance costs	538,059	514,056	513,875
Total Capitalization	1,115,460	1,071,206	1,064,029
Current Liabilities			
Current maturities of long-term debt (Note 9)	-	8,000	8,000
Short-term borrowings (Note 7)	-	27,000	-
Accounts payable	36,656	39,478	35,366
Accrued interest	5,468	5,451	5,430
Accrued vacation and payroll	8,463	7,025	7,485
Customer advances	17,668	17,977	8,625
Customer deposits	7,585	8,366	8,210
Regulatory liabilities (Note 3)	35,004	42,429	27,032
Fair value of derivative instruments (Note 14)	3,739	10,142	5,591
Accrued environmental remediation costs (Note 12)	20,121	22,998	21,417
Accrued income and other taxes	3,801	-	20,250
Other	8,268	8,644	5,288
Total Current Liabilities	146,773	197,510	152,694
Deferred Credits and Other Liabilities			
Regulatory liabilities - OPEB (Note 3)	23,436	25,663	23,551
Regulatory liabilities - other (Note 3)	138,366	132,988	150,082
Operating reserves	3,257	3,703	3,558
Fair value of derivative instruments (Note 14)	1,308	1,476	3,719
Accrued environmental remediation costs (Note 12)	68,232	69,121	86,704
Accrued OPEB costs (Note 10)	17,166	18,995	23,362
Accrued pension costs (Note 10)	61,038	59,337	61,130
Tax reserve (Note 4)	4,131	3,520	3,281
Other	19,414	18,225	17,262
Total Deferred Credits and Other Liabilities	336,348	333,028	372,649
Accumulated Deferred Income Tax (Note 4)	299,640	302,288	258,025
Commitments and Contingencies			
Total Capitalization and Liabilities	\$ 1,898,221	\$ 1,904,032	\$ 1,847,397

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		Paid-In Capital	Capital Stock Expense	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
	Shares Issued	Amount	Shares Repurchased	Amount					
Balance at December 31, 2014	16,862,087	\$ 84,311	-	\$ -	\$ 239,952	\$ (4,633)	\$ 216,456	\$ -	\$ 536,086
Net income							26,330		26,330
Dividends declared:									
On Common Stock to parent - CH Energy Group							(12,262)		(12,262)
Balance at June 30, 2015	16,862,087	\$ 84,311	-	\$ -	\$ 239,952	\$ (4,633)	\$ 230,524	\$ -	\$ 550,154
Balance at December 31, 2015	16,862,087	\$ 84,311	-	\$ -	\$ 239,952	\$ (4,633)	\$ 237,520	\$ -	\$ 557,150
Net income							27,013		27,013
Dividends declared:									
On Common Stock to parent - CH Energy Group							(6,762)		(6,762)
Balance at June 30, 2016	16,862,087	\$ 84,311	-	\$ -	\$ 239,952	\$ (4,633)	\$ 257,771	\$ -	\$ 577,401

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 June 30, 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, CHGT and CHEC. Inter-company balances and transactions have been eliminated in consolidation.

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

The Financial Statements 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 June 30, 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 New York State Public Service Commission (“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 Central Hudson’s 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 June 30, 2015, the portion of estimated electric unbilled revenues that was unrecognized in accordance with then current regulatory agreements was \$9.9 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 authority 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, estimated electric unbilled revenues have been included as of June 30, 2016 and December 31, 2015.

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):

	June 30, 2016	December 31, 2015	June 30, 2015
Natural gas	\$ 3,094	\$ 5,148	\$ 3,200
Fuel used in electric generation	471	482	491
Materials and supplies	17,598	13,153	12,035
Total	<u>\$ 21,163</u>	<u>\$ 18,783</u>	<u>\$ 15,726</u>

Utility Plant - Central Hudson

The regulated assets of Central Hudson include electric, natural gas and common assets which are listed under the heading "Utility Plant" on CH Energy Group's and Central Hudson'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, Amortization and Asset Retirement Obligations

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 and, for regulatory reporting purposes, is reflected in accumulated depreciation until the costs are incurred consistent with industry practice. In accordance with accounting guidance for regulated operations, future removal costs that do not represent legal asset retirement obligations should be recorded as regulatory liabilities and as such, these amounts are reclassified from accumulated depreciation to regulatory liabilities for GAAP reporting purposes.

Central Hudson records Asset Retirement Obligations ("AROs") for the incremental removal costs, resulting from legal and environmental obligations associated with the retirement of certain utility plant assets, as a liability at fair value with a corresponding increase to utility capital assets, in the period in which the costs are known and estimable. The fair value of AROs is based on an estimate of the present value of expected future cash outlays,

discounted at a credit-adjusted risk-free interest rate. AROs are adjusted at the end of each reporting period to accrete the liability for the passage of time and record any changes in the estimated future cash flows of the incremental obligation. Accretion and depreciation expense associated with AROs are recorded as regulatory assets. Actual costs incurred reduce the liability. The regulatory assets for accretion and depreciation are recovered through the accumulated depreciation reserve upon retirement of the asset.

Impairment of Long-Lived Assets

Central Hudson reviews long lived assets for impairment. 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 PSC. 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) 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.

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. Central Hudson follows the normalization method of accounting, which spreads the tax benefits associated with utility assets over the same time period that the costs of those assets are recovered from customers. Normalization is required as a prerequisite for utilities claiming accelerated depreciation and certain tax credits. Deferred investment tax credits are amortized over the estimated life of the properties giving rise to the credits. For state income tax purposes, Central Hudson uses book depreciation for property placed in service in 1999 or earlier in accordance with transition property rules under Article 9-A of the New York State Tax Law. CHEC files state income tax returns in the states in which it conducts business. For more information, see Note 4 – “Income Tax”.

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 certain 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 its balance sheet. 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.

Retirement Plan, OPEB and SERP 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. On April 1, 2016, CH Energy Group adopted a 2016 Performance Share Unit Plan ("2016 PSUP"). 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 \$4.1 million from long-term other assets to long-term debt on the CH Energy Group and Central Hudson consolidated balance sheet at June 30, 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 \$31 million for CH Energy Group and \$25.0 million for Central Hudson at June 30, 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		
		June 30, 2016	December 31, 2015	June 30, 2015
Electric:				
Production	25-85	\$ 38,952	\$ 37,967	\$ 37,964
Transmission	30-80	308,672	299,078	280,145
Distribution	7-80	907,939	889,404	860,663
Other	40	4,293	4,214	4,189
Total		\$ 1,259,856	\$ 1,230,663	\$ 1,182,961
Natural Gas:				
Transmission	19-80	54,579	56,075	54,519
Distribution	28-95	375,712	360,938	335,228
Other	N/A	444	442	442
Total		\$ 430,735	\$ 417,455	\$ 390,189
Common:				
Land and Structures	50	\$ 72,446	\$ 68,683	\$ 67,092
Office and Other Equipment, Radios and Tools	8-35	48,648	44,611	43,637
Transportation Equipment	10-12	58,680	57,381	55,463
Other	5-10	32,438	30,518	26,275
Total		\$ 212,212	\$ 201,193	\$ 192,467
Gross Utility Plant		\$ 1,902,803	\$ 1,849,311	\$ 1,765,617

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

Total AFUDC borrowed for both the three months ended June 30, 2016 and 2015 were \$0.2 million. Total AFUDC borrowed for both the six months ended June 30, 2016 and 2015 were \$0.3 million. The equity component of AFUDC recorded for both the three months ended June 30, 2016 and 2015 was \$0.3 million. The equity component of AFUDC recorded for the six months ended June 30, 2016 and 2015 was \$0.6 million and \$0.5 million, respectively.

Included in the Net Utility Plant balance of \$1,485 million, \$1,422 million and \$1,357 million at June 30, 2016, December 31, 2015 and June 30, 2015 is \$65.0 million, \$58.8 million and \$53.8 million of intangible utility plant assets and the related accumulated amortization of \$28.1 million, \$26.0 million and \$24.1 million, respectively.

As of June 30, 2016, December 31, 2015 and June 30, 2015, Central Hudson has classified \$46.5 million, \$46.6 million and \$48.8 million of cost of removal recovered through the rate-making process in excess of amounts incurred to date as a regulatory liability.

As of June 30, 2016, December 31, 2015 and June 30, 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):

	June 30. 2016	December 31. 2015	June 30. 2015
Regulatory Assets (Debits):			
Current:			
Deferred purchased electric costs	\$ 6,085	\$ 8,154	\$ 8,849
Deferred purchased natural gas costs	1,377	1,233	-
Deferred unrealized losses on derivatives - Electric (Note 14)	3,739	9,152	5,509
Deferred unrealized losses on derivatives - Gas (Note 14)	-	990	82
PSC General and Temporary State Assessment and carrying charges	4,623	4,139	1,334
Deferred debt expense on re-acquired debt	520	520	520
Deferred and accrued costs - MGP site remediation (Note 12)	6,307	6,242	6,178
Deferred storm costs and carrying charges	-	-	5,425
Other	358	358	358
	<u>\$ 23,009</u>	<u>\$ 30,788</u>	<u>\$ 28,255</u>
Long-term:			
Deferred pension costs (Note 10)	\$ 84,815	\$ 94,488	\$ 92,778
Deferred unrealized losses on derivatives - Electric (Note 14)	1,308	1,476	3,719
Carrying charges - pension reserve	2,170	1,181	-
Deferred and accrued costs - MGP site remediation and carrying charges (Note 12)	77,149	80,959	98,296
Deferred debt expense on re-acquired debt	3,679	3,938	4,198
Income taxes recoverable through future rates	10,250	29,734	32,987
Energy efficiency incentives and carrying charges	5,204	5,061	4,848
Deferred storm costs and carrying charges	5,072	5,281	-
Other	18,196	12,536	11,464
	<u>\$ 207,843</u>	<u>\$ 234,654</u>	<u>\$ 248,290</u>
Total Regulatory Assets	<u>\$ 230,852</u>	<u>\$ 265,442</u>	<u>\$ 276,545</u>
Regulatory Liabilities (Credits):			
Current:			
Rate moderator - Electric	\$ 12,130	\$ 12,655	\$ 13,000
Rate moderator - Gas	5,742	3,411	2,548
RDM and carrying charges - Electric	83	5,419	1,597
RDM and carrying charges - Gas	1,104	3,492	5,055
Deferred purchased natural gas costs	-	-	2,759
Deferred unrealized gains on derivatives - Electric (Note 14)	2,127	-	-
Deferred unrealized gains on derivatives - Gas (Note 14)	553	-	33
Deferred unbilled electric and gas revenues (Note 1)	13,265	17,452	2,040
	<u>\$ 35,004</u>	<u>\$ 42,429</u>	<u>\$ 27,032</u>
Long-term:			
Rate moderator - Electric and carrying charges	\$ 36,349	\$ 40,778	\$ 44,452
Rate moderator - Gas and carrying charges	4,100	6,423	5,842
Customer benefit fund	4,932	5,665	5,965
Deferred cost of removal (Note 2)	46,486	46,561	48,811
Deferred unrealized gains on derivatives - Electric (Note 14)	271	2,218	-
Income taxes refundable through future rates	19,056	23,810	31,697
Deferred OPEB costs (Note 10)	23,436	25,663	23,551
Carrying charges - OPEB reserve	2,696	1,384	-
Energy efficiency programs	17,711	3,061	7,741
Other	6,765	3,088	5,574
	<u>\$ 161,802</u>	<u>\$ 158,651</u>	<u>\$ 173,633</u>
Total Regulatory Liabilities	<u>\$ 196,806</u>	<u>\$ 201,080</u>	<u>\$ 200,665</u>
Net Regulatory Assets/Liabilities	<u>\$ 34,046</u>	<u>\$ 64,362</u>	<u>\$ 75,880</u>

⁽¹⁾ Prior to July 1, 2015, pursuant to regulatory requirements, unbilled electric revenues were not recorded. Amount reported as of June 30, 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”), adopting 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:

Description	2013 Acquisition Order	2015 Rate 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. If the Company exceeds the mileage target, it is authorized to defer the incremental costs associated with the additional miles up to \$1.4 million for every mile over 13 miles in 2016, up to \$1.5 million for every mile over 14 miles in 2017 and up to \$1.6 million for every mile above 15 miles in 2018. 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 would 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's 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 with 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 with 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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Tax reserve balance at the beginning of the period	\$ 3,913	\$ 3,146	\$ 3,520	\$ 2,693
Adjustments related to tax accounting method change	218	135	611	588
Tax reserve balance at the end of the period	<u>\$ 4,131</u>	<u>\$ 3,281</u>	<u>\$ 4,131</u>	<u>\$ 3,281</u>

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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income from Continuing Operations	\$ 9,181	\$ 7,889	\$ 25,917	\$ 24,824
Federal income tax	(349)	9,966	2,639	30,033
State income tax	511	1,260	1,622	4,407
Deferred federal income tax ⁽¹⁾	5,138	(5,515)	11,199	(15,840)
Deferred state income tax ⁽¹⁾	376	(329)	1,143	(637)
	<u>\$ 14,857</u>	<u>\$ 13,271</u>	<u>\$ 42,520</u>	<u>\$ 42,787</u>
Computed federal tax at 35% statutory rate	\$ 5,200	\$ 4,645	\$ 14,882	\$ 14,975
State income tax net of federal tax benefit	577	328	1,875	2,129
State income tax rate change	-	173	(78)	113
Depreciation flow-through	708	935	1,384	1,837
Cost of Removal	(634)	(597)	(1,276)	(1,211)
Other	(175)	(102)	(184)	120
Total income tax	<u>\$ 5,676</u>	<u>\$ 5,382</u>	<u>\$ 16,603</u>	<u>\$ 17,963</u>
Effective tax rate - federal	32.2%	33.5%	32.5%	33.2%
Effective tax rate - state	6.0%	7.0%	6.5%	8.8%
Effective tax rate - combined	<u>38.2%</u>	<u>40.5%</u>	<u>39.0%</u>	<u>42.0%</u>

(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 effective tax rates for 2016 were presented in line with the 2015 presentation, the federal effective tax rate for the three and six months ended June 30, 2016 would have been 33.1% and 33.4%, respectively. If the state effective tax rates for 2016 were presented in line with 2015, the state effective tax rate for the three and six months ended June 30, 2016 would have been 5.1% and 5.6%, respectively.

Effective January 1, 2016, the NYS corporate income tax rate was lowered from 7.1% to 6.5%. The higher NYS effective rate for the six months ended June 30, 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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	\$ 9,573	\$ 8,190	\$ 27,013	\$ 26,330
Federal income tax	(151)	10,182	3,118	30,987
State income tax	548	1,282	1,489	3,170
Deferred federal income tax ⁽¹⁾	5,126	(5,571)	11,285	(15,990)
Deferred state income tax ⁽¹⁾	372	(297)	1,151	(596)
Income before taxes	<u>\$ 15,468</u>	<u>\$ 13,786</u>	<u>\$ 44,056</u>	<u>\$ 43,901</u>
Computed federal tax at 35% statutory rate	\$ 5,414	\$ 4,825	\$ 15,419	\$ 15,365
State income tax net of federal tax benefit	598	363	1,794	1,351
State income tax rate change	-	173	(78)	113
Depreciation flow-through	708	935	1,384	1,837
Cost of Removal	(634)	(597)	(1,276)	(1,211)
Other	(191)	(103)	(200)	116
Total income tax	<u>\$ 5,895</u>	<u>\$ 5,596</u>	<u>\$ 17,043</u>	<u>\$ 17,571</u>
Effective tax rate - federal	32.2 %	33.4 %	32.7 %	34.2%
Effective tax rate - state	5.9 %	7.1 %	6.0 %	5.9%
Effective tax rate - combined	<u>38.1 %</u>	<u>40.5 %</u>	<u>38.7 %</u>	<u>40.1%</u>

(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 effective tax rates were presented in line with the 2015, the federal effective tax rate for the three and six months ended June 30, 2016 would have been 33.0% and 33.6%, respectively. If the state effective tax rates were presented in line with the 2015, the state effective tax rate for both the three and six months ended June 30, 2016 would have been 5.1%.

Effective January 1, 2016, the NYS corporate income tax rate was lowered from 7.1% to 6.5%.

NOTE 5 – Investments

The value of CHEC's investments as of June 30, 2016, December 31, 2015 and June 30, 2015 are as follows (In Thousands):

CHEC Investment	Description	Equity Investment		
		June 30, 2016	December 31, 2015	June 30, 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	854	1,078	1,106
		<u>\$ 854</u>	<u>\$ 1,078</u>	<u>\$ 1,106</u>

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 electric transmission projects. The first undertaking of CHET was the execution of the Transco agreement. CHET's ownership interest in Transco is 6.1%. In November 2015, Transco filed an Offer of Partial Settlement with FERC ("Transco's Settlement"), resolving all issues in Transco's Initial FERC Filing. FERC approved Transco's Settlement in March 2016 and three projects were placed in service by June 1st, after receiving the remaining regulatory approvals in May 2016. The total estimated cost for the three projects included in Transco's Settlement was approximately \$203 million. During the second quarter of 2016, CHET made capital contributions to Transco of \$6.5 million to fund these projects. As of June 30, 2016, December 31, 2015 and June 30, 2015, the value of CHET's investment in Transco was \$6.9 million, \$0.3 million and \$0.4 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 June 30, 2016 there has been no activity at CHGT.

NOTE 6 – Research and Development

Central Hudson's R&D expenditures for the three months ended June 30, 2016 and 2015 were \$0.4 million and \$0.7 million, respectively. Central Hudson's R&D expenditures for the six months ended June 30, 2016 and 2015 were \$1.2 million and \$2.2 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		
	June 30, 2016	December 2015	June 30, 2015	June 30, 2016	December 2015	June 30, 2015
Outstanding (In Thousands):						
Committed Credit	\$ 4,000	\$ 12,000	\$ -	\$ -	\$ 12,000	\$ -
Uncommitted Credit ⁽⁴⁾	-	13,000	-	-	13,000	-
Intercompany Borrowing ⁽⁵⁾	-	-	-	-	2,000	-
Total	\$ 4,000	\$ 25,000	\$ -	\$ -	\$ 27,000	\$ -
Weighted Average Interest Rate	1.38%	1.16%	0.00%	0.00%	1.15%	0.00%

(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 and six months ended June 30, 2016 and 2015, CH Energy Group paid dividends to FortisUS Inc. (“FortisUS”) of \$5.5 million and \$11 million, respectively.

During the three and six months ended June 30, 2016, Central Hudson paid dividends to parent CH Energy Group of \$6.8 million. There were no dividends paid to CH Energy Group by Central Hudson during the first quarter of 2016. During the three and six months months ended June 30, 2015, Central Hudson paid dividends to parent CH Energy Group of \$6.8 million and \$12.3 million, respectively.

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 \$41.8 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 June 30, 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. There has been no payout during the quarterly term.

The principal amount of Central Hudson’s outstanding 1999 Series B NYSERDA Bonds totaled \$33.7 million at June 30, 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 expired on April 1, 2016. There have been no payouts on these interest rate caps.

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.

On April 1, 2016, Central Hudson redeemed its 2010 Series G medium term notes with a principal payment of \$8.0 million.

In June 2016, Central Hudson issued \$24 million of Series G notes with an interest rate of 2.16%, per annum due September 21, 2020. Central Hudson used the proceeds from the sale of the notes for capital expenditures, working capital and general corporate purposes.

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 information that follows is provided in accordance with current accounting requirements.

The following are the components of Central Hudson’s net periodic benefit costs for its pension and OPEB plans for the three and six months ended June 30, 2016 and 2015 (In Thousands):

	Pension Benefits		OPEB	
	Three Months Ended June 30,		Three Months Ended June 30,	
	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)	(8,869)	(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)	<u>\$ 5,906</u>	<u>\$ 5,299</u>	<u>\$ (1,649)</u>	<u>\$ (1,621)</u>

	Pension Benefits		OPEB	
	Six Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Service cost	\$ 5,692	\$ 6,404	\$ 1,156	\$ 1,048
Interest cost	13,388	13,010	2,712	2,836
Expected return on plan assets	(16,832)	(17,737)	(4,082)	(3,976)
Amortization of:				
Prior service cost (credit)	740	810	(2,866)	(2,918)
Recognized actuarial loss (gain)	8,824	8,112	(218)	(232)
Net Periodic Benefit Cost (Income)	<u>\$ 11,812</u>	<u>\$ 10,599</u>	<u>\$ (3,298)</u>	<u>\$ (3,242)</u>

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

	June 30, 2016 ⁽¹⁾	December 31, 2015 ⁽¹⁾	June 30, 2015 ⁽¹⁾
Accrued pension costs	\$ 62,394	\$ 60,651	\$ 62,427

⁽¹⁾ Includes approximately \$232K at June 30, 2016 and December 31, 2015 and \$287K of accrued pension liability at June 30, 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):

	June 30, 2016 ⁽¹⁾	December 31, 2015 ⁽¹⁾	June 30, 2015 ⁽¹⁾
Prefunded pension costs prior to funding status adjustment	\$ 19,202	\$ 30,510	\$ 27,564
Additional liability required	(81,596)	(91,161)	(89,991)
Total accrued pension costs	<u>\$ (62,394)</u>	<u>\$ (60,651)</u>	<u>\$ (62,427)</u>
Total offset to additional liability - regulatory assets - pension plan	<u>\$ 81,596</u>	<u>\$ 91,161</u>	<u>\$ 89,991</u>

⁽¹⁾ Includes approximately \$232K at June 30, 2016 and December 31, 2015 and \$287K of accrued pension liability at June 30, 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, changes in mortality assumptions and corporate resources. In addition, OPEB plan contribution levels are also impacted by medical claims.

Contributions for the three and six months ended June 30, 2016 and 2015 were as follows (In Thousands):

Retirement Income Plan				OPEB			
Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended June 30,		Six Months Ended June 30,	
2016	2015	2016	2015	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 as of June 30, 2016 as well as actual asset allocations as of June 30, 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	June 30, 2016	Minimum	Target Average	Maximum	December 31, 2015
Equity Securities	48.5%	41%	50%	59%	49.9%
Debt Securities	50.2%	45%	50%	55%	47.7%
Other ⁽¹⁾	1.3%	-%	-%	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 Central Hudson 2016 Share Unit Plan (“2016 SUP”), representing the officers’ long-term incentives. Two-thirds of the issued 2016 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 2016 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 2016 SUP Unit grant. Each 2016 SUP Unit accrues notional dividend equivalents equal to the dividends declared by the Fortis Board of Directors on Fortis common shares.

On April 1, 2016, CH Energy Group adopted a 2016 Performance Share Unit Plan (“2016 PSUP”) and issued 18,806 Units. The 2016 PSUP Units are performance based and vest upon achievement of specified performance goals over the three year performance period. Each 2016 PSUP 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 2016 PSUP Unit grant. Each 2016 PSUP Unit accrues notional dividend equivalents equal to the dividends declared by the Fortis Board of Directors on Fortis common shares.

Upon establishing the CH Energy Group 2016 PSUP on April 1, 2016, Central Hudson rescinded 16,356 Units issued under Central Hudson’s 2016 SUP, resulting in a reduction in the number of units granted under the Central Hudson 2016 SUP from 70,056 to 53,700 Units.

In January 2015, 47,386 Units were granted to the officers of CH Energy Group and Central Hudson under the 2015 Share Unit Plan (“2015 SUP”), representing the officers’ long-term incentives. Two-thirds of the issued 2015 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 2015 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 2015 SUP Unit grant. Each 2015 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 Share Unit Plan (“2014 SUP”), representing the officers’ long-term incentives. Half of the issued 2014 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 2014 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 2014 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 2014 SUP Unit grant. Each 2014 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 2014 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 and six months ended June 30, 2016 and 2015 (In Thousands):

	CH Energy Group		Central Hudson	
	Three Months Ended June 30,		Three Months Ended June 30,	
	2016	2015	2016	2015
Share Unit Plan Units	\$ 432	\$ 386	\$ 334	\$ 429

	CH Energy Group		Central Hudson	
	Six Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Share Unit Plan Units	\$ 1,787	\$ 512	\$ 1,346	\$ 639

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 SUP 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 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. Energy supplied under the second agreement for the month of June 2016 cost approximately \$0.2 million.

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 \$12.1 million in purchase commitments remaining as of June 30, 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 \$61.3 million in purchase commitments remaining as of June 30, 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 the 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.
3. *Remedial Design* - Upon approval of the RAA and final decision of remediation approach based on alternatives presented, a Remedial Design (“RD”) is developed and filed with the DEC for approval.
 - **Site #5 – North Water Street – RD 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 issued a Decision Document in March 2016 and the RAA Report in April 2016. Central Hudson is in the process of developing a Pre-Design/Remedial Design request for proposal to be disseminated to Environmental/Engineering firms for competitive bidding.
 - 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.

- **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. Efforts are currently underway to perform pre-design investigation work during 2016 following issuance of the Permit Modification in June 2016 and in support of preparing the CAWP. Submittal of the CAWP is anticipated to occur by end of December 2016. Pending required regulatory approval of the CAWP, remedial activities are anticipated to be completed in late 2017.

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** – CCR 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. The CCR for Area A was submitted to the DEC for review and approval in May 2016. It is anticipated that the SMP for Areas A and B and Environmental Easement for Area A will be submitted to the DEC for review and approval during the third quarter of 2016.
- **Site #6 – Kingston** – Remediation 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. A revised Remedial Work Plan (“RWP”) and required permit packages were submitted during the second quarter of 2016 for regulatory agency review and approval.
- Site preparation and remedial activities commenced in March and May 2016 respectively. Pending applicable regulatory approvals, remedial activities are anticipated to 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 vendor 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.
- Central Hudson is currently developing the CCR associated with the remedial activities completed in Areas B & C and anticipates submittal to the DEC in the third quarter of 2016. Additionally, a SMP encompassing Areas A and B will be submitted to the DEC for review and approval during the third quarter of 2016.
- 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. No actionable findings were noted and the required Periodic Review Report (“PRR”), summarizing the status of the ECs and ICs, was submitted to the DEC for review 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. No actionable findings were noted and the required PRR summarizing the results was submitted to the DEC for review in April 2016 and approved.
 - 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 and 2016, 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 New York State Department of Health (“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 6/30/16	Current Portion of Liability at 6/30/16	Long-Term Portion of Liability at 6/30/16
1, 2, 3, 4, 5, 6 and 8	\$ 92,119	\$ 3,338	\$ (428)	\$ 88,353	\$ 20,121	\$ 68,232

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 June 30, 2016 was approximately \$42.1 million, with \$3.2 million recovered in 2016.
- The total spent in the three and six months ended June 30, 2016 related to site investigation and remediation was approximately \$2.6 million and \$3.3 million, respectively.
- The regulatory asset balance as of June 30, 2016 was \$83.5 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 six months of 2016. We do not expect insurance recoveries to offset a meaningful portion of total costs.

Other Matters

Asbestos Litigation

As of June 30, 2016, of the 3,355 asbestos cases brought against Central Hudson, 1,172 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, the allocation changed to 80% for electric and 20% for gas.

CH Energy Group Segment Disclosure

(In Thousands)

	Three Months Ended June 30, 2016				
	Segments		Other		Total
	Central Hudson		Businesses and Investments		
	Electric	Natural Gas		Eliminations	
Revenues from external customers	\$ 117,000	\$ 26,637	\$ -	\$ -	\$ 143,637
Intersegment revenues	4	39	-	(43)	-
Total revenues	117,004	26,676	-	(43)	143,637
Operating income (loss)	17,289	4,573	(340)	-	21,522
Interest and investment income	666	(28)	8	-	646
Interest charges	5,607	1,674	312	-	7,593
Income (loss) before income taxes	12,481	2,987	(611)	-	14,857
Net Income (Loss) Attributable to CH Energy Group	7,878	1,695	(392)	-	9,181
Segment assets at June 30	1,440,733	457,488	13,256	(2,098)	1,909,379

CH Energy Group Segment Disclosure

(In Thousands)

	Six Months Ended June 30, 2016				
	Segments		Other		Total
	Central Hudson		Businesses and Investments		
	Electric	Natural Gas		Eliminations	
Revenues from external customers	\$ 246,574	\$ 78,478	\$ -	\$ -	\$ 325,052
Intersegment revenues	7	123	-	(130)	-
Total revenues	246,581	78,601	-	(130)	325,052
Operating Income (loss)	37,312	19,741	(780)	-	56,273
Interest and investment income	1,342	(37)	17	(2)	1,320
Interest charges	11,423	3,350	620	(2)	15,391
Income (loss) before income taxes	27,555	16,501	(1,536)	-	42,520
Net Income (Loss) Attributable to CH Energy Group	17,468	9,545	(1,096)	-	25,917
Segment assets at June 30	1,440,733	457,488	13,256	(2,098)	1,909,379

CH Energy Group Segment Disclosure

(In Thousands)

	Three Months Ended June 30, 2015				
	Segments		Other		
	Central Hudson		Businesses		
	Electric	Natural Gas	Investments	Eliminations	Total
Revenues from external customers	\$ 125,819	\$ 30,765	\$ -	\$ -	\$ 156,584
Intersegment revenues	3	31	-	(34)	-
Total revenues	125,822	30,796	-	(34)	156,584
Operating income (loss)	15,950	3,902	29	-	19,881
Interest and investment income	937	43	8	-	988
Interest charges	6,216	1,299	338	-	7,853
Income (loss) before income taxes	11,059	2,727	(515)	-	13,271
Net Income (Loss) Attributable to CH Energy Group	6,842	1,348	(301)	-	7,889
Segment assets at June 30	1,329,945	517,452	8,882	(5,100)	1,851,179

CH Energy Group Segment Disclosure

(In Thousands)

	Six Months Ended June 30, 2015				
	Segments		Other		
	Central Hudson		Businesses		
	Electric	Natural Gas	Investments	Eliminations	Total
Revenues from external customers	\$ 290,837	\$ 101,360	\$ -	\$ -	\$ 392,197
Intersegment revenues	6	183	-	(189)	-
Total revenues	290,843	101,543	-	(189)	392,197
Operating Income (loss)	36,483	19,638	(131)	-	55,990
Interest and investment	1,996	136	17	-	2,149
Interest charges	12,237	2,979	668	-	15,884
Income (loss) before income taxes	26,946	16,955	(1,114)	-	42,787
Net Income (Loss) Attributable to CH Energy Group	16,547	9,783	(1,506)	-	24,824
Segment assets at June 30	1,329,945	517,452	8,882	(5,100)	1,851,179

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:	
July 2016 – December 2016	38.9%
2017	26.3%
2018	15.7%
2019	7.9%
Natural Gas Derivative Contracts:	
November 2016 – March 2017	21.5%

(1) Projected coverage as of June 30, 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.

Five 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 BBB-, 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 eighteen total agreements held by Central Hudson, nine contain contingent features. As of June 30, 2016, \$0.8 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 June 30, 2016, December 31, 2015 and June 30, 2015 are as follows (In Thousands):

Description	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amount of Assets Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position		
				Financial Instruments	Cash Collateral Received	Net Amount
As of June 30, 2016						
Derivative Contracts:						
Central Hudson - electric	\$ 2,398	\$ -	\$ 2,398	\$ 2,396	\$ -	\$ 2
Central Hudson - natural gas	553	-	553	-	-	553
Total Central Hudson and CH Energy Group Assets	<u>\$ 2,951</u>	<u>\$ -</u>	<u>\$ 2,951</u>	<u>\$ 2,396</u>	<u>\$ -</u>	<u>\$ 555</u>
As of December 31, 2015						
Derivative Contracts:						
Central Hudson - electric	\$ 2,218	\$ -	\$ 2,218	\$ 2,218	\$ -	\$ -
Central Hudson - natural gas	-	-	-	-	-	-
Total Central Hudson and CH Energy Group Assets	<u>\$ 2,218</u>	<u>\$ -</u>	<u>\$ 2,218</u>	<u>\$ 2,218</u>	<u>\$ -</u>	<u>\$ -</u>
As of June 30, 2015						
Derivative Contracts:						
Central Hudson - electric	\$ 33	\$ -	\$ 33	\$ 33	\$ -	\$ -
Central Hudson - natural gas	-	-	-	-	-	-
Total Central Hudson and CH Energy Group Assets	<u>\$ 33</u>	<u>\$ -</u>	<u>\$ 33</u>	<u>\$ 33</u>	<u>\$ -</u>	<u>\$ -</u>

Description	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amount of Liabilities Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position		
				Financial Instruments	Cash Collateral Received	Net Amount
As of June 30, 2016						
Derivative Contracts:						
Central Hudson - electric	\$ 5,047	\$ -	\$ 5,047	\$ 2,396	\$ -	\$ 2,651
Total Central Hudson and CH Energy Group Liabilities	<u>\$ 5,047</u>	<u>\$ -</u>	<u>\$ 5,047</u>	<u>\$ 2,396</u>	<u>\$ -</u>	<u>\$ 2,651</u>
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	<u>\$ 11,618</u>	<u>\$ -</u>	<u>\$ 11,618</u>	<u>\$ 2,218</u>	<u>\$ -</u>	<u>\$ 9,400</u>
As of June 30, 2015						
Derivative Contracts:						
Central Hudson - electric	\$ 9,228	\$ -	\$ 9,228	\$ -	\$ -	\$ 9,228
Central Hudson - natural gas	82	-	82	33	-	49
Total Central Hudson and CH Energy Group Liabilities	<u>\$ 9,310</u>	<u>\$ -</u>	<u>\$ 9,310</u>	<u>\$ 33</u>	<u>\$ -</u>	<u>\$ 9,277</u>

Gross Fair Value of Derivative Instruments

Derivative contracts are measured at fair value on a recurring basis. As of June 30, 2016, December 31, 2015 and June 30, 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 June 30, 2016⁽¹⁾				
Assets:				
Derivative Contracts:				
Central Hudson - electric	\$ 2,398	\$ -	\$ -	\$ 2,398
Central Hudson - natural gas	553	553	-	-
Total CH Energy Group and Central Hudson Assets	\$ 2,951	\$ 553	\$ -	\$ 2,398
Liabilities:				
Derivative Contracts:				
Central Hudson - electric	\$ (5,047)	\$ -	\$ -	\$ (5,047)
Total CH Energy Group and Central Hudson Liabilities	\$ (5,047)	\$ -	\$ -	\$ (5,047)
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 June 30, 2015⁽¹⁾				
Assets:				
Derivative Contracts:				
Central Hudson - electric	\$ 33	\$ 33	\$ -	\$ -
Total CH Energy Group and Central Hudson Assets	\$ 33	\$ 33	\$ -	\$ -
Liabilities:				
Derivative Contracts:				
Central Hudson - electric	\$ (9,228)	\$ -	\$ -	\$ (9,228)
Central Hudson - natural gas	(82)	(82)	-	-
Total CH Energy Group and Central Hudson Liabilities	\$ (9,310)	\$ (82)	\$ -	\$ (9,228)

(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 June 30, 2016, December 31, 2015 and June 30, 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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Balance at Beginning of Period	\$ (17,484)	\$ (10,041)	\$ (8,410)	\$ (5,303)
Unrealized gains/(losses)	14,835	813	5,761	(3,925)
Realized gains/(losses)	(4,594)	(7,182)	(12,310)	(427)
Purchases	-	-	-	-
Issuances	-	-	-	-
Sales and settlements	4,594	7,182	12,310	427
Transfers in and/or out of Level 3	-	-	-	-
Balance at End of Period	\$ (2,649)	\$ (9,228)	\$ (2,649)	\$ (9,228)
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 and six months ended June 30, 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 Statements				Location of Gain (Loss)
	Three Months Ended June 30,		Six Months Ended June 30,		
	2016	2015	2016	2015	
Central Hudson:					
Electricity swap contracts	\$ (4,594)	\$ (7,182)	\$ (12,310)	\$ (427)	Deferred purchased electric and natural gas costs ⁽¹⁾
Natural gas swap contracts	-	-	(1,273)	(1,865)	Deferred purchased electric and natural gas costs ⁽¹⁾
Total CH Energy Group and Central Hudson	\$ (4,594)	\$ (7,182)	\$ (13,583)	\$ (2,292)	

(1) Realized gains and losses on Central Hudson's derivative instruments are conveyed to or recovered from customers through PSC authorized deferral accounting mechanisms related to commodity costs, with an offset in revenue and on the balance sheet, and no net 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 June 30, 2016, December 31, 2015 and June 30, 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 June 30, 2016:				
Other Investments	\$ 8,854	\$ 8,854	\$ -	\$ -
As of December 31, 2015:				
Other Investments	\$ 8,847	\$ 8,847	\$ -	\$ -
As of June 30, 2015:				
Other Investments	\$ 10,347	\$ 10,347	\$ -	\$ -

As of June 30, 2016, December 31, 2015 and June 30, 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 June 30, 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.

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

Long-term Debt Maturities and Fair Value - CH Energy Group

(Dollars in Thousands)

Expected Maturity Date	Fixed Rate		Variable Rate		Total Debt Outstanding	
	Amount	Estimated Effective Interest Rate	Amount	Estimated Effective Interest Rate	Amount	Estimated Effective Interest Rate
As of June 30, 2016:						
2016	\$ 669	6.87 %	\$ -	- %		
2017	34,406	6.13 %	-	- %		
2018	31,503	2.67 %	-	- %		
2019	28,607	5.21 %	-	- %		
2020	41,718	4.43 %	-	- %		
Thereafter	358,797	4.94 %	63,700	0.94 %		
Total	<u>\$ 495,700</u>	4.78 %	<u>\$ 63,700</u>	0.94 %	\$ 559,400	4.35 %
Fair Value	\$ 584,088		\$ 63,700		\$ 647,788	
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	<u>\$ 480,345</u>	4.88 %	<u>\$ 63,700</u>	0.70 %	\$ 544,045	4.40 %
Fair Value	\$ 527,750		\$ 63,700		\$ 591,450	
As of June 30, 2015:						
2015	\$ 625	6.87 %	\$ -	- %		
2016	9,315	3.36 %	-	- %		
2017	34,406	6.13 %	-	- %		
2018	31,503	2.67 %	-	- %		
2019	28,607	5.21 %	-	- %		
Thereafter	376,515	4.91 %	63,700	0.67 %		
Total	<u>\$ 480,971</u>	4.89 %	<u>\$ 63,700</u>	0.67 %	\$ 544,671	4.39 %
Fair Value	\$ 530,110		\$ 63,700		\$ 593,810	

Long-term Debt Maturities and Fair Value - Central Hudson

(Dollars in Thousands)

Expected Maturity Date	Fixed Rate		Variable Rate		Total Debt Outstanding	
	Amount	Estimated Effective Interest Rate	Amount	Estimated Effective Interest Rate	Amount	Estimated Effective Interest Rate
As of June 30, 2016:						
2016	\$ -	- %	\$ -	- %		
2017	33,000	6.10 %	-	- %		
2018	30,000	2.46 %	-	- %		
2019	27,000	5.11 %	-	- %		
2020	40,000	4.33 %	-	- %		
Thereafter	348,250	4.88 %	63,700	0.94 %		
Total	<u>\$ 478,250</u>	4.71 %	<u>\$ 63,700</u>	0.94 %	\$ 541,950	4.27 %
Fair Value	\$ 563,418		\$ 63,700		\$ 627,118	
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	<u>\$ 462,250</u>	4.81 %	<u>\$ 63,700</u>	0.70 %	\$ 525,950	4.31 %
Fair Value	\$ 507,345		\$ 63,700		\$ 571,045	
As of June 30, 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	0.67 %		
Total	<u>\$ 462,250</u>	4.81 %	<u>\$ 63,700</u>	0.67 %	\$ 525,950	4.31 %
Fair Value	\$ 508,771		\$ 63,700		\$ 572,471	

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 and six months ended June 30, 2016 and 2015. (In Thousands):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2016		2015		2016		2015	
CH Energy Group	\$	480	\$	351	\$	867	\$	654
Central Hudson	\$	398	\$	304	\$	742	\$	585

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 June 30, 2016, December 31, 2015 and June 30, 2015 are as follows (in Thousands):

Period Ending	June 30, 2016		December 31, 2015		June 30, 2015	
	Fortis		Fortis		Fortis	
CH Energy Group ⁽¹⁾						
Operating Expenses	\$	1,370	\$	629	\$	257
Accounts Receivable	\$	601	\$	195	\$	3

Period Ending	June 30, 2016			December 31, 2015			June 30, 2015		
	CHEG	Fortis	Other Affiliates	CHEG	Fortis	Other Affiliates	CHEG	Fortis	Other Affiliates
Central Hudson ⁽¹⁾									
Operating Expenses	\$ 1,583	\$ -	\$ -	\$ 1,119	\$ -	\$ -	\$ 306	\$ -	\$ -
Accounts Receivable	\$ 83	\$ 35	\$ 7	\$ 65	\$ 195	\$ 9	\$ 3,552	\$ 3	\$ 6
Accounts Payable	\$ 810	\$ -	\$ -	\$ 336	\$ -	\$ -	\$ 292	\$ -	\$ -

(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	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
1	Financial Instruments (Topic 326)	ASU No. 2016-13	Measurement of Credit Losses on Financial Instruments	Jun-16	Jan-20
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
3	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
3	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
3	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
3	Consolidation (Topic 810)	ASU No. 2015-02	Amendment to Consolidation Analysis	Feb-15	Jan-16
4	Classification of Deferred Taxes (Topic 740)	ASU No. 2015-17	Balance Sheet Classification of Deferred Taxes	Nov-15	Jan-17
4	Interest - Imputation of Interest (Subtopic 835-30)	ASU No. 2015-03	Simplifying the Presentation of Debt Issuance Costs	Apr-15	Jan-16
5	Revenue from Contracts with Customers (Topic 606)	ASU No. 2014-09 ASU No. 2016-08 ASU No. 2016-10 ASU No. 2016-11 ASU No. 2016-12	Revenue from Contracts with Customers / Principal vs Agent / Derivatives & Hedging	Various	Jan-18

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) No material impact on the financial condition, results of operations and cash flows of CH Energy Group and its subsidiaries upon adoption.
- (4) 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 June 30, 2015 amounts have been reclassified to conform to December 31, 2015 and June 30, 2016 presentation, see Note 1 "Summary of Significant Accounting Policies" for further details.
- (5) CH Energy Group and its subsidiaries are assessing the impact that the adoption of this standard will have on the financial condition, results of operations and cash flows. CH Energy Group and its subsidiaries plan to have this assessment substantially completed by the end of 2016.

NOTE 18 – Subsequent Events

In addition to items disclosed in the footnotes, CH Energy Group has performed an evaluation of events subsequent to June 30, 2016 through the date the financial statements were issued and noted the following additional items to disclose.

On April 28, 2016, Central Hudson filed a Petition for Accounting Change from the requirement set forth in the Order Approving Rate Plan, issued and effective June 17, 2015 in Cases 14-E-0318 and 14-G-0319, requiring Central Hudson to defer and recognize residual unbilled revenue as a regulatory liability as described in the approved Joint Proposal under Section V, subpart A, 4(h). Central Hudson seeks approval to record and recognize residual unbilled revenue as revenue on the income statement each month beginning with the month of July 2016. On July 20, 2016, the PSC issued an Order approving the change in accounting to allow Central Hudson to record unbilled revenue as revenue on the income statement citing conformity with GAAP and the accounting treatment at other utilities in NYS. However, the Order also requires a portion of the unbilled revenues remain as a regulatory liability for the future benefit of customers. Approximately \$13 million will be recognized as unbilled revenues as approved in July 2016, which will occur concurrent with the transition to monthly billing and provide an offset for the \$9 million unintended accounting consequence resulting from the transition to monthly billing. The net impact on earnings of approximately \$4.3 million is the amount required to be deferred to ensure there is no net earnings impact in the month of July 2016 resulting from this accounting change.

On July 13, 2016, Central Hudson's Board of Directors approved a \$11 million dividend payment to CH Energy Group.

On July 13, 2016, CH Energy Group's Board of Directors approved a \$5.5 million dividend payment to parent FortisUS.

On July 13, 2016, Central Hudson Enterprises Corporation's Board of Directors approved a \$1.2 million dividend payment to CH Energy Group.

INTERIM MANAGEMENT'S DISCUSSION and ANALYSIS of FINANCIAL CONDITION and RESULTS of OPERATIONS

For the Three and Six Months Ended June 30, 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"). Central Hudson is a regulated electric and natural gas subsidiary. In 2014, CH Energy Group formed CHET to engage in electric transmission projects and currently has a 6.1% ownership interest in Transco, a partnership with affiliates of the other investor owned utilities in New York; created to develop, own and operate electric transmission projects in New York State. 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. 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 CAD\$28 billion and fiscal year end December 31, 2015 revenue of CAD\$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

Mission

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.

Strategy Execution

As part of CH Energy Group's overall strategy to invest in electric transmission and distribution, CHET has increased its investment in Transco. In March 2016, FERC approved rates for Transco and three projects were placed in service during the second quarter 2016. CHET made capital contributions to the Transco of \$6.5 million to fund these projects. Additionally, Transco filed proposals related to the AC Proceeding Order with the New York State Independent System Operator ("NYISO") in April 2016. A final decision on whether a project will be awarded is not expected from the PSC until late 2017.

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 June 30

	Quarter			Year to Date		
	2016	2015	Change	2016	2015	Change
Electricity Sales (GWh)	1,149	1,217	(68)	2,404	2,632	(228)
Natural Gas Sales (PJ)	4.1	4.6	(0.5)	13.1	15.3	(2.2)

(In millions)

Revenues	\$ 143.6	\$ 156.6	\$ (13.0)	\$ 325.1	\$ 392.2	\$ (67.1)
Energy Supply Costs - Matched to Revenues	41.0	52.6	(11.6)	100.1	160.4	(60.3)
Operating Expenses - Matched to Revenues	17.6	24.7	(7.1)	38.6	55.9	(17.3)
Operating Expenses - Other	51.7	48.2	3.5	106.3	97.1	9.2
Depreciation and amortization	11.5	11.3	0.2	23.0	22.5	0.5
Other Income, net	0.9	1.4	(0.5)	1.8	3.0	(1.2)
Finance Charges	7.3	7.5	(0.2)	14.8	15.2	(0.4)
Income Taxes	5.9	5.6	0.3	17.0	17.6	(0.6)
Net income	\$ 9.6	\$ 8.2	\$ 1.4	\$ 27.0	\$ 26.3	\$ 0.7

Earnings: Earnings for the second quarter and year to date as compared to the same periods in 2015 increased by \$1.4 million and \$0.7 million, respectively. Higher operating expenses are recovered through increased delivery rates, which became effective July 1, 2015. Partially offsetting the increase from delivery revenues was the impact of energy efficiency incentives earned in 2015 upon achieving certain targets established by the PSC for Central Hudson's internal programs as well as the 2015 reversal of previously incurred rate case and regulatory audit costs. 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. 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, further impacting the year to date earnings.

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 in both the second quarter and year to date as compared to prior periods. Both the quarter and year to date decreases were primarily due to significantly warmer than normal winter weather and the impacts of the colder winter in the first quarter of 2015. Additionally, in the second quarter gas sales compared to prior year were impacted by lower sales for resale. 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 quarter and year to date compared to prior periods increased relative to the comparable prior periods 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 second quarter and year to date 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: The change in Corporate taxes for the quarter and year to date was primarily driven by the corresponding change in taxable income as well as changes in both unrealized losses on trust investments and operating reserves which are non-deductible for tax purposes. In addition, the reinstatement of the R&D Credit in December 2015 impacted both periods presented in 2016.

Central Hudson Revenues - Electric Period Ended June 30

(In millions)

	Quarter			Year to Date		
	2016	2015	Change	2016	2015	Change
Revenues with Matching Expense Offsets:⁽¹⁾						
Recovery of commodity purchases	\$ 34.5	\$ 41.3	\$ (6.8)	\$ 75.0	\$ 113.7	\$ (38.7)
Sales to others for resale	1.0	1.0	-	2.1	2.1	-
Other revenues with matching offsets	15.6	21.5	(5.9)	32.6	46.6	(14.0)
<i>Subtotal</i>	51.1	63.8	(12.7)	109.7	162.4	(52.7)
Revenues Impacting Earnings:						
Customer sales	62.6	57.5	5.1	129.7	125.2	4.5
RDM and other regulatory mechanisms	1.1	1.3	(0.2)	3.0	(2.6)	5.6
Energy efficiency incentives	(0.1)	1.2	(1.3)	(0.1)	2.0	(2.1)
Revenue requirement of bonus depreciation	(0.2)	-	(0.2)	(0.4)	-	(0.4)
Other revenues	2.5	2.0	0.5	4.7	3.8	0.9
<i>Subtotal</i>	65.9	62.0	3.9	136.9	128.4	8.5
Total Electric Revenues	\$ 117.0	\$ 125.8	\$ (8.8)	\$ 246.6	\$ 290.8	\$ (44.2)

(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 June 30

(In millions)

	Quarter			Year to Date		
	2016	2015	Change	2016	2015	Change
Revenues with Matching Expense Offsets:⁽¹⁾						
Recovery of commodity purchases	\$ 4.8	\$ 8.5	\$ (3.7)	\$ 16.1	\$ 34.3	\$ (18.2)
Sales to others for resale	0.8	1.8	(1.0)	6.8	10.4	(3.6)
Other revenues with matching offsets	2.0	3.4	(1.4)	5.9	9.5	(3.6)
<i>Subtotal</i>	7.6	13.7	(6.1)	28.8	54.2	(25.4)
Revenues Impacting Earnings:						
Customer sales	15.5	15.5	-	39.8	43.5	(3.7)
RDM and other regulatory mechanisms	2.0	(0.2)	2.2	6.6	0.1	6.5
Revenue requirement of bonus depreciation	(0.1)	-	(0.1)	(0.2)	-	(0.2)
Other revenues	1.6	1.7	(0.1)	3.5	3.6	(0.1)
<i>Subtotal</i>	19.0	17.0	2.0	49.7	47.2	2.5
Total Natural Gas Revenues	\$ 26.6	\$ 30.7	\$ (4.1)	\$ 78.5	\$ 101.4	\$ (22.9)

(1) Revenues with matching offsets do not affect earnings since they offset related costs, the most significant being energy cost adjustment revenues, which provide for the recovery of purchased natural gas costs. Other related costs include 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 other income or interest charges in the CH Energy Group and Central Hudson Statement of Income.

Electric Revenue: The second quarter and year to date decrease in electric revenue in 2016 as compared to the prior period was primarily driven by lower wholesale prices for commodity purchases coupled with a decrease in delivered volumes as a result of warmer than normal winter 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 both comparative periods. Also negatively impacting both the quarter and year to date changes were the energy efficiency incentives earned in 2015. 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 gas revenue in the second quarter and year to date of 2016 relative to the prior period was primarily driven by the lower wholesale gas prices. Year to date gas revenue was also impacted by 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 June 30

(In millions)

	Quarter			Year to Date		
	2016	2015	Change	2016	2015	Change
Expenses Currently Matched to Revenues:⁽¹⁾						
Purchased electricity	\$ 35.5	\$ 42.3	\$ (6.8)	\$ 77.1	\$ 115.8	\$ (38.7)
Purchased natural gas	5.5	10.3	(4.8)	23.0	44.6	(21.6)
Pension & OPEB	2.9	6.4	(3.5)	6.8	14.3	(7.5)
NYS energy programs	7.6	10.2	(2.6)	16.4	22.6	(6.2)
Other matched expenses	7.1	8.1	(1.0)	15.4	18.9	(3.5)
<i>Subtotal</i>	58.6	77.3	(18.7)	138.7	216.2	(77.5)
Other Operating Expense Variations:						
Tree trimming	4.2	3.9	0.3	8.6	6.2	2.4
Property and school taxes ⁽²⁾	10.8	9.7	1.1	23.9	20.8	3.1
Weather related service restoration	1.1	0.8	0.3	2.1	2.0	0.1
Distribution maintenance	2.5	2.6	(0.1)	5.2	4.7	0.5
Uncollectible accounts and reserve	0.9	1.4	(0.5)	2.1	3.3	(1.2)
Depreciation and amortization	11.5	11.3	0.2	23.0	22.5	0.5
Other expenses	32.2	29.8	2.4	64.5	60.3	4.2
<i>Subtotal</i>	63.2	59.5	3.7	129.4	119.7	9.7
Total Operating Expenses	<u>\$ 121.8</u>	<u>\$ 136.8</u>	<u>\$ (15.0)</u>	<u>\$ 268.1</u>	<u>\$ 335.9</u>	<u>\$ (67.8)</u>

(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 during the quarter and year to date as a result of the lower commodity prices and decreased sales volumes. Variations in purchased gas and electricity costs and other expenses currently matched to revenues do not have a direct impact on earnings due to Central Hudson's regulatory mechanism for the full deferral of 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 six months of 2016 in comparison to the first six months of 2015.

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

Period Ended June 30

	Quarter			Year To Date		
	2016	2015	Change	2016	2015	Change
(In millions)						
Loss from continuing operations	(0.4)	(0.3)	(0.1)	(1.1)	(1.5)	0.4

Financial Position

The following table outlines the significant changes in the Balance Sheet of Central Hudson as of June 30, 2016 and December 31, 2015:

CH Energy Group – Regulated – Central Hudson Significant Changes in the Balance Sheets as of June 30, 2016 and December 31, 2015

(In millions)

Balance Sheet Account	Increase (Decrease)	Explanation
Accounts receivable	(7.7)	Decrease primarily due to the seasonality of the business and warmer first quarter of 2016 as compared to 2015, coupled with lower commodity prices resulting in lower customer bills.
Accrued unbilled utility revenues	(6.0)	Decrease reflects the seasonality of the business.
Regulatory assets - Current	(7.8)	Decrease due to the recovery of previously deferred commodity costs as well as a decrease in unrealized mark-to-market losses related to open electric and gas derivative contracts.
Income tax receivable	(35.2)	Decrease primarily due to a tax refund received related to bonus depreciation, which was retroactively reinstated with legislation passed in December 2015.
Special deposits and prepayments	(10.8)	Decrease primarily due to the amortization of school taxes which were paid in the third quarter of 2015.
Regulatory assets - related to pension plan costs	(9.7)	Decrease primarily due to the amortization of net periodic benefit of pension costs.
Regulatory assets - long term	(17.1)	Decrease primarily due a decrease in income taxes recoverable through future rates driven by capital expenditures and unrealized mark-to-market losses related to open electric and gas derivative contracts.
Long term debt, net of current maturities	16.0	Increase due to the issuance of long-term debt in June 2016, partially offset by the settlement of long-term debt in April 2016.
Short-term borrowings - current	(27.0)	Decrease due to the repayment of short term borrowings based on lower working capital needs.
Regulatory liabilities - current	(7.4)	Decrease due to the refund of previously overcollected revenues to customers through RDMs.
Fair value of derivative instruments, (net)	(7.3)	Decrease due to lower unrealized mark-to-market losses related to open electric and gas derivative contracts.
Regulatory liabilities - long term	5.4	Increase primarily due to continued collections for energy efficiency programs with delayed remittance to NYSEDA in accordance with the CEF Order, offset by income taxes refundable through future rates partially and customer bill credits utilized, as established in the 2015 Rate Order.

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 June 30,

(\$millions)

	Year to Date	
	2016	2015
Cash, beginning of period	\$ 13.6	\$ 22.6
Operating Activities	131.3	96.3
Investing Activities	(94.7)	(59.7)
Financing Activities	(16.8)	8.2
Cash, end of period	\$ 33.4	\$ 67.4
Dividends paid on Common Stock - CH Energy Group	\$ (11.0)	\$ (11.0)
Dividends paid to parent - Central Hudson	\$ (6.8)	\$ (12.3)

Operating Activities: Operating activities generated more cash in 2016 primarily due to lower working capital requirements for wholesale energy purchases, a tax refund associated with bonus depreciation legislation enacted at the end of 2015 and collections related to energy efficiency programs under the Clean Energy Fund Order (“CEF Order”). The energy efficiency program collections are a pass-through and will be remitted to NYSERDA in future periods based on program funding needs as defined in the CEF Order.

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

Financing Activities: Financing activities resulted in a use of cash in 2016 as compared to cash provided in the same period in 2015. In 2016, excess cash from operations was used to pay down short-term borrowings.

Committed Credit Facilities

Committed Credit Facilities for CH Energy Group and Central Hudson at June 30, 2016:

(In millions)

	Credit Limit	June 30, 2016		Maturity
		Outstanding	Available	
CH Energy Group (unregulated)	\$ 50	\$ 4	\$ 46	July 10, 2020
Central Hudson (regulated)	200	-	200	October 15, 2020
Total	\$ 250	\$ 4	\$ 246	

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

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 June 30, 2016.

Central Hudson's Bond Ratings

	June 30, 2016		December 31, 2015	
	Rating ⁽¹⁾	Outlook	Rating ⁽¹⁾	Outlook
S&P	A-	Stable	A	Stable
Moody's	A2	Stable	A2	Stable
Fitch	A-	Stable	A-	Stable

On June 21, 2016, S&P lowered Central Hudson's senior unsecured debt rating from A to A- and changed the outlook from negative to stable. The rationale for the downgrade was a change in S&P's assessment of Central Hudson's financial risk profile, which is now viewed as aligned with other New York State utility companies. S&P confirmed that Central Hudson's ringfencing warrants a two-notch rating separation from its ultimate parent, Fortis Inc. As a result, the acquisition of ITC by Fortis, Inc. is not expected to have an impact on the Company's A- rating and the outlook is stable. On July 12th, Moody's affirmed Central Hudson's rating at A2.

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

	June 30, 2016		December 31, 2015	
	\$millions	%	\$millions	%
Long-term Debt	\$ 559.4	49.3	\$ 544.1	48.4
Short-term Debt	4.0	0.4	25.0	2.2
Common Equity	570.3	50.3	555.4	49.4
Total	\$ 1,133.7	100.0	\$ 1,124.5	100.0

Central Hudson's Capital Structure

	June 30, 2016		December 31, 2015	
	\$millions	%	\$millions	%
Long-term Debt	\$ 541.9	48.4	\$ 525.9	47.4
Short-term Debt	-	-	27.0	2.4
Common Equity	577.4	51.6	557.2	50.2
Total	\$ 1,119.3	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.

On April 1, 2016, Central Hudson redeemed its 2010 Series G medium term notes with a principal payment of \$8.0 million.

In June 2016, Central Hudson issued \$24 million of Series G notes with an interest rate of 2.16% per annum, due September 21, 2020. 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 six months ended June 30, 2016.

Critical Accounting Estimates: There were no material changes to CH Energy Group's or Central Hudson's critical accounting estimates in the six months ended June 30, 2016.

GAAP: There were no material changes to CH Energy Group's or Central Hudson's accounting policies in the six months ended June 30, 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

There were no material changes to the Company's risk factors, as set forth in its 2015 Annual Report, during the first six 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.
- **Approval of Central Hudson’s Non-Wire Alternative Project**
 On July 17, 2015, the Company filed details regarding its proposed cost recovery and incentive mechanisms for its non-wires-alternative project (“NWA”) pursuant to the directive in the June 17, 2015 Rate Order. The NWA Project is being pursued by the Company in order to delay significant traditional capital infrastructure investment that would otherwise be needed to accommodate the expected peak demand growth in three locations in Central Hudson’s service territory. On July 15, 2016, the Commission issued an “Order Implementing With Modification the Proposal for Cost Recovery and Incentive Mechanism for the Non-Wire Alternative Project”. The Commission directed Central Hudson to recover the costs of the NWA program by using a demand allocator that reflects the transmission and distribution cost allocation of the traditional T&D investment being deferred and to collect these costs from customers through a demand charge for commercial and industrial customers and through an energy charge for residential customers. All costs under the NWA project will be incremental to any costs already reflected in base delivery rates and will include all expenditures for the demand response solutions, including the cost of competitive third party demand response providers, operations and maintenance costs, third party evaluator costs and Company administration costs. Costs will be amortized over a five year period. The NWA charge will be calculated every twelve months and will include reconciliation of the costs for the previous twelve months. The Commission approved an incentive mechanism whereby savings, defined as the difference between the NPV of the revenue requirement of the traditional T&D investments over the deferral period and the NPV of the revenue requirement of the NWA program costs over the cost recovery period for each area, will be shared 70 percent to customers and 30 percent to shareholders. The NPV shall be calculated using the Company’s after-tax weighted average cost of capital as the discount rate. The incentive will be triggered based on achievement of two performance milestones: 50% of the incentive will be triggered at the achievement of 8 MW of demand response with the remaining 50% triggered at the achievement of the full targeted demand reduction of 16 MW. Wholesale generation capacity savings will be calculated annually based on actual measured and verified reductions and shared according to the 70/30 formula.
 This decision represents a positive outcome for Central Hudson providing the opportunity for increased earnings.

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.

On May 19, 2016 the PSC issued the REV Track 2 “Order Adopting a Ratemaking and Utility Revenue Model Policy Framework”. The Order is aimed at moving utilities towards a new business utility model by developing earning opportunities that are aligned with customer values and a more efficient and resilient distributed low-carbon electric grid. The Order presented two new earnings opportunities for utilities: Platform Service Revenues (“PSRs”) and Earnings Adjustment Mechanism (“EAMs”). PSRs are new utility revenues associated with the operation and facilitation of distribution markets such as customer origination, data analysis and transaction fees for goods and services. PSRs must be tariffed and regulated utilities must show that the function contemplated is inherently a monopoly function that cannot effectively be performed by non-utility parties and that the function’s principal effect is to facilitate growth and operation of markets. The PSC also sought to have utilities place shareholder money at risk for PSRs and suggested a 20% shareholder allocation of risk/reward for the provision of competitive services. EAMs are the second form of earning opportunities. EAMs are transitional incentives to achieve policy based outcomes for a time until market based revenues are available in scale and predictable. EAMs would be positive only incentives based on desired outcomes. The PSC suggested EAMs in the following areas: system efficiency, energy efficiency, customer engagement for utility innovative programs and interconnection.

The Order also addressed a number of other issues related to data access, commercial and industrial demand charges, standby charges, and time of use rate design. In all, there are seventeen (17) filings that the company will need to make in relation to the Order beginning on August 1, 2016.

On June 30, 2016, Central Hudson filed its Distributed System Implementation Plan (“DSIP”) pursuant to the Order Adopting Distributed System Implementation Plan Guidance issued and effective April, 22, 2016 in the REV proceeding. Central Hudson’s DSIP describes its proposal for the development of a more transactional, distributed electric grid that meets the demands of a modern economy that includes improvements in system efficiency, resilience, and carbon emission reductions. The DSIP describes current practices in Distribution Planning, Distribution Grid Operations and Distribution Markets and the changes being made by Central Hudson to advance the functionality of these systems in direct response to the REV objectives.

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.

Large Scale Renewables (“LSR”) and Clean Energy Standard (“CES”) Proceedings

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:
 - Option 1: 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.
 - Option 2: State entity solicitation and contracting with LSR developers for renewable energy, under long-term Power Purchase Agreements (“PPAs”).
 - Option 3: 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 PSC issued a CES Cost Study on April 8, 2016. The supporting analysis in the study was led by NYSERDA to examine the cost differences between the main procurement structures available to bring forward renewables-bundled PPAs (under which generators receive a fixed level of compensation per unit for energy and capacity value, and the renewable attribute) and REC only (under which generators

receive a fixed top-up payment for the renewable attributes, on top of the revenue they are able to secure from energy and capacity sales.) Comments on the cost study were filed by parties on June 6. A technical conference was held on June 9, 2016 to offer interested parties and individuals the opportunity to discuss procurement options as a means to support new renewable energy development and for achievement of CES targets.

- On July 8, 2016 the Staff prepared and filed for the Commission's consideration a document entitled "Staff's Responsive Proposal for Preserving Zero-Emissions Attributes." The proposal was drafted as part of the Clean Energy Standard to encourage the preservation of the environmental values or attributes of zero-emission nuclear-powered electric generating facilities for the benefit of the electric system and its customers. In a notice issued July 8, written comments were solicited on the Staff Proposal by July 18 and further extended to July 22 in response to several requests for an extension to the comment period. On July 22, the Joint Utilities filed comments clarifying and identifying several modifications to the Staff Proposal but generally supportive of Staff's efforts to value the zero-emission attributes of nuclear energy in New York

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

Value of Distributed Energy Resources Proceeding – Value of "D"

In December 2015, the Commission instituted a new proceeding, Case 15-E-0751, "In the Matter of the Value of Distributed Energy Resources" to propose valuation methods for distributed energy resources ("DER"). These compensation reforms are being considered as a reform to net metering. The proceeding is also expected to consider the issues related to interconnects, including grandfathering. In April 2016, the JUs filed their responses to a December 23, 2015 notice soliciting comments and proposals on the value of DER and options to establishing an interim methodology to successor net energy metering ("NEM") tariffs. The JUs support an approach that will develop an alternative to NEM that properly values both DER and the distribution grid and provides for appropriate allocation of costs to all customers. The JUs also joined comments filed by certain solar parties and collectively filed comments as the Solar Progress Partnership on April 18. The JUs filed Reply Comments to the responses of other parties on June 10.

A series of technical conferences and collaborative meetings were held beginning in May and continuing through June to provide parties an opportunity to formally present their proposals and establish a process and procedure for the approach to use in developing an interim methodology for valuing and compensating DER. The Administrative Law Judge has adopted an informal and collaborative process with a series of additional technical conferences scheduled through September 2016, with an expectation for a report to be produced and issued for comment by the end of 2016 describing the topics discussed in the collaborative, the positions taken and the reasons therefore.

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

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

(Cases 09-G-0589 and 12-M-0192)

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 Case 15-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.

Low Income Proceeding

On May 20, 2016 the PSC issued its Order Adopting Low Income Program Modifications and Directing Utility Filings, which has been ongoing since January 2015. In the Order, the PSC adopted a policy that an energy burden at or below 6% of household income shall be the target level for all 2.3 million low income households in New York and established a funding level such that the budget for each utility may not exceed 2% of total electric or gas revenues for sales to end use customers. The PSC directed utilities to open their low income discount programs to all households that currently receive HEAP, regardless of fuel type or benefit type which requires the utilities to establish new partnerships and new ways for utilities to identify and enroll eligible customers. In addition, the Order authorizes and directs the Commission Staff to work with sister agencies to create an inter-agency task force to create greater low income program coordination. Statewide the enhanced low income discount program will cost approximately \$248 million, an increase of approximately 87% to existing programs. For Central Hudson, the low income budget program costs increased from \$4.2 million to \$12.1 million, an increase of nearly \$8 million or 186%. The cost of the program will be borne by all classes of customers with the specific mode of cost recovery determined in rate cases, where the total impacts of all revenue requirement changes can be considered. Customers enrolled in the utility discount program will also be enrolled in leveled or budget billing with an option to opt-out of budget billing. Arrears forgiveness may continue for utilities that see value in the program, but funding for such programs is limited to no more than 10% of the program budget. The Order directs utilities to make program changes and filings described in the order within 90 days for further PSC review and approval.

A number of parties have filed petitions for rehearing and reconsideration on a variety of topics set forth in the order on the basis that the PSC erred in adopting very large increases to the utilities' residential low income programs without a hearing or sufficient record, erred in linking residential low-income increases to the low income budgets to electric and gas commodity prices and failed to resolve cost allocation and cost recovery issues.

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

Petition for Change in Accounting

On April 28, 2016, the Company filed a Petition for Accounting Change from the requirement set forth in the Order Approving Rate Plan, issued and effective June 17, 2015 in Cases 14-E-0318 and 14-G-0319, requiring Central Hudson to defer and recognize residual unbilled revenue as a regulatory liability as described in the approved Joint Proposal under Section V, subpart A, 4(h). Specifically, Central Hudson seeks approval to record and recognize residual unbilled revenue as revenue on the income statement each month beginning with the month of July 2016.

On July 20, 2016, the PSC issued an Order approving the change in accounting to allow Central Hudson to record unbilled revenue as revenue on the income statement citing conformity with GAAP and the accounting treatment at other utilities in NYS. However, the

Order also requires a portion of the unbilled revenues remain as a regulatory liability for the future benefit of customers. Approximately \$13 million will be recognized as unbilled revenues as approved in July 2016, which will occur concurrent with the transition to monthly billing and provide an offset for the \$9 million unintended accounting consequence resulting from the transition to monthly billing. The net impact on earnings of approximately \$4.3 million is the amount required to be deferred to ensure there is no net earnings impact in the month of July 2016 resulting from this accounting change.

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.