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

QUARTERLY FINANCIAL REPORT

for the period ended

MARCH 31, 2017

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CH ENERGY GROUP CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

(In Thousands)

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Operating Revenues		
Electric	$ 135,546	$ 129,573
Natural gas	59,433	51,841
Total Operating Revenues	194,979	181,414
Operating Expenses		
Operation:		
Purchased electricity and fuel used in electric generation	41,474	41,542
Purchased natural gas	22,715	17,150
Other expenses of operation - regulated activities	64,494	58,521
Other expenses of operation - non-regulated	67	424
Depreciation and amortization	12,691	11,472
Taxes, other than income tax	18,480	17,554
Total Operating Expenses	159,921	146,663
Operating Income	35,058	34,751
Other Income and Deductions		
Income from unconsolidated affiliates	351	73
Interest on regulatory assets and other interest income	838	675
Regulatory adjustments for interest costs	137	53
Other - net	38	(91)
Total Other Income	1,364	710
Interest Charges		
Interest on long-term debt	6,333	5,958
Interest on regulatory liabilities and other interest	1,618	1,839
Total Interest Charges	7,951	7,797
Income before income taxes	28,471	27,664
Income Tax Expense	11,156	10,928
Net Income	17,315	16,736
Dividends declared on Common Stock	5,500	5,500
Change in Retained Earnings	$ 11,815	$ 11,236

CH ENERGY GROUP CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

(In Thousands)

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Net Income	$ 17,315	$ 16,736
Other Comprehensive Loss:		
Net unrealized loss on investments held by equity method investees - net of tax of $0 and $28, respectively	-	(42)
Other comprehensive loss	-	(42)
Comprehensive Income	$ 17,315	$ 16,694

The Notes to Financial Statements are an integral part hereof.

CH ENERGY GROUP CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

(In Thousands)

		Three Months Ended March 31,		
		2017		2016
Operating Activities:				
Net income	$	17,315	$	16,736
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation		11,268		10,484
Amortization		1,423		988
Deferred income taxes - net		9,802		6,829
Bad debt expense		840		1,229
Undistributed equity in earnings of unconsolidated affiliates		(351)		(73)
Pension expense		4,670		4,773
Other post-employment benefits ("OPEB") expense		(774)		(775)
Regulatory liability - rate moderation		(5,092)		(4,528)
Revenue decoupling mechanism recorded		968		(470)
Changes in operating assets and liabilities - net:				
Accounts receivable, unbilled revenues and other receivables		38		(3,024)
Fuel, materials and supplies		1,200		730
Special deposits and prepayments		(24)		(418)
Income and other taxes		1,530		28,306
Accounts payable		(3,485)		(1,218)
Accrued interest		2,368		2,343
Customer advances		(5,622)		(2,532)
Pension plan contribution		(13,261)		(252)
OPEB contribution		(1,533)		(1,560)
Revenue decoupling mechanism refunded - net		(5,884)		(3,609)
Regulatory asset - site investigation and remediation ("SIR")		(796)		977
Regulatory asset - temporary state assessment		(843)		(1,826)
Regulatory liability - energy efficiency programs		8,096		7,232
Deferred natural gas and electric costs		678		(1,550)
Other - net		(2,254)		2,621
Net cash provided by operating activities		20,277		61,413
Investing Activities:				
Additions to utility and other property and plant		(38,142)		(41,941)
Other - net		(237)		614
Net cash used in investing activities		(38,379)		(41,327)
Financing Activities:				
Repayments of short-term borrowings		(20,000)		(48,000)
Proceeds from short-term borrowings		40,000		35,000
Dividends paid on Common Stock		(5,500)		(5,500)
Net cash (used in) provided by financing activities		14,500		(18,500)
Net Change in Cash and Cash Equivalents		(3,602)		1,586
Cash and Cash Equivalents at Beginning of Period		19,307		13,582
Cash and Cash Equivalents at End of Period	$	15,705	$	15,168
Supplemental Disclosure of Cash Flow Information:				
Interest paid	$	4,134	$	3,718
Non-Cash Investing Activities:				
Additions to utility plant assets included in liabilities	$	3,761	$	7,701

The Notes to Financial Statements are an integral part hereof.

CH ENERGY GROUP CONSOLIDATED BALANCE SHEET (UNAUDITED)

(In Thousands)

	March 31, 2017	December 31, 2016	March 31, 2016
ASSETS			
Utility Plant (Note 2)			
Electric	$ 1,316,085	$ 1,289,880	$ 1,241,413
Natural gas	461,303	457,271	422,837
Common	230,940	227,052	202,985
Gross Utility Plant	2,008,328	1,974,203	1,867,235
Less: Accumulated depreciation	508,927	500,280	485,965
Net	1,499,401	1,473,923	1,381,270
Construction work in progress	64,971	73,273	66,329
Net Utility Plant	1,564,372	1,547,196	1,447,599
Non-utility property & plant	524	524	524
Net Non-Utility Property & Plant	524	524	524
Current Assets			
Cash and cash equivalents	15,705	19,307	15,168
Accounts receivable from customers - net of allowance for doubtful accounts of $3.8 million, $4.1 million and $5.4 million, respectively.	61,203	58,146	60,597
Accounts receivable - affiliates (Note 16)	406	501	155
Accrued unbilled utility revenues	16,911	19,775	28,091
Other receivables	6,196	7,173	3,956
Fuel, materials and supplies (Note 1)	22,809	24,009	18,053
Regulatory assets (Note 3)	36,038	25,989	34,829
Income tax receivable	4,106	5,636	10,329
Fair value of derivative instruments (Note 14)	668	3,311	566
Special deposits and prepayments	22,368	28,074	26,714
Total Current Assets	186,410	191,921	198,458
Deferred Charges and Other Assets			
Regulatory assets - pension plan (Note 3)	46,968	52,251	89,130
Regulatory assets - other (Note 3)	124,830	137,340	138,483
Investments in unconsolidated affiliates (Note 5)	8,059	7,719	1,143
Other investments (Note 15)	35,985	32,069	33,067
Other	8,386	5,183	4,017
Total Deferred Charges and Other Assets	224,228	234,562	265,840
Total Assets	$ 1,975,534	$ 1,974,203	$ 1,912,421

The Notes to Financial Statements are an integral part hereof.

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

(In Thousands, except share amounts)

	March 31, 2017	December 31, 2016	March 31, 2016
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	336,036	336,036	335,906
Retained earnings	259,899	248,084	230,415
Accumulated other comprehensive income	144	144	152
Total Equity	596,239	584,424	566,633
Long-term debt (Note 9)			
Principal amount	554,325	554,325	534,730
Unamortized debt issuance costs	(3,918)	(4,022)	(3,894)
Long-term debt less unamortized debt issuance costs	550,407	550,303	530,836
Total Capitalization	1,146,646	1,134,727	1,097,469
Current Liabilities			
Current maturities of long-term debt (Note 9)	34,406	34,406	9,315
Short-term borrowings (Note 7)	20,000	-	12,000
Accounts payable	29,680	41,942	33,643
Accrued interest	8,177	5,809	7,846
Accrued vacation and payroll	9,922	8,228	7,048
Customer advances	10,891	16,513	15,445
Customer deposits	7,618	7,639	8,655
Regulatory liabilities (Note 3)	20,384	31,536	39,526
Fair value of derivative instruments (Note 14)	1,983	1,198	10,698
Accrued environmental remediation costs (Note 12)	18,203	15,501	23,665
Other current liabilities	12,375	15,062	6,867
Total Current Liabilities	173,639	177,834	174,708
Deferred Credits and Other Liabilities			
Regulatory liabilities - OPEB (Note 3)	25,709	26,966	24,474
Regulatory liabilities - other (Note 3)	178,092	162,526	142,227
Operating reserves	3,974	3,852	3,288
Fair value of derivative instruments (Note 14)	5,515	744	7,319
Accrued environmental remediation costs (Note 12)	37,405	57,385	68,397
Accrued OPEB costs (Note 10)	10,518	12,024	17,464
Accrued pension costs (Note 10)	27,147	39,270	60,427
Tax reserve (Note 4)	3,081	1,703	3,913
Other liabilities	21,717	20,167	19,988
Total Deferred Credits and Other Liabilities	313,158	324,637	347,497
Accumulated Deferred Income Tax (Note 4)	342,091	337,005	292,747
Commitments and Contingencies			
Total Capitalization and Liabilities	$ 1,975,534	$ 1,974,203	$ 1,912,421

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					
	Shares Issued	Amount	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
Balance at December 31, 2015	15,961,400	$ 160	$ 335,906	$ 219,179	$ 194	$ 555,439
Net income				16,736		16,736
Change in fair value: Investments					(42)	
Dividends declared on common stock				(5,500)		(5,500)
Balance at March 31, 2016	15,961,400	$ 160	$ 335,906	$ 230,415	$ 152	$ 566,675
Balance at December 31, 2016	15,961,400	$ 160	$ 336,036	$ 248,084	$ 144	$ 584,424
Net income				17,315		17,315
Dividends declared on common stock				(5,500)		(5,500)
Balance at March 31, 2017	15,961,400	$ 160	$ 336,036	$ 259,899	$ 144	$ 596,239

The Notes to Financial Statements are an integral part hereof.

CENTRAL HUDSON STATEMENT OF INCOME (UNAUDITED)

(In Thousands)

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Operating Revenues		
Electric	$ 135,546	$ 129,573
Natural gas	59,433	51,841
Total Operating Revenues	194,979	181,414
Operating Expenses		
Operation:		
Purchased electricity and fuel used in electric generation	41,474	41,542
Purchased natural gas	22,715	17,150
Other expenses of operation	64,494	58,521
Depreciation and amortization	12,691	11,472
Taxes, other than income tax	18,476	17,537
Total Operating Expenses	159,850	146,222
Operating Income	35,129	35,192
Other Income and Deductions		
Interest on regulatory assets and other interest income	832	667
Regulatory adjustments for interest costs	137	53
Other - net	22	169
Total Other Income	991	889
Interest Charges		
Interest on long-term debt	6,048	5,650
Interest on regulatory liabilities and other interest	1,618	1,842
Total Interest Charges	7,666	7,492
Income Before Income Taxes	28,454	28,589
Income Tax Expense	11,139	11,149
Net Income	$ 17,315	$ 17,440

CENTRAL HUDSON STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

(In Thousands)

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Net Income	$ 17,315	$ 17,440
Other comprehensive income	-	-
Comprehensive Income	$ 17,315	$ 17,440

The Notes to Financial Statements are an integral part hereof.

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

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Operating Activities:		
Net income	$ 17,315	$ 17,440
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	11,268	10,484
Amortization	1,423	988
Deferred income taxes - net	9,832	6,939
Bad debt expense	840	1,229
Pension expense	4,670	4,773
OPEB expense	(774)	(775)
Regulatory liability - rate moderation	(5,092)	(4,528)
Revenue decoupling mechanism recorded	968	(470)
Changes in operating assets and liabilities - net:		
Accounts receivable, unbilled revenues and other receivables	(161)	(3,013)
Fuel, materials and supplies	1,200	730
Special deposits and prepayments	(26)	(428)
Income and other taxes	1,485	28,405
Accounts payable	(3,460)	(809)
Accrued interest	2,082	2,036
Customer advances	(5,622)	(2,532)
Pension plan contribution	(13,261)	(252)
OPEB contribution	(1,533)	(1,560)
Revenue decoupling mechanism refunded - net	(5,884)	(3,609)
Regulatory asset - SIR	(796)	977
Regulatory asset - temporary state assessment	(843)	(1,826)
Regulatory liability - energy efficiency programs	8,096	7,232
Deferred natural gas and electric costs	678	(1,550)
Other - net	(2,345)	2,267
Net cash provided by operating activities	20,060	62,148
Investing Activities:		
Additions to utility plant	(38,142)	(41,941)
Other - net	(231)	298
Net cash used in investing activities	(38,373)	(41,643)
Financing Activities:		
Repayments of short-term borrowings	(20,000)	(48,000)
Proceeds from short-term borrowings	40,000	33,000
Dividends paid to parent - CH Energy Group	(4,000)	-
Net cash (used in) provided by financing activities	16,000	(15,000)
Net Change in Cash and Cash Equivalents	(2,313)	5,505
Cash and Cash Equivalents - Beginning of Period	12,822	5,935
Cash and Cash Equivalents - End of Period	$ 10,509	$ 11,440
Supplemental Disclosure of Cash Flow Information:		
Interest paid	$ 4,134	$ 3,718
Non-Cash Investing Activities:		
Additions to utility plant assets included in liabilities	$ 3,761	$ 7,701

The Notes to Financial Statements are an integral part hereof.

CENTRAL HUDSON BALANCE SHEET (UNAUDITED)

(In Thousands)

	March 31, 2017	December 31, 2016	March 31, 2016
ASSETS			
Utility Plant (Note 2)			
Electric	$ 1,316,085	$ 1,289,880	$ 1,241,413
Natural gas	461,303	457,271	422,837
Common	230,940	227,052	202,985
Gross Utility Plant	2,008,328	1,974,203	1,867,235
Less: Accumulated depreciation	508,927	500,280	485,965
Net	1,499,401	1,473,923	1,381,270
Construction work in progress	64,971	73,273	66,329
Net Utility Plant	1,564,372	1,547,196	1,447,599
Non-Utility Property and Plant	524	524	524
Net Non-Utility Property and Plant	524	524	524
Current Assets			
Cash and cash equivalents	10,509	12,822	11,440
Accounts receivable from customers - net of allowance for doubtful accounts of \$3.8 million, \$4.1 million and \$5.4 million, respectively.	61,203	58,146	60,597
Accrued unbilled utility revenues	16,911	19,775	28,091
Other receivables	6,179	7,052	4,080
Fuel, materials and supplies (Note 1)	22,809	24,009	18,053
Regulatory assets (Note 3)	36,038	25,989	34,829
Income tax receivable	4,135	5,620	6,791
Fair value of derivative instruments (Note 14)	668	3,311	566
Special deposits and prepayments	22,327	28,031	26,671
Total Current Assets	180,779	184,755	191,118
Deferred Charges and Other Assets			
Regulatory assets - pension plan (Note 3)	46,968	52,251	89,130
Regulatory assets - other (Note 3)	124,830	137,340	138,483
Other investments (Note 15)	35,222	31,322	32,310
Other	7,989	4,753	3,486
Total Deferred Charges and Other Assets	215,009	225,666	263,409
Total Assets	$ 1,960,684	$ 1,958,141	$ 1,902,650

The Notes to Financial Statements are an integral part hereof.

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

(In Thousands, except share amounts)

	March 31, 2017	December 31, 2016	March 31, 2016
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	278,955	265,640	254,960
Capital stock expense	(4,633)	(4,633)	(4,633)
Total Equity	598,585	585,270	574,590
Long-term debt (Note 9)			
Principal amount	538,950	538,950	517,950
Unamortized debt issuance costs	(3,837)	(3,938)	(3,803)
Long-term debt less unamortized debt issuance costs	535,113	535,012	514,147
Total Capitalization	1,133,698	1,120,282	1,088,737
Current Liabilities			
Current maturities of long-term debt (Note 9)	33,000	33,000	8,000
Short-term borrowings (Note 7)	20,000	-	12,000
Accounts payable	30,183	42,420	34,226
Accrued interest	7,844	5,762	7,487
Accrued vacation and payroll	9,922	8,228	7,044
Customer advances	10,891	16,513	15,445
Customer deposits	7,618	7,639	8,655
Regulatory liabilities (Note 3)	20,384	31,536	39,526
Fair value of derivative instruments (Note 14)	1,983	1,198	10,698
Accrued environmental remediation costs (Note 12)	18,203	15,501	23,665
Other current liabilities	10,775	13,282	6,700
Total Current Liabilities	170,803	175,079	173,446
Deferred Credits and Other Liabilities			
Regulatory liabilities - OPEB (Note 3)	25,709	26,966	24,474
Regulatory liabilities - other (Note 3)	178,092	162,526	142,227
Operating reserves	3,974	3,852	3,288
Fair value of derivative instruments (Note 14)	5,515	744	7,319
Accrued environmental remediation costs (Note 12)	37,405	57,385	68,397
Accrued OPEB costs (Note 10)	10,518	12,024	17,464
Accrued pension costs (Note 10)	26,915	39,038	60,195
Tax reserve (Note 4)	3,081	1,703	3,913
Other liabilities	20,152	18,836	17,978
Total Deferred Credits and Other Liabilities	311,361	323,074	345,255
Accumulated Deferred Income Tax (Note 4)	344,822	339,706	295,212
Commitments and Contingencies			
Total Capitalization and Liabilities	$ 1,960,684	$ 1,958,141	$ 1,902,650

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						
	Shares Issued	Amount	Paid-In Capital	Capital Stock Expense	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
Balance at December 31, 2015	16,862,087	$ 84,311	$ 239,952	$ (4,633)	$ 237,520	$ -	$ 557,150
Net income					17,440		17,440
Balance at March 31, 2016	16,862,087	$ 84,311	$ 239,952	$ (4,633)	$ 254,960	$ -	$ 574,590
Balance at December 31, 2016	16,862,087	$ 84,311	$ 239,952	$ (4,633)	$ 265,640	$ -	$ 585,270
Net income					17,315		17,315
Dividends declared on common stock to parent - CH Energy Group					(4,000)		(4,000)
Balance at March 31, 2017	16,862,087	$ 84,311	$ 239,952	$ (4,633)	$ 278,955	$ -	$ 598,585

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 a leader in the North American regulated electric and gas utility industry. Central Hudson is a regulated electric and natural gas transmission and distribution utility. CHET was formed to engage in Federal Energy Regulatory Commission ("FERC") transmission projects and has a 6.1% ownership interest in New York Transco LLC ("Transco"). In the first quarter of 2016, CHGT was formed to hold CH Energy Group's ownership stake in possible gas transmission pipeline opportunities in New York State. As of March 31, 2017 there has been no activity in CHGT. CHEC has ownership interests in certain non-regulated subsidiaries that are less than 100% owned.

Basis of Presentation

This Quarterly Financial 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. All intercompany 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 have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), which for regulated public utilities, includes specific accounting guidance for regulated operations.

Regulatory Accounting Policies

Regulated companies, such as Central Hudson, defer costs and credits on the balance sheet as regulatory assets and liabilities 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 recovered from or reimbursed to customers either by offset as directed by the New York State Public Service Commission ("PSC") or through incorporation in the determination of revenue requirement used to set new rates. Changes in regulatory assets and liabilities are reflected in the Consolidated Statement of

Income in the period in which the amounts are reflected in rates. Current accounting practices reflect the regulatory accounting authorized in Central Hudson's most recent rate order. See Note 3 – "Regulatory Matters" for additional information regarding regulatory accounting.

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 all 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, 2016 audited Financial Statements and, accordingly, should be read in conjunction with the Notes thereto.

Seasonality

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. The balance sheets of CH Energy Group and Central Hudson as of March 31, 2016 are included for supplemental information.

Rates, Revenues, and Cost Adjustment Clauses

Central Hudson's electric and natural gas retail rates are regulated by the PSC. Transmission rates, facilities charges, and rates for electricity sold for resale in interstate commerce are regulated by the FERC.

Central Hudson's tariffs for retail electric and natural gas service include purchased electricity and purchased natural gas cost adjustment clauses by which electric and natural gas rates are adjusted to collect the actual purchased electricity and purchased natural gas costs incurred in providing these services.

Central Hudson's delivery rate structure includes Revenue Decoupling Mechanisms ("RDMs"), which provide the ability to record revenues equal to those forecasted in the development of current rates for most of Central Hudson's customers.

Use of Estimates

Preparation of the financial statements in accordance with GAAP includes the use of estimates and assumptions by management that affect the reported amounts of assets, liabilities and the disclosures of the contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. 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.

There were no material changes in CH Energy Group's critical accounting estimates or in Central Hudson's regulatory accounting policies during the three months ended March 31, 2017.

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. Effective July 1, 2016, in accordance with the 2015 Rate Order, Central Hudson implemented monthly billing to a majority of its customers. Based on the Order Approving Accounting Change with Modifications, issued and effective July 20, 2016, Central Hudson also records an estimate of unbilled revenue for service rendered to customers whose meters are not read on the last day of the month. Unbilled balances from the previous month reverse as current month actual bills are processed. As a result of the rate order, the net change to unbilled revenue is reflected on the income statement.

Between the period from July 1, 2015 and July 1, 2016, prior to monthly billing and in accordance with the Order Approving Rate Plan ("2015 Rate Order") in Cases 14-E-0318 and 14-G-0319, Central Hudson recorded an estimate of unbilled revenue for service rendered to bimonthly customers whose meters were read in the prior month. The estimate covered the 30 days subsequent to the meter read date while the remaining estimate of unbilled revenue exceeding 30 days, as defined under GAAP, was recorded with an offsetting regulatory liability balance. See Note 3 – "Regulatory Matters" for additional information.

Central Hudson records gross receipts tax revenues and expenses on a gross income statement presentation basis (i.e., included in both revenue and expenses). Total revenue taxes included in Operating Revenues are \$2.3 million and \$1.9 million for the three months ended March 31, 2017 and 2016, respectively. Sales and use taxes charged to customers on Central Hudson's utility revenues are accounted for on a net basis (excluded from revenue).

Fuel, Materials & Supplies

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

	March 31, 2017	December 31, 2016	March 31, 2016
Natural gas	$ 1,939	$ 4,054	$ 3,088
Fuel used in electric generation	453	462	471
Materials and supplies	20,417	19,493	14,494
Total	$ 22,809	$ 24,009	$ 18,053

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.

AFUDC, 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.

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

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

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

Depreciation and Amortization

Central Hudson's depreciation and amortization 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. Current accounting guidance related to asset retirement, precludes the recognition of expected future retirement obligations as a component of depreciation expense or accumulated depreciation. Central Hudson, however, is required to use depreciation methods and rates approved by the PSC under regulatory accounting. These depreciation rates include a charge for the cost of future removal and retirement of fixed assets.

Asset Retirement Obligations

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, at least annually. 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 natural 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.

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 that 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.

Debt Issuance 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 income tax returns with their parent company and, depending on the state, either standalone or consolidated state income tax returns. Income taxes are deferred, for all differences between the financial statement and the tax basis of assets and liabilities, under the asset and liability method in accordance with current accounting guidance for income taxes. Certain deferred income taxes are recorded with offsetting regulatory assets or liabilities by Central Hudson to recognize that income taxes will be recovered or refunded through future rates. 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. Central Hudson also provides Other Post-Employment Benefits (“OPEB”), which include certain health care and life insurance benefits for retirees hired within the same time periods as stated above. Additionally, Central Hudson maintains a Supplemental Executive Retirement Plan (“SERP”) for certain members of management.

Central Hudson recognizes an underfunded status of the defined benefit plans as a liability on its balance sheet. The underfunded status is measured as the difference between the fair value of the plans’ assets and the projected benefit obligation (“PBO”) for the plans. Central Hudson recognizes a regulatory asset for the underfunded amount because these future costs are probable for recovery from customers in future rates.

Retirement Plan and SERP (collectively “Pension”) and OPEB benefit expenses are determined by actuarial valuations based on assumptions that Central Hudson evaluates at least annually. The PSC has authorized deferral accounting treatment for any variations between actual pension and OPEB expenses and the amount included in the current delivery rate structure.

Any unamortized balances related to net actuarial gains and losses, past service costs and transitional obligations, which would otherwise be recognized in accumulated other comprehensive income are subject to deferral accounting treatment.

Central Hudson also sponsors a contributory 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.

For more information see Note 10 – “Post-Employment Benefits”.

Equity-Based Compensation

Officers of CH Energy Group and Central Hudson were granted Share Unit Plan Shares (“SUPs”) under various plans as part of the officer’s long-term incentives. Compensation expense and the related liability associated with the SUPs is recorded based on the fair value at each reporting date until settlement reflecting expected future payout and time elapsed within the terms of the award, typically at the end of the three year vesting period. 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. CH Energy Group and Central Hudson have elected to recognize forfeitures when they occur due to the limited number of participants in the equity-based compensation plans. 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 additional information.

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. Central Hudson records all derivatives at fair value with certain exceptions including those derivatives that qualify for the normal purchase and normal sales exception. The fair value of derivative instruments are estimates of the amounts that Central Hudson would receive or have to pay to terminate the outstanding contracts at the balance sheet dates.

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.

Recently Adopted Accounting Policies

Simplifying the Measurement of Inventory
Effective January 1, 2017, CH Energy Group and Central Hudson adopted Accounting Standard Update ("ASU") No. 2015-11. ASU 2015-11 simplifies the current guidance and eliminates the

need to determine replacement cost and evaluate whether it is above the ceiling or below the floor. The adoption of ASU 2015-11 was applied prospectively. There was no material impact on the financial condition, results of operations and cash flows of CH Energy Group and its subsidiaries upon adoption.

Derivatives and Hedging, Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships

Effective January 1, 2017, CH Energy Group and Central Hudson adopted ASU No. 2016-05. ASU 2016-05 clarifies that “a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815 does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The adoption of ASU 2016-05 was applied prospectively. There was no material impact on the financial condition, results of operations and cash flows of CH Energy Group and its subsidiaries upon adoption.

Investments - Equity Method and Joint Ventures, Simplifying the Transition to the Equity Method of Accounting

Effective January 1, 2017, CH Energy Group and Central Hudson adopted ASU No. 2016-07. ASU 2016-07 eliminates the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis. The adoption of ASU 2016-07 was applied prospectively. There was no material impact on the financial condition, results of operations and cash flows of CH Energy Group and its subsidiaries upon adoption.

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	Utility Plant March 31, 2017	Utility Plant December 31, 2016	Utility Plant March 31, 2016
Electric:				
Production	25-85	$ 38,945	$ 38,945	$ 37,970
Transmission	30-80	333,426	317,900	300,606
Distribution	7-80	939,420	928,741	898,578
Other	40	4,294	4,294	4,259
Total		$ 1,316,085	$ 1,289,880	$ 1,241,413
Natural Gas:				
Transmission	19-80	$ 56,048	$ 55,974	$ 55,959
Distribution	28-95	404,812	400,854	366,436
Other	N/A	443	443	442
Total		$ 461,303	$ 457,271	$ 422,837
Common:				
Land and Structures	50	$ 74,247	$ 74,036	$ 68,734
Office and Other Equipment, Radios and Tools	8-35	51,499	49,784	45,370
Transportation Equipment	10-12	62,247	61,530	57,617
Other	5-10	42,947	41,702	31,264
Total		$ 230,940	$ 227,052	$ 202,985
Gross Utility Plant		$ 2,008,328	$ 1,974,203	$ 1,867,235

For the three months ended March 31, 2017 and 2016, the borrowed component of funds used during construction and recorded as a reduction of interest expense was $0.2 million and $0.1 million, and the equity component reported as other income was $0.3 million and $0.3 million, respectively.

Included in the Net Utility Plant balance of $1.6 billion, $1.5 billion and $1.4 billion at March 31, 2017, December 31, 2016 and March 31, 2016 is $74.3 million, $72.0 million and $61.5 million of intangible utility plant assets, comprised primarily of computer software costs, land, transmission and water rights, and the related accumulated amortization of $32.4 million, $30.7 million and $27.0 million, respectively.

As of March 31, 2017, December 31, 2016 and March 31, 2016, Central Hudson has reclassified from utility plant assets $46.4 million, $46.8 million and $46.5 million, respectively, of cost of removal recovered through the rate-making process in excess of amounts incurred to date as a regulatory liability.

For each of the periods ended March 31, 2017, December 31, 2016 and March 31, 2016, asset retirement obligations for Central Hudson were approximately $1.0 million. These amounts have been classified in the above chart under "Electric - Other" and "Common - Other" based on the nature of the ARO and are reflected as "Other - long-term liabilities" in the CH Energy Group and Central Hudson Balance Sheets.

NOTE 3 – Regulatory Matters

Summary of Regulatory Assets and Liabilities

Based on previous, existing or expected regulatory orders or decisions, the following table sets forth amounts that are expected to be recovered from, or refunded to customers in future periods (In Thousands):

	March 31. 2017	December 31. 2016	March 31. 2016
Regulatory Assets:			
Current:			
Deferred purchased electric costs	$ 7,826	$ 5,972	$ 9,659
Deferred purchased natural gas costs	5,632	8,162	1,278
Deferred unrealized losses on derivatives - Electric (Note 14)	1,983	1,198	10,693
Deferred unrealized losses on derivatives - Natural Gas (Note 14)	-	-	5
PSC general and temporary state assessment and carrying charges	4,291	3,413	6,036
Deferred debt expense on re-acquired debt	521	521	520
Deferred and accrued costs - SIR (Note 12)	6,406	6,366	6,280
Deferred vacation pay accrual	8,303	-	-
Other	1,076	357	358
	$ 36,038	$ 25,989	$ 34,829
Long-term:			
Deferred pension costs (Note 10)	$ 46,968	$ 52,251	$ 89,130
Carrying charges - pension reserve	3,288	2,892	1,712
Deferred unrealized losses on derivatives - Electric (Note 14)	5,515	744	7,319
Deferred and accrued costs - SIR and carrying charges (Note 12)	56,667	73,085	79,826
Deferred debt expense on re-acquired debt	3,287	3,418	3,808
Income taxes recoverable through future rates	23,737	23,334	20,847
Energy efficiency incentives and carrying charges	5,418	5,347	5,133
Reforming the Energy Vision ("REV") and carrying charges	7,122	5,716	1,082
Deferred vacation pay accrual	-	6,726	5,909
Deferred storm costs and carrying charges	7,926	4,714	5,171
Other	11,870	11,364	7,676
	$ 171,798	$ 189,591	$ 227,613
Total Regulatory Assets	$ 207,836	$ 215,580	$ 262,442
Regulatory Liabilities:			
Current:			
Rate moderator - Electric	$ 4,300	$ 7,067	$ 12,376
Rate moderator - Natural Gas	4,448	5,269	4,974
RDM and carrying charges - Electric	10,128	14,582	2,873
RDM and carrying charges - Natural Gas	840	1,308	1,905
Deferred unrealized gains on derivatives - Electric (Note 14)	612	2,454	528
Deferred unrealized gains on derivatives - Gas (Note 14)	56	856	38
Deferred unbilled electric and gas revenues (Note 1)	-	-	16,832
	$ 20,384	$ 31,536	$ 39,526
Long-term:			
Rate moderator - Electric and carrying charges	$ 35,810	$ 35,794	$ 38,336
Rate moderator - Natural Gas and carrying charges	4,298	4,640	4,531
Customer benefit fund	3,982	4,032	5,265
Deferred cost of removal (Note 2)	46,376	46,757	46,487
Income taxes refundable through future rates	22,495	18,682	28,673
Deferred OPEB costs	25,709	26,966	24,474
Carrying charges - OPEB reserve	4,599	3,984	2,130
Deferred property taxes and carrying charges	3,854	1,404	1,300
Deferred unbilled revenues (Note 3)	5,082	5,082	-
Energy efficiency programs and carrying charges	41,123	33,028	10,293
Other	10,473	9,123	5,212
	$ 203,801	$ 189,492	$ 166,701
Total Regulatory Liabilities	$ 224,185	$ 221,028	$ 206,227
Net Regulatory Assets (Liabilities)	$ (16,349)	$ (5,448)	$ 56,215

Significant regulatory liabilities include the following line item which was previously included in "Other" in prior periods.

Deferred Property Taxes: Per the 2015 Rate Order, Central Hudson is authorized to defer 90% of the difference between actual property taxes including school, city, town and village and the amount included in rates.

2015 Rate Order

On June 17, 2015, the PSC issued an Order establishing the 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. For a full description of the key provisions of the 2015 Rate Order, refer to the disclosure in the 2016 Annual Financial Report. A summary of the key terms of the 2015 Rate Order are as follows:

	2015 Rate Order		
Description	Rate Year 1	Rate Year 2	Rate Year 3
Electric delivery rate increases	$15.3 Million	$16.0 Million	$14.1 Million
Natural gas delivery rate increases	$1.8 Million	$4.6 Million	$4.4 Million
Return on Equity ("ROE")	9.00%	9.00%	9.00%
Earnings sharing	Yes(1)	Yes(1)	Yes(1)
Capital structure – common equity	48%	48%	48%
Bill Credits - Electric	$13.0 Million	$12.0 Million	$2.0 Million
Bill Credits - Natural Gas	$2.548 Million	$1.7 Million(2)	$0(2)
Major Storm Reserve - Electric	$0.7 Million	$0.7 Million	$0.7 Million
RDMs – electric and natural gas	Yes	Yes	Yes

(1) 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.
(2) In addition to natural 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 natural gas bill credit in RY3.

Other PSC Proceedings

On March 7, 2017, Central Hudson filed a petition with the PSC seeking approval to defer and recover incurred and ongoing incremental costs associated with the development and implementation of the PSC's policies formulated in Case 14-M-0101, Proceeding on the Motion of the Commission in Regard to Reforming the Energy Vision ("REV") and its associated cases. Through February 28, 2017 of the current rate plan established in Case 14-E-0318 Central Hudson has accumulated incremental REV related costs totaling $1.8 million and approximately $0.1 million of carrying charges. Those costs include incremental internal and external labor costs used to develop the Distributed System Implementation Plan ('DSIP"), including Advance Metering Infrastructure business case and the Benefit Cost analysis handbook, Supplemental DSIP, Interconnection Earning Adjustment Mechanism ("EAM"), System Efficiency EAM and the cost of other REV requirements. The Company expects to incur other incremental costs associated with REV on a going forward basis including but not limited to costs associated with the development of an interconnection portal to facilitate Distributed Energy Resources ("DER") ability to connect to Central Hudson's distribution system and hosting capacity analysis to determine how much DER can connect to each circuit on Central Hudson's distribution system without triggering the need for a distribution system upgrade on the applicable circuit.

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 under this provision 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 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.

Petition for Change in Accounting

On April 28, 2016, the Company filed a Petition for Accounting Change related to the required treatment of unbilled revenues set forth in the Order Approving Rate Plan ("Order"), issued and effective June 17, 2015, in Cases 14-E-0318 and 14-G-0319, to provide better matching of revenues and expenses. This Order required 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 sought 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 the "Order Approving Accounting Change with Modification" allowing Central Hudson to realize 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 $14.1 million was recognized as unbilled revenues which occurred concurrent with the transition to monthly billing and provided an offset for the $9.0 million earnings impact that would have resulted from the RDM targets being set without consideration for the transition to monthly billing. The net impact on earnings of approximately $5.1 million was required to be deferred to ensure there was no net earnings impact that resulted from the transition to monthly billing. The deferral is included in “Regulatory Liabilities – other long-term” in CH Energy Group and Central Hudson’s Balance Sheets.

NOTE 4 – Income Tax

Uncertain Tax Positions

In September of 2010, Central Hudson filed a request with the Internal Revenue Service (“IRS”) to change its tax accounting method related to costs to repair and maintain utility assets. The change was effective for the tax year ended 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 a 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 Sheet.

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. Included in the increase for the periods ended March 31, 2017 and March 31, 2016 is $1.1 and $0.2 million, respectively, of federal uncertain tax position previously reclassified to a deferred tax asset per ASU No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss (“NOL”) Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.* At March 31, 2017, the tax reserve ending balance includes the offset of the remaining tax benefit of $2.3 million, which was previously reclassified to a deferred tax asset.

Changes in the tax reserve reflect the ongoing uncertainty related to gas transmission and distribution repair deductions taken in the current period.

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

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Tax reserve balance at the beginning of the period	$ 1,703	$ 3,520
Change in gas transmission and distribution repair deduction	263	217
Change in tax benefit offset	1,115	176
Tax reserve balance at the end of the period	$ 3,081	$ 3,913

Income Tax Examinations

Jurisdiction	Tax Years Open for Audit
Federal	2013 – 2016
New York State	2013 – 2016

Components of Income Tax - CH Energy Group

The following is a summary of the components of federal and state income taxes for CH Energy Group as reported in its Consolidated Statements of Income (In Thousands):

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Federal income tax	$ 550	$ 2,988
State income tax	803	1,111
Deferred federal income tax	8,837	6,061
Deferred state income tax	966	768
Total income tax expense	$ 11,156	$ 10,928

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 Statements of Income (In Thousands):

	Three Months Ended March 31,	
	2017	2016
Net income from Continuing Operations	$ 17,315	$ 16,736
Federal income tax	550	2,988
State income tax	803	1,111
Deferred federal income tax	8,837	6,061
Deferred state income tax	966	768
	$ 28,471	$ 27,664
Computed federal tax at 35% statutory rate	$ 9,965	$ 9,682
State income tax net of federal tax benefit	1,150	1,299
State income tax rate change	-	(78)
Depreciation flow-through	803	676
Cost of removal	(608)	(642)
Other	(154)	(9)
Total income tax expense	$ 11,156	$ 10,928
Effective tax rate - federal	33.0%	32.7%
Effective tax rate - state	6.2%	6.8%
Effective tax rate - combined	39.2%	39.5%

Components of Income Tax - Central Hudson

The following is a summary of the components of state and federal income taxes for Central Hudson as reported in its Statement of Income (In Thousands):

	Three Months Ended March 31,	
	2017	2016
Federal income tax	$ 532	$ 3,269
State income tax	775	941
Deferred federal income tax	8,866	6,160
Deferred state income tax	966	779
Total income tax expense	$ 11,139	$ 11,149

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 Consolidated Statements of Income (In Thousands):

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Net income	$ 17,315	$ 17,440
Federal income tax	532	3,269
State income tax	775	941
Deferred federal income tax	8,866	6,160
Deferred state income tax	966	779
Income before taxes	$ 28,454	$ 28,589
Computed federal tax at 35% statutory rate	$ 9,959	$ 10,006
State income tax net of federal tax benefit	1,132	1,196
State income tax rate change	-	(78)
Depreciation flow-through	803	676
Cost of Removal	(608)	(642)
Other	(147)	(9)
Total income tax expense	$ 11,139	$ 11,149
Effective tax rate - federal	33.0%	33.0%
Effective tax rate - state	6.1%	6.0%
Effective tax rate - combined	39.1%	39.0%

NOTE 5 – Investments in Unconsolidated Affiliates

In the first quarter of 2016, CH Energy Group formed CHGT to hold an ownership stake in possible gas transmission pipeline opportunities in New York State. As of March 31, 2017 there has been no activity at CHGT.

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%. FERC approved rates for Transco in March 2016 and three projects costing approximately $209.0 million were placed in service on June 1st, after receiving the remaining regulatory approvals in May 2016. CHET made capital contributions to Transco of $6.8 million to fund these projects. During the three months ended March 31, 2017 CHET made no capital contributions to Transco. As of March 31, 2017, December 31, 2016 and March 31, 2016, the value of CHET's investment in Transco was approximately $7.2 million, $6.9 million and $0.4 million, respectively.

CHEC has equity investments in partnerships, one of which holds investments in energy sector start-up companies. As of March 31, 2017, December 31, 2016 and March 31, 2016, the value of CHEC's equity investments were $0.8 million, respectively. These investments are not considered to be a part of the core business; however, management intends to retain these investments at this time.

NOTE 6 – Research and Development

Central Hudson's R&D expenditures for the three months ended March 31, 2017 and 2016 were $1.1 million and $0.8 million. 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
Use of proceeds	For general corporate purposes	For capital expenditures and for general corporate purposes	For capital expenditures and for general corporate purposes
Letters of Credit:	Available up to $25 million[(2)]	Available up to $15 million[(3)]	Available up to $15 million[(3)]

	CH Energy Group			Central Hudson		
	March 31, 2017	December 31, 2016	March 31, 2016	March 31, 2017	December 31, 2016	March 31, 2016
Outstanding (In Thousands):						
Committed Credit	$ 10,000	$ -	$ 12,000	$ 10,000	$ -	$ 12,000
Uncommitted Credit[(4)]	10,000	-	-	10,000	-	-
Total	$ 20,000	$ -	$ 12,000	$ 20,000	$ -	$ 12,000
Weighted Average Interest Rate	1.53%	0.00%	1.19%	1.53%	0.00%	1.19%

(1) Providing committed credit. The credit facilities include a covenant that the total consolidated total funded debt to total capital of CH Energy Group and total funded debt to total capital of Central Hudson, respectively shall not exceed 0.65 to 1.00. The credit facilities are all subject to certain restrictions and conditions, including there will be no event of default, and subject to certain exceptions, CH Energy Group and Central Hudson will not sell, lien, or otherwise encumber its assets and enter into certain transactions including those with affiliates. CH Energy Group and Central Hudson are also required to pay a commitment fee calculated at a rate based on the applicable Standards and Poor's or Moody's rating on the average daily unused portion of the credit facilities. CH Energy Group and Central Hudson are in compliance with all debt covenants.

(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. Included as part of the $50 million revolving credit facility is a $10 million Swingline Facility, whereby loans are available up to $10 million with a maturity of 14 days or less. 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) Participating banks related to $25 million in uncommitted credit arrangements for Central Hudson are Bank of America, N.A., and Citizens Bank, N.A. Proceeds from these credit arrangements will be used to diversify cash sources and provide competitive options to minimize Central Hudson's cost of short-term debt.

NOTE 8 – Capitalization – Common and Preferred Stock

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 $48.7 million and

$40.3 million in dividends to CH Energy Group for the periods ended March 31, 2017 and 2016, respectively. 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 rating downgrades 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%). CH Energy Group's other subsidiaries do not have expressed restrictions on their ability to pay dividends.

During both the three months ended March 31, 2017 and 2016, CH Energy Group paid dividends to FortisUS Inc. ("FortisUS") of $5.5 million.

During the three months ended March 31, 2017, Central Hudson paid dividends to parent CH Energy Group of $4.0 million. No dividends were paid to parent CH Energy Group during the three months ended March 31, 2016.

Preferred Stock

Other than the one share of Junior Preferred Stock, Central Hudson has no outstanding preferred stock as of March 31, 2017, December 31, 2016 and March 31, 2016, respectively.

NOTE 9 – Capitalization – Long-Term Debt

The majority of the long-term debt instruments are redeemable at the discretion of CH Energy Group and Central Hudson, at any time, at the greater of par or a specified price as defined in the respective long-term debt agreements, together with accrued and unpaid interest.

A summary of CH Energy Group's and Central Hudson's long-term debt is as follows (In Thousands):

	March 31, 2017	December 31, 2016	March 31, 2016
CH Energy Group:			
Promissory notes	$ 588,731	$ 588,731	$ 544,045
Less: current portion	(34,406)	(34,406)	(9,315)
Principal portion of long-term-debt	554,325	554,325	534,730
Less: unamortized debt issuance costs	(3,918)	(4,022)	(3,894)
Net long-term debt - CH Energy Group	$ 550,407	$ 550,303	$ 530,836
Central Hudson:			
Promissory notes	$ 571,950	$ 571,950	$ 525,950
Less: current portion	(33,000)	(33,000)	(8,000)
Principal portion of long-term-debt	538,950	538,950	517,950
Less: unamortized debt issuance costs	(3,837)	(3,938)	(3,803)
Net long-term debt - Central Hudson	$ 535,113	$ 535,012	$ 514,147

At March 31, 2017, Central Hudson had $30 million of 2014 Series E 10-year 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 March 26, 2020. 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 3% at the start of any quarterly interest period during the term of the cap. This interest rate cap replaces a similar interest rate cap that expired on March 26, 2017. There have been no payouts on the expiring interest rate cap during its three year term.

The principal amount of Central Hudson's outstanding 1999 Series B NYSERDA Bonds totaled $33.7 million at March 31, 2017. These are tax-exempt multi-modal bonds that are currently in a variable rate mode and mature in 2034. 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. There were no payouts on these interest rate caps during the three months ended March 31, 2017 and 2016.

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 the recovery of these interest costs.

Debt Covenants

CH Energy Group's $16.8 million of privately placed notes require compliance with certain covenants including maintaining a ratio of total consolidated debt to total consolidated capitalization of no more than 0.65 to 1.00 and not permitting certain debt, other than the privately placed notes, associated with the unregulated operations of CH Energy Group to exceed 10% of total consolidated assets.

Central Hudson, under the terms of the various note purchase agreements, is subject to similar financial covenants and restrictions to that of CH Energy Group, including restrictions with respect to Central Hudson's indebtedness and assets.

As of March 31, 2017, CH Energy Group and Central Hudson are in compliance with all covenants.

NOTE 10 – Post-Employment Benefits

In its Orders, the PSC has authorized deferral accounting treatment for any variations between actual pension and OPEB expense and the amount included in the current delivery rate structure. As a result, 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.

Central Hudson has a non-contributory Retirement Plan covering substantially all of its employees hired before January 1, 2008 and a non-qualified SERP for certain executives. The Retirement Plan is a defined benefit plan, which provides pension benefits based on an employee's compensation and years of service. Central Hudson also provides certain health care and life insurance benefits for retired employees through its post-retirement benefit plans.

Central Hudson's net periodic benefit costs for its pension and OPEB plans for the three months ended March 31, 2017 and 2016 are as follows (In Thousands):

	Pension Benefits		OPEB	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2017	2016	2017	2016
Service cost	$ 2,954	$ 2,846	$ 460	$ 578
Interest cost	6,687	6,694	1,362	1,356
Expected return on plan assets	(8,503)	(8,416)	(1,836)	(2,041)
Amortization of prior service cost (credit)	290	370	(1,153)	(1,433)
Amortization recognized actuarial (gain)/loss	4,178	4,412	(258)	(109)
Net Periodic (Benefit) Cost	$ 5,606	$ 5,906	$ (1,425)	$ (1,649)

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

	March 31, 2017(1)	December 31, 2016(1)	March 31, 2016(1)
Accrued pension costs	$ 28,197	$ 40,320	$ 61,522

(1) Includes approximately $232K at March 31, 2017, December 31, 2016 and March 31, 2016 of accrued pension liability recorded at CH Energy Group as a result of the resignation in 2014 of two CH Energy Group officers with change in control agreements.

Accrued pension costs include the difference between the PBO for pensions and the market value of the pension assets and any liability for the non-qualified SERP.

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

	March 31, 2017(1)	December 31, 2016(1)	March 31, 2016(1)
Prefunded pension costs prior to funding status adjustment	$ 15,611	$ 7,956	$ 24,856
Additional liability required	(43,808)	(48,276)	(86,378)
Total accrued pension costs	$ (28,197)	$ (40,320)	$ (61,522)
Total offset to additional liability - regulatory assets - pension plan	$ 43,808	$ 48,276	$ 86,378

(1) Includes approximately $232K at March 31, 2017, December 31, 2016 and March 31, 2016 of accrued pension liability recorded at CH Energy Group 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 months ended March 31, 2017 and 2016 were as follows (In Thousands):

Retirement Plan Three Months Ended March 31, 2017	Retirement Plan Three Months Ended March 31, 2016	OPEB Three Months Ended March 31, 2017	OPEB Three Months Ended March 31, 2016
$ 13,000	$ -	$ 1,533	$ 1,560

Central Hudson did not make any contributions to the Retirement Plan in 2016. Contributions intended for 2016 were made in 2015 due to higher than expected 2015 contributions that resulted in a funded status that met Central Hudson's funding objectives. Additionally, during the first quarter of 2017, Central Hudson made a contribution to the SERP of $0.7 million.

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 March 31, 2017, as well as actual asset allocations as of March 31, 2017, December 31, 2016, and March 31, 2016, expressed as a percentage of the market value of Retirement Plan assets, are summarized in the table below:

Asset Class	Minimum	Target Average	Maximum	March 31, 2017	December 31, 2016	March 31, 2016
Equity Securities	51%	50%	59%	51.0%	51.5%	49.7%
Debt Securities	47%	50%	55%	47.1%	46.7%	48.8%
Other[(1)]	2%	0%	10%	1.9%	1.8%	1.5%

[(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.

401(k) Retirement Plan

Central Hudson sponsors a 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 matches. The matching benefit varies by employee group. The costs of Central Hudson's matching contributions were $1.1 million and $1.0 million for three months ended March 31, 2017 and 2016. Central Hudson also provided an additional contribution of 4% for 2017 and 3% for 2016 to the 401(k) plan of annualized base salary for eligible employees who do not qualify for Central Hudson's Retirement Income Plan.

NOTE 11 – Equity-Based Compensation

Share Unit Plan Units

In January 2017, officers of CH Energy Group and Central Hudson were granted 55,076 Units under the Central Hudson 2017 Share Unit Plan ("2017 SUP"), representing the officers' long-term incentives. Two-thirds of the issued 2017 SUP Units granted are performance based and vest at the end of the three-year performance period upon achievement of specified cumulative performance goals. The remaining 2017 SUP Units that were granted are time-based and vest at the end of the three-year period without regard to performance. Each SUP Unit granted has an underlying value equivalent to the value of one common share of Fortis and if earned and vested is paid in cash. The foreign exchange rate utilized for cash payout in the US dollar equivalent for each plan corresponds to the exchange rate on the business day prior to the date of that SUP Unit grant. Each SUP Unit accrues notional dividend equivalents equal to the dividends declared by the Fortis Board of Directors on Fortis common shares.

In January 2017, CH Energy Group granted 30,085 Units to an officer of CH Energy Group under a 2017 Performance Share Unit Plan ("2017 PSUP"). On April 1, 2016, CH Energy Group adopted a 2016 Performance Share Unit Plan ("2016 PSUP") and issued 18,806 Units to an officer of CH Energy Group, collectively ("PSUP"). The PSUP Units are performance based and vest upon achievement of specified performance goals over the applicable three-year performance period. Each PSUP Unit has an underlying value equivalent to the value of one common share of Fortis and if earned and vested is paid in cash. 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 PSUP Unit grant. Each PSUP Unit accrues notional dividend equivalents equal to the dividends declared by the Fortis Board of Directors on Fortis common shares.

Officers of CH Energy Group and Central Hudson were granted Units under the Central Hudson 2016 ("2016 SUP"), 2015 ("2015 SUP") and 2014 ("2014 SUP") Share Unit Plans, representing the officers' long-term incentives. Two-thirds of the 2016 and 2015 SUP Units granted are performance based and vest at the end of the three-year performance period upon achievement of specified cumulative performance goals. The remaining 2016 and 2015 SUP Units that were granted are time-based and vest at the end of the three-year period without regard to performance. The 2014 SUP Units are one-half performance based and vest at the end of the three year period upon achievement of specified cumulative performance goals over the three year period. The remaining 2014 SUP Units that were granted are time-based and vest at the end of the three year period without regard to performance. For all grants issued, each SUP Unit is equivalent to the value of one common share of Fortis and if earned and vested is paid in cash. The foreign exchange rate utilized for cash payout in the US dollar equivalent for each plan corresponds to the exchange rate on the business day prior to the date of that SUP Unit grant. Each SUP Unit accrues notional dividend equivalents equal to the dividends declared by the Fortis Board of Directors on Fortis common shares.

CH Energy Group:	Grant Date	Grant Date Fair Value	Time Based Granted	Time Based Outstanding	Performance Based Granted	Performance Based Outstanding[4]
2017 PSUP	January 1, 2017	$ 30.85	-	-	30,085	30,369
2016 PSUP[1]	April 1, 2016	$ 31.00	-	-	18,806	19,711

Central Hudson:	Grant Date	Grant Date Fair Value	Time Based Granted	Time Based Outstanding[4]	Performance Based Granted	Performance Based Outstanding[4]
2017 SUP	January 1, 2017	$ 30.85	18,359	18,532	36,717	37,063
2016 SUP[1], [3]	January 1, 2016	$ 27.26	23,352	23,196	46,704	31,808
2015 SUP[3]	January 1, 2015	$ 33.47	15,795	16,100	31,591	34,361
2014 SUP[2]	January 1, 2014	$ 28.64	39,268	41,847	39,268	41,847

[1]Upon establishing the CH Energy Group 2016 PSUP on April 1, 2016, Central Hudson rescinded 16,356 Performance Units issued under Central Hudson's 2016 SUP, resulting in a reduction in the total number of units granted under the Central Hudson 2016 SUP from 70,056 to 53,700 Units.
[2]In the third quarter of 2014, 2,969 2014 SUP units were forfeited following the resignation of an Officer.
[3]In the third quarter of 2016, per the 2015 and 2016 SUP agreement, 1,041 and 1,231 time based units were paid out related to an Officer who retired, at $32.71 and $27.47 per unit for approximately $0.1 million.
[4]Includes notional dividends accrued as of March 31, 2017.

Compensation Expense

The following table summarizes expense for share unit plan units for the three months ended March 31, 2017 and 2016 (In Thousands):

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
CH Energy Group	$ 1,232	$ 1,354
Central Hudson	$ 1,231	$ 1,011

The liabilities associated with the SUP and PSUP plans 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 respective 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.

The liability related to the outstanding share unit plan Units at March 31, 2017 amounted to approximately $6.9 million of which $3.5 million has been recorded at $39.04 per share related to the 2014 SUP and is included in current liabilities. The Company expects to payout the award during the second quarter of 2017. See Note 18 – "Subsequent Events" for additional details.

Under the SUP agreements, the amount of any outstanding awards payable to an employee who retires during the term of the grant 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, 2016 and 2017 SUP plans 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 2016 and 2017, additional expense was recognized in accordance with ASU 2014-12 for Central Hudson officers who 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

There were no material changes in the nature and amounts of Central Hudson's commitments from those disclosed in the 2016 Annual Financial Report, except as noted below.

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

In 2016, Central Hudson entered into an agreement with Entergy Nuclear Power Marketing, LLC ("Entergy") to purchase electricity, on a unit contingent basis at defined prices, from December 1, 2016 through March 31, 2017. Energy supplied under this agreement cost approximately $3.3 million, of which $2.7 million related to the first quarter of 2017. This contract expired on March 31, 2017 and was not renewed.

In 2015, Central Hudson entered into agreements with Entergy to purchase electricity on a unit contingent basis at defined prices from December 1, 2015 through March 31, 2016 and from June 1, 2016 through August 31, 2016. Energy supplied under the first agreement cost approximately $8.8 million, of which $7.2 million related to the first quarter of 2016.

In November 2013, Central Hudson entered into a contract to purchase installed capacity from the Roseton Generating Facility from May 2014 through April 2017, with $0.6 million in purchase commitments remaining as of March 31, 2017. 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 $40.7 million in purchase commitments remaining as of March 31, 2017.

Other Commitments

Pension Benefit and Other Post Retirement Benefit Funding Contributions

Central Hudson is required to meet its contractual benefit payment obligations. Decisions about how to fund the Retirement Plan to meet these obligations are made annually and are primarily affected by the discount rate used to determine benefit obligations, current asset values, corporate resources and the projection of Retirement Plan assets. Based on the funding requirements of the Pension Protection Act, Central Hudson plans to make contributions that maintain the funded percentage at 80% or higher. In January 2017 Central Hudson made contributions of $13.0 million and $1.5 million to the Retirement Plan and OPEB, respectively.

Supplemental Executive Retirement Plan

As a result of the acquisition of CH Energy Group, Inc. by Fortis Inc. on June 27, 2013, in accordance with the terms of the Trust agreement for the SERP, Central Hudson is required to maintain a funding level at 110% of the present value of the accrued benefits payable under the Plan on an annual basis. During the first quarter of 2017 Central Hudson made a $0.7 million contribution to the SERP.

Parental Guarantee

CHET was established to be an investor in Transco, which was created to develop, own and operate electric transmission projects in New York State. In December 2014, Transco filed an application with the FERC for the recovery through a formula rate, the cost of and a return on five high voltage transmission projects totaling $1.7 billion. CHET's maximum commitment for these five projects is $182 million, which is the maximum budgeted amount for these projects at 100% equity. As of March 31, 2017, CHET's investment in Transco was approximately $7.2 million.

CH Energy Group issued a parental guarantee to Transco to assure the payment of CHET's maximum commitment of $182 million. As of March 31, 2017, management is not aware of any existing condition that would require any payments under this guarantee.

Contingencies

Environmental Matters

Central Hudson

- Site Investigation and Remediation Program

Central Hudson has been notified by the New York State Department of Environmental Conservation ("DEC") that it believes Central Hudson or its predecessors at one time owned and/or operated manufactured gas plants ("MGPs") to serve their customers' heating and lighting needs, 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. Central Hudson is performing environmental SIR at two other non-MGP sites within its service territory.

Central Hudson accrues for remediation costs based on the amounts that can be reasonably estimated at a point in time. As of March 31, 2017, Central Hudson has accrued $55.6 million with respect to SIR activities, including operation, maintenance and monitoring costs ("OM&M"), of which $18.2 million is anticipated to be spent in the next twelve months. Based on a cost model analysis completed in 2014, Central Hudson believes there is a 90% confidence level that the total costs to remediate SIR sites will not exceed $168.7 million over the next 30 years.

SIR can be divided into various stages of completion based on the milestones of activities completed and reports reviewed. 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 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") or Remedial Action Work Plan ("RAWP") is developed and filed with the DEC for approval.

   - **Site #5 – North Water Street** – RD in Progress
     - The DEC issued a Decision Document in March 2016 and approved the RAA Report in April 2016.
     - Central Hudson executed a "Design-Build" contract with an Environmental Engineering Firm ("EEF") in March 2017. Pre-Design Investigation and RD are anticipated to commence in April 2017 with full-scale remediation commencing in late 2017 or early 2018 pending receipt of required regulatory approvals and permits (including restrictive permit work windows).
     - During the first quarter of 2017, there was a reduction of approximately $14.2 million in the accrual as a result of third party bids received for estimated remediation costs which were significantly lower than the amounts anticipated in the Cost Model Study.
     - Approximately $47.2 million has been accrued as of March 31, 2017, based on the scope of work and cost estimate developed for remediation and OM&M activities, of which $14.5 million is expected to be spent in the next twelve months.

   - **Site # 8 - Eltings Corners** – RAWP in Progress
     - In June 2016, the DEC finalized the Permit Modification to the facility's Hazardous Waste Storage Permit. Central Hudson will submit for approval, a RAWP that details the implementation of the proposed remediation work activities. Pre-design investigation activities have commenced and submittal of the RAWP is anticipated to occur during the second quarter of 2017. Pending required regulatory approval of the RAWP, remedial activities are anticipated to be completed by the end of 2017.
     - Approximately $2.3 million has been accrued as of March 31, 2017, based on the scope of work and cost estimate developed for remediation and OM&M activities, of which $2.2 million is expected to be spent in the next twelve months.

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 #6 – Kingston** – Remediation in Progress
     - The RD Report was approved by the DEC in January 2016. A remedial construction "Design-Build" contract was executed with an EEF in February 2016. A revised Remedial Work Plan ("RWP") and required permit packages were submitted for regulatory agency review and were approved in June 2016.
     - Site preparation and remedial activities commenced in March and May 2016, respectively. Remedial restoration activities are anticipated to be completed in the second quarter of 2017.
     - A 401 Water Quality Certification permit and State Pollutant Discharge Elimination System Equivalent permit were issued by the DEC in July 2016. Additionally, a Nationwide Permit No. 38 was issued by the United States Army Corps of Engineers in August 2016.
     - Approximately $3.7 million has been accrued as of March 31, 2017 based on the scope of work and estimated costs for remediation and OM&M activities, of which $1.3 million is expected to be spent over the next twelve months.

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 Site Management Plan ("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 A** – CCR and SMP in Progress
     - In 2012, Central Hudson retired and removed propane air facilities located on Area A. The RAWP for this site was approved by the DEC in June 2015 and remedial activities were completed between October 2015 and January 2016.
     - The CCR for Area A and draft SMP were submitted to the DEC for review and approval in May and August 2016, respectively. In addition, the Environmental Easement for Area A was executed with the DEC and filed with the Orange County Clerk in March 2017.

   - **Site #2 – Newburgh Area B and C** – Post-Remediation In Progress
     - A CCR associated with the remedial activities completed in Areas B & C was submitted to the DEC for review and approval in August 2016. Additionally, a draft SMP related to Area B was submitted to the DEC for review and approval in August 2016.

   - **Site #3 – Laurel Street** – Post-Remediation In Progress
     - 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.

- In October 2016, as per the request of the DEC, a revised/updated Site Management Plan was submitted for review and approval.
- In November 2016, Central Hudson received a letter from the DEC stating that the Voluntary Cleanup Program will be terminated in March 2018. Central Hudson is currently working with the DEC to receive a Release Letter for this site prior to the termination of the program.

➢ **Site #4 – Catskill** – Post-Remediation In Progress
- 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.

– *No Action Required*

➢ **Site #1 – Beacon** – 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** - In November 2016 Central Hudson received a letter from the DEC stating that the Voluntary Cleanup Program will be terminated in March 2018. Central Hudson is currently reviewing the site internally to determine the next course of action.

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:

➢ As part of the 2015 Rate Order, Central Hudson maintained previously granted deferral authority and future recovery for the differences between actual Environmental SIR costs (both MGP and non-MGP) and the associated rate allowances, with carrying charges to be accrued on the deferred balances at the authorized pre-tax rate of return.

➢ The 2015 Rate Order includes cash recovery of approximately $18.9 million during the three-year rate plan period ending June 30, 2018, with $11.0 million recovered through March 31, 2017.

- The total spent in the three months ended March 31, 2017 and 2016 related to site investigation and remediation, was approximately $2.5 million and $0.7 million, respectively.
- The regulatory asset balance as of March 31, 2017, December 31, 2016 and March 31, 2016, was $63.1 million, $79.5 million and $86.1 million, which represents the cumulative difference between amounts spent or currently accrued as a liability and the amounts recovered to date through rates or insurance recoveries, plus carrying charges accrued on deferred balances.

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. There were no insurance recoveries in the three months ended March 31, 2017 and 2016. We do not expect insurance recoveries to offset a meaningful portion of total costs.

Litigation

Asbestos Litigation

Central Hudson is involved in various asbestos lawsuits.

As of March 31, 2017, of the 3,364 asbestos cases brought against Central Hudson, 1,175 remain pending. Of the cases no longer pending against Central Hudson, 2,033 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 (a regulated entity) 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. The common allocation per the terms of the 2015 Rate Order is 80% for electric and 20% for gas.

CH Energy Group Segment Disclosure

(In Thousands)	Three Months Ended March 31, 2017				
	Segments		Other		
	Central Hudson		Businesses		
		Natural	and		
	Electric	Gas	Investments	Eliminations	Total
Revenues from external customers	$ 135,546	$ 59,433	$ -	$ -	$ 194,979
Intersegment revenues	6	116	-	(122)	-
Total revenues	135,552	59,549	-	(122)	194,979
Energy supply costs	41,480	22,831	-	(122)	64,189
Operating expenses	64,194	18,776	71	-	83,041
Depreciation and amortization	9,799	2,892	-	-	12,691
Operating income (loss)	20,079	15,050	(71)	-	35,058
Other income, net	936	55	373	-	1,364
Finance charges	5,800	1,866	285	-	7,951
Income before income taxes	15,215	13,239	17	-	28,471
Income tax expense	5,636	5,503	17	-	11,156
Net Income Attributable to CH Energy Group	$ 9,579	$ 7,736	$ -	$ -	$ 17,315
Segment Assets at March 31, 2017	$ 1,460,750	$ 499,934	$ 15,635	$ (785)	$ 1,975,534

CH Energy Group Segment Disclosure

(In Thousands)

	Three Months Ended March 31, 2016				
	Segments		Other		
	Central Hudson		Businesses		
		Natural	and		
	Electric	Gas	Investments	Eliminations	Total
Revenues from external customers	$ 129,573	$ 51,841	$ -	$ -	$ 181,414
Intersegment revenues	3	84	-	(87)	-
Total revenues	129,576	51,925	-	(87)	181,414
Energy supply costs	41,546	17,233	-	(87)	58,692
Operating expenses	59,104	16,954	441	-	76,499
Depreciation and amortization	8,902	2,570	-	-	11,472
Operating income (loss)	20,024	15,168	(441)	-	34,751
Other income (expense), net	868	21	(177)	(2)	710
Finance charges	5,818	1,674	307	(2)	7,797
Income (loss) before income taxes	15,074	13,515	(925)	-	27,664
Income tax expense (benefit)	5,486	5,663	(221)	-	10,928
Net Income (Loss) Attributable to CH Energy Group	$ 9,588	$ 7,852	$ (704)	$ -	$ 16,736
Segment Assets at March 31, 2016	$ 1,444,094	$ 458,556	$ 11,939	$ (2,168)	$ 1,912,421

NOTE 14 - Accounting for Derivative Instruments and Hedging Activities

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. The primary risks the Company seeks to manage by using derivative instruments are interest rate risk, commodity price risk and adverse or unexpected weather conditions. Derivative transactions are not used for speculative purposes.

Energy Contracts Subject to Regulatory Deferral

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.

The percentage of Central Hudson's electric and gas requirements covered with fixed price forward purchases at March 31, 2017 are as follows:

Central Hudson	% of Requirement Hedged (1)
Electric Derivative Contracts:	1.8 million MWh
April 2017 – December 2017	38.6%
2018	28.5%
2019	18.7%
Natural Gas Derivative Contracts:	0.4 million Dth
November 2017 – March 2018	8.0%

(1) Projected coverage as of March 31, 2017.

Cash Flow Hedges

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, its other $30.0 million of variable rate debt, which includes costs and gains or losses associated with its interest rate cap contracts.

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 commodity prices and interest rates) and credit risk (that the counterparty will not perform according to the terms of the contract). The market risk of the derivatives generally offsets the market risk associated with the hedged commodity.

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

To help limit the credit exposure of derivatives, Central Hudson enters 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 March 31, 2017, $3.1 million would be required to settle these instruments if the contingent features were triggered.

Derivative Contracts

CH Energy Group and Central Hudson have elected gross presentation for their derivative contracts under master netting agreements and collateral positions. On March 31, 2017, December 31, 2016 and March 31, 2016, Central Hudson did not have collateral posted against the fair value amount of derivatives.

The net presentation for CH Energy Group's and Central Hudson's derivative assets and liabilities as of March 31, 2017, December 31, 2016 and March 31, 2016 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 March 31, 2017						
Derivative Contracts:						
Central Hudson - electric	$ 612	$ -	$ 612	$ 612	$ -	$ -
Central Hudson - natural gas	56	-	56	-	-	56
Total CH Energy Group and Central Hudson Assets	$ 668	$ -	$ 668	$ 612	$ -	$ 56
As of December 31, 2016						
Derivative Contracts:						
Central Hudson - electric	$ 2,454	$ -	$ 2,454	$ 1,674	$ -	$ 780
Central Hudson - natural gas	857	-	857	-	-	857
Total CH Energy Group and Central Hudson Assets	$ 3,311	$ -	$ 3,311	$ 1,674	$ -	$ 1,637
As of March 31, 2016						
Derivative Contracts:						
Central Hudson - electric	$ 528	$ -	$ 528	$ 528	$ -	$ -
Central Hudson - natural gas	38	-	38	-	-	38
Total CH Energy Group and Central Hudson Assets	$ 566	$ -	$ 566	$ 528	$ -	$ 38

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 March 31, 2017						
Derivative Contracts:						
Central Hudson - electric	$ 7,498	$ -	$ 7,498	$ 612	$ -	$ 6,886
Total CH Energy Group and Central Hudson Assets	$ 7,498	$ -	$ 7,498	$ 612	$ -	$ 6,886
As of December 31, 2016						
Derivative Contracts:						
Central Hudson - electric	$ 1,942	$ -	$ 1,942	$ 1,674	$ -	$ 268
Total CH Energy Group and Central Hudson Assets	$ 1,942	$ -	$ 1,942	$ 1,674	$ -	$ 268
As of March 31, 2016						
Derivative Contracts:						
Central Hudson - electric	$ 18,012	$ -	$ 18,012	$ 528	$ -	$ 17,484
Central Hudson - natural gas	5	-	5	-	-	5
Total CH Energy Group and Central Hudson Assets	$ 18,017	$ -	$ 18,017	$ 528	$ -	$ 17,489

Gross Fair Value of Derivative Instruments

Current accounting guidance related to fair value measurements establishes a fair value hierarchy to prioritize the inputs used in valuation techniques based on observable and unobservable data, but not the valuation techniques themselves. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing an asset or a liability. Classification of inputs is determined based on the lowest level input that is significant to the overall valuation. The fair value hierarchy prioritizes the inputs to valuation techniques into the three categories described below:

Level 1 Inputs: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Inputs: Directly or indirectly observable (market-based) information. This includes quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3 Inputs: Unobservable inputs for the asset or liability for which there is either no market data, or for which asset and liability values are not correlated with market value.

Derivative contracts are measured at fair value on a recurring basis. As of March 31, 2017, December 31, 2016 and March 31, 2016, CH Energy Group's and Central Hudson's derivative assets and liabilities by category and hierarchy level are as follows (In Thousands):

Asset or Liability Category	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of March 31, 2017(1)				
Assets:				
Derivative Contracts:				
Central Hudson - electric	$ 612	$ -	$ -	$ 612
Central Hudson - natural gas	56	56	-	-
Total CH Energy Group and Central Hudson Assets	$ 668	$ 56	$ -	$ 612
Liabilities:				
Derivative Contracts:				
Central Hudson - electric	$ 7,498	$ -	$ -	$ 7,498
Total CH Energy Group and Central Hudson Liabilities	$ 7,498	$ -	$ -	$ 7,498
As of December 31, 2016(1)				
Assets:				
Derivative Contracts:				
Central Hudson - electric	$ 2,454	$ -	$ -	$ 2,454
Central Hudson - natural gas	857	857	-	-
Total CH Energy Group and Central Hudson Assets	$ 3,311	$ 857	$ -	$ 2,454
Liabilities:				
Derivative Contracts:				
Central Hudson - electric	$ 1,942	$ -	$ -	$ 1,942
Total CH Energy Group and Central Hudson Liabilities	$ 1,942	$ -	$ -	$ 1,942
As of March 31, 2016(1)				
Assets:				
Derivative Contracts:				
Central Hudson - electric	$ 528	$ -	$ -	$ 528
Central Hudson - natural gas	38	38	-	-
Total CH Energy Group and Central Hudson Assets	$ 566	$ 38	$ -	$ 528
Liabilities:				
Derivative Contracts:				
Central Hudson - electric	$ 18,012	$ -	$ -	$ 18,012
Central Hudson - natural gas	5	5	-	-
Total CH Energy Group and Central Hudson Liabilities	$ 18,017	$ 5	$ -	$ 18,012

(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. As of March 31, 2017, December 31, 2016 and March 31, 2016 the fair value was $0.

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

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

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Balance at Beginning of Period	$ 512	$ (8,410)
Unrealized gains/(losses)	(7,398)	(9,074)
Realized losses	(4,866)	(7,716)
Purchases	-	-
Issuances	-	-
Sales and settlements	4,866	7,716
Transfers in and/or out of Level 3	-	-
Balance at End of Period	$ (6,886)	$ (17,484)
The amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to derivatives still held at end of period	$ -	$ -

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

The Effect of Derivative Instruments on the Statements of Income

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

For the three months ended March 31, 2017 and 2016, 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 Statements of Income — Three Months Ended March 31, 2017	2016	Location of Gain (Loss)
Central Hudson:			
Electricity swap contracts	$ (4,866)	$ (7,716)	Regulatory (asset)/liability(1)
Natural gas futures contracts	353	(1,273)	Regulatory (asset)/liability(1)
Total CH Energy Group and Central Hudson	$ (4,513)	$ (8,989)	

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

Other Hedging Activities

Central Hudson – Electric

On September 23, 2016, Central Hudson entered into a weather option for the period December 1, 2016 through March 31, 2017, 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 $5 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 $0.6 million payout earned was recorded as a reduction to purchased electricity in the Statement of Income, with $0.4 million recognized in the first quarter of 2017.

In 2015, Central Hudson entered into a similar weather option for the period December 15, 2015 through March 15, 2016. The aggregate limit on the contract was $10 million. The premium paid was amortized to purchased electricity over the term of the contract and payouts of $0.5 million were recorded as a reduction to purchased electricity in the Statement of Income in the first quarter of 2016.

Central Hudson – Natural Gas

On September 7, 2016, Central Hudson entered into a weather option for the period December 1, 2016 through March 31, 2017, 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 $5 million. The terms of this contract included both a weather and natural gas price trigger. However, management believed weather was the predominant trigger for any payout that would have been 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 natural gas over the term of the contract. There were no payouts on the settlement of the contract.

In 2015, Central Hudson entered into a similar weather option for the period December 1, 2015 through March 31, 2016. The aggregate limit on the contract was $10 million. The premium paid was amortized to purchased gas over the term of the contract and there were no associated payouts on the contract.

NOTE 15 – Other Fair Value Measurements

Other Assets Recorded at Fair Value

In addition to the derivatives reported at fair value discussed in Note 14 – "Accounting for Derivative Instruments and Hedging Activities", CH Energy Group and Central Hudson report certain other assets at fair value in the Consolidated Balance Sheets. The following table summarizes the amount reported at fair value related to these assets as of March 31, 2017, December 31, 2016 and March 31, 2016 (In Thousands):

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of March 31, 2017:				
Other Investments	$ 9,759	$ 9,759	$ -	$ -
As of December 31, 2016:				
Other Investments	$ 8,602	$ 8,602	$ -	$ -
As of March 31, 2016:				
Other Investments	$ 8,849	$ 8,849	$ -	$ -

As of March 31, 2017, December 31, 2016 and March 31, 2016, a portion of the trust assets for the funding of SERP and as of December 31, 2016 for the funding of CH Energy Group Directors and the Executive Deferred Compensation Plan 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.

Other Fair Value Disclosure

Financial instruments are recorded at carrying value in the financial statements, however, the fair value of these instruments are 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.

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: 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.

The following table discloses the estimated fair value of both CH Energy Group and Central Hudson's long-term debt, including the current portion, as follows (Dollars In Thousands):

CH Energy Group

	March 31, 2017		December 31, 2016		March 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed rate debt	$ 525,031	$ 581,168	$ 525,031	$ 581,099	$ 480,345	$ 553,822
Variable rate debt	63,700	63,700	63,700	63,700	63,700	63,700
Total	$ 588,731	644,868	$ 588,731	$ 644,799	$ 544,045	$ 617,522
Estimated effective interest rate		4.37%		4.34%		4.40%

Central Hudson

	March 31, 2017		December 31, 2016		March 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed rate debt	$ 508,250	$ 562,351	$ 508,250	$ 561,998	$ 462,250	$ 532,968
Variable rate debt	63,700	63,700	63,700	63,700	63,700	63,700
Total	$ 571,950	$ 626,051	$ 571,950	$ 625,698	$ 525,950	$ 596,668
Estimated effective interest rate		4.29%		4.26%		4.31%

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. In addition, The Chazen Companies perform engineering services for Central Hudson. A partner in the firm serves as a director of Central Hudson.

The following are fees paid by CH Energy Group and Central Hudson to Thompson Hine LLP and The Chazen Group, respectively, for the three months ended March 31, 2017, and 2016 (In Thousands):

	Three Months Ended March 31, 2017	2016
CH Energy Group (Thompson Hines LLP)	$ 522	$ 387
Central Hudson (Thompson Hines LLP)	$ 506	$ 288
Central Hudson (The Chazen Companies)	$ 40	$ 24

CH Energy Group and Central Hudson may provide general and administrative services ("services") to and receive services from each other, 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 and Central Hudson may also incur charges from Fortis or each other for the recovery of general corporate expenses incurred by one another, Fortis or other affiliates. These transactions are in the normal course of business and are recorded at the United States exchange amounts.

Related party transactions included in accounts receivable and accounts payable for the periods ended March 31, 2017, December 31, 2016, and March 31, 2016 for CH Energy Group and Central Hudson are as follows (in Thousands):

	March 31, 2017	December 31, 2016	March 31, 2016
CH Energy Group[(1)]	Fortis	Fortis	Fortis
Accounts Receivable	$ 406	$ 501	$ 155
Accounts Payable	$ -	$ -	$ -

	March 31, 2017			December 31, 2016			March 31, 2016		
Central Hudson[(1)]	CHEG	Fortis	Other Affiliates	CHEG	Fortis	Other Affiliates	CHEG	Fortis	Other Affiliates
Accounts Receivable	$ 75	$ 4	$ -	$ -	$ 34	$ -	$ 58	$ 155	$ 5
Accounts Payable	$ 700	$ -	$ -	$ 625	$ -	$ -	$ 854	$ -	$ -

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

Related party transactions in operating expenses for the three months ended March 31, 2017 and 2016 for CH Energy Group and Central Hudson are as follows (in Thousands):

	Three Months Ended March 31, 2017		Three Months Ended March 31, 2016	
	CHEG	Fortis[(1)]	CHEG	Fortis[(1)]
CH Energy Group	$ -	$ 542	$ -	$ 708
Central Hudson	$ 666	$ -	$ 807	$ -

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

NOTE 17 – Future Accounting Pronouncements To Be Adopted

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

Revenue from Contract with Customers
ASUs No. 2014-09, 2015-14, 2016-08, 2016-10, 2016-11, 2016-12 and 2016-20 - *Revenue from Contracts with Customers* and related issuances and clarifications replaces all current guidance and provides a unified model to determine when and how revenue is recognized. This standard is effective for calendar years beginning January 2018; early adoption is permitted but for periods beginning after December 15, 2016. The Company has elected not to early adopt. The new guidance permits two methods of adoption: (i) the full retrospective method, under which comparative periods would be restated, and the cumulative impact of applying the standard would be recognized at January 1, 2017, the earliest period presented; or (ii) the modified retrospective method, under which comparative periods would not be

restated and the cumulative impact of applying the standard would be recognized at the date of initial adoption, January 1, 2018. CH Energy Group and its subsidiaries expects to use the modified retrospective approach, however, it continues to monitor industry developments. Any significant industry developments could change the expected method of adoption. The majority of the Central Hudson's revenue is generated from energy sales to retail customers based on published tariff rates approved by the PSC and is considered to be in the scope. Central Hudson does not expect that the adoption of this standard and all related ASUs will have a material impact on the recognition of revenue; however additional disclosures will be required.

Financial Instruments
ASU No. 2016-01- *Recognition & Measurement of Financial Assets and Liabilities* amends the guidance on the classification, measurement, presentation and disclosure of financial instruments. Although this standard retains many current requirements, it significantly revises an entity's accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. This standard also amends certain disclosure requirements associated with the fair value of financial instruments. This update is effective for calendar years beginning January 2018 and is to be applied by means of cumulative effects adjustment to the balance sheet as of the beginning of the fiscal year of adoption. CH Energy Group and its subsidiaries are currently evaluating the impact, if any, that the adoption of this standard will have on the financial condition, results of operations and cash flows.

Leases
ASU No. 2016-02- *Leases* introduces a new lessee model that includes the recognition of lease assets and liabilities on the balance sheet by lessees for those leases that were previously classified as operating leases. This standard also requires qualitative disclosures along with specific quantitative disclosures. This update is effective for calendar years beginning January 2019 and is to be applied using a modified retrospective approach with practical expedient options. Early adoption is permitted. CH Energy Group and its subsidiaries are currently evaluating the impact, if any, that the adoption of this standard will have on the financial statements and related disclosures.

Financial Instruments
ASU No. 2016-13 *Measurement of Credit Losses on Financial Instruments* requires entities to use an expected credit loss methodology ("CECL") model that is based on expected losses rather than incurred losses. Under the CECL model, an entity recognizes as an allowance its estimate of expected credit losses, which the FASB believes will result in more timely recognition of such losses. This standard also decreases the number of credit impairment models that entities use to account for debt instruments. This update is effective for calendar years beginning January 2020 and is to be applied using a modified retrospective approach. Prospective approach is required for certain financial instruments. Early adoption is permitted for period beginning January 2018. CH Energy Group and its subsidiaries are currently evaluating the impact, if any, that the adoption of this standard will have on the financial condition, results of operations and cash flows.

Statement of Cash Flows
ASU No. 2016-15 *Classification of Certain Cash Receipts and Payments* amends Topic 230 as it lacked consistent principles for evaluating the classification of cash payments and receipts in

the statement of cash flows, which led to diversity in practice and, in certain circumstances, financial statement restatements. The amendments in this standard address eight specific cashflow issues and apply to all entities that are required to present a statement of cash flows under Topic 230. This standard is effective for calendar years beginning January 2018 and is to be applied retrospectively. Early adoption is permitted, including adoption in an interim period. CH Energy Group and its subsidiaries do not expect that the amended guidance will have a material impact on its consolidated financials.

Statement of Cash Flows
ASU No. 2016-18 *Restricted Cash* amends Topic 230 and clarifies guidance on the classification and presentation of restricted cash in the statement of cash flows. The standard requires that an entity should include in its cash and cash-equivalent balances in the statement of cash flows those amounts that are deemed to be restricted cash and restricted cash equivalents. An entity should also continue to provide appropriate disclosures about its accounting policies pertaining to restricted cash. This update is effective for calendar years beginning January 2018 and is to be applied retrospectively. Early adoption is permitted. CH Energy Group and its subsidiaries do not expect that the amended guidance will have a material impact on its consolidated financials.

Presentation of Pension Costs
ASU No. 2017-07 *Improving the Presentation of Net Periodic Pension Cost and Net Post Retirement Benefit Cost,* amends Topic 715 and requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period and all other components of net benefit cost be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. The amendments also allow only the service cost component to be eligible for capitalization when applicable. The amendment is effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those annual period and is to be applied: (1) a retrospective transition method to adopt the requirement for separate presentation in the income statement of service costs and other components and (2) a prospective transition method to adopt the requirement to limit the capitalization (e.g., as part of inventory) of benefit costs to the service cost component and must disclose the nature of and reason for the change in accounting principle in both the first interim and annual reporting periods in which they adopt the amendments. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. CH Energy Group and its subsidiaries are currently evaluating the impact, if any, that the adoption of this standard will have on the financial condition, results of operations and cash flows.

NOTE 18 – Subsequent Events

CH Energy Group has performed an evaluation of events subsequent to March 31, 2017 through the date the financial statements were issued and noted the following additional items to disclose.

On April 18, 2017, CH Energy Group’s Board of Directors approved a $5.5 million dividend payment to parent FortisUS.

On April 18, 2017, Central Hudson’s Board of Directors approved a $5.262 million dividend payment to CH Energy Group.

On April 18, 2017, the Governance and Human Resources Committee of the Central Hudson Board of Directors approved a payout in the amount of $3.5 million related to the 2014 SUP. The payout was calculated at a blended payout percentage of 106.4% based in part on Central Hudson’s performance over the three-year period. The Company is expecting to make the payment during the second quarter of 2017.

On April 17, 2017, Central Hudson received a Request for Information from the United States Environmental Protection Agency pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act, regarding the Wappingers Creek Superfund Site in Wappinger Falls, NY. At this time, Central Hudson is currently evaluating the request and cannot predict the outcome of, or assess the extent of liability, if any, relating to this matter.

INTERIM MANAGEMENT'S DISCUSSION and ANALYSIS of FINANCIAL CONDITION and RESULTS of OPERATIONS
For the Three Months Ended March 31, 2017

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, 2016.

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 transmission and distribution utility. In 2014, CH Energy Group formed CHET to engage in electric transmission projects. CHET currently has a 6.1% ownership interest in New York Transco LLC ("Transco"), a partnership with affiliates of the other investor owned utilities in New York State which was 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 possible gas transmission pipeline opportunities in New York State. All of CH Energy Group's common stock is indirectly owned by Fortis Inc. ("Fortis"), which is a leader in the North American regulated electric and gas utility industry, with total assets of approximately CAD$48 billion at December 31, 2016. Fortis and its subsidiaries' 8,000 employees serve utility customers in five Canadian provinces, nine U.S. states and three Caribbean countries.

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 electric and 80,000 natural gas customers and is subject to regulation by the New York Public Service Commission ("PSC" or "Commission").

Mission and Strategy

Mission
CH Energy Group and Central Hudson'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 made an investment in Transco. In March 2016, FERC approved rates

for Transco and three projects were placed in service during the second quarter of 2016. To date, CHET has made capital contributions to Transco of $6.8 million to fund these projects. Additionally, Transco filed proposals related to the AC Transmission 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 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 March 31

	Year to Date		
	2017	**2016**	**Change**
Electricity Sales (GWh)	1,244	1,255	(11)
Natural Gas Sales (PJ)	8.9	9.0	(0.1)
(In millions)			
Revenues	$ 194.9	$ 181.4	$ 13.5
Energy Supply Costs - Matched to Revenues	64.3	58.9	5.4
Operating Expenses - Matched to Revenues	25.5	21.1	4.4
Operating Expenses - Other	57.3	54.7	2.6
Depreciation and Amortization	12.7	11.5	1.2
Other Income, net	1.0	0.9	0.1
Finance Charges	7.7	7.5	0.2
Income Taxes	11.1	11.1	-
Net income	$ 17.3	$ 17.4	$ (0.1)

Earnings: Earnings for first quarter of 2017 were relatively unchanged as compared to the same period in 2016. The rate increase effective July 1, 2016 provided for increased revenues to cover higher operating expenses and earnings on increased rate base. However, higher than normal storm restoration costs in the first quarter of 2017 reduced earnings, offsetting the increase.

Energy supply costs reflect higher natural gas commodity prices in 2017 as compared to 2016, which was partially offset by lower purchased volumes. This did not have a direct impact on earnings due to the full deferral of commodity costs and the revenue decoupling mechanism ("RDM"). However, higher revenues result in increased collections for bad debt and finance charge income.

Electricity Sales & Natural Gas Sales: Electricity and natural gas sales were essentially unchanged compared to the corresponding prior period. The slight decrease in sales was a result of warmer weather in the first half of the first quarter of 2017. Sales variations do not have a material impact on Central Hudson's revenue as a result of its RDM structure.

Depreciation and Amortization: Depreciation and amortization increased due to the increased investment in Central Hudson's electric and gas infrastructure in accordance with its capital expenditure program.

Other Income, net: Other income, net increased quarter over quarter due to higher carrying charges related to an overall increase in the underlying balances of overall regulatory asset balances.

Finance Charges: Finance charges (interest charges) increased in the first quarter of 2017 when compared to 2016 primarily as a result of the issuance of long-term debt in the second and fourth quarters of 2016.

Corporate Taxes: Corporate taxes remained relatively unchanged quarter over quarter.

Central Hudson Revenues - Electric
Period Ended March 31

(In millions)	Year to Date		
	2017	2016	Change
Revenues with Matching Expense Offsets:[1]			
Recovery of commodity purchases	$ 40.4	$ 40.4	$ -
Sales to others for resale	1.1	1.1	-
Other revenues with matching offsets	20.6	17.1	3.5
Subtotal	62.1	58.6	3.5
Revenues Impacting Earnings:			
Customer sales	71.3	67.0	4.3
RDM and other regulatory mechanisms	(0.2)	1.8	(2.0)
Revenue requirement of bonus depreciation	(0.4)	(0.1)	(0.3)
Other revenues	2.7	2.4	0.4
Subtotal	73.4	71.1	2.3
Total Electric Revenues	$ 135.5	$ 129.6	$ 5.9

(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 electricity costs. Other related costs include authorized business expenses recovered through rates and the cost of special programs authorized by the PSC and funded with certain available credits. Changes in revenues from electric sales to other entities for resale also do not affect earnings since any related profits or losses are returned or charged, respectively, to customers.

Central Hudson Revenues - Natural Gas
Period Ended March 31

(In millions)	Year to Date		
	2017	2016	Change
Revenues with Matching Expense Offsets:[1]			
Recovery of commodity purchases	$ 17.3	$ 11.3	$ 6.0
Sales to others for resale	5.5	6.1	(0.6)
Other revenues with matching offsets	5.0	3.8	1.2
Subtotal	27.8	21.2	6.6
Revenues Impacting Earnings:			
Customer sales	29.1	24.3	4.8
RDM and other regulatory mechanisms	1.9	5.0	(3.1)
Revenue requirement of bonus depreciation	(0.2)	(0.1)	(0.1)
Other revenues	0.8	1.3	(0.5)
Subtotal	31.6	30.6	1.0
Total Natural Gas Revenues	$ 59.4	$ 51.8	$ 7.6

(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 and NYS energy efficiency programs). Any difference between these revenues and the actual expenses incurred is deferred for future recovery from or refunded 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 quarter over quarter increase in electric revenue was primarily driven by an increase in customer delivery rates effective July 1, 2016, as approved in the 2015 Rate Order. Partially offsetting this increase is the deferral of the revenue requirement effect of the bonus depreciation legislation enacted at the end of 2015.

Gas Revenue:

The increase in natural gas revenue relative to the prior period was primarily a result of an increase in natural gas prices which was partially offset by a decrease in delivery volumes. Further impacting gas revenue was the increase in customer rates, effective July 1, 2016 in accordance with the 2015 Rate. The previously discussed requirement to defer the revenue requirement effect of the bonus depreciation legislation partially offset the increases in natural gas revenue.

Central Hudson Operating Expenses
Period Ended March 31

(In millions)	Year to Date		
	2017	**2016**	**Change**
Expenses Currently Matched to Revenues:[(1)]			
Purchased electricity	$ 41.5	$ 41.5	$ -
Purchased natural gas	22.8	17.4	5.4
Pension & OPEB	3.8	3.9	(0.1)
NYS energy programs	10.9	9.2	1.7
Major storm reserve	1.2	-	1.2
Other matched expenses	9.6	8.0	1.6
Subtotal	89.8	80.0	9.8
Other Operating Expense Variations:			
Tree trimming	4.2	4.4	(0.2)
Property and school taxes[(2)]	13.8	13.0	0.8
Weather related service restoration	2.4	1.0	1.4
Distribution maintenance	1.9	2.7	(0.8)
Uncollectible accounts and reserve	0.8	1.2	(0.4)
Depreciation and amortization	12.7	11.5	1.2
Other expenses	34.2	32.4	1.8
Subtotal	70.0	66.2	3.8
Total Operating Expenses	$ 159.9	$ 146.2	$ 13.6

(1) Includes expenses that, in accordance with 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 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 $0.5 million per Rate Year.

Operating Expenses:

Operating expenses increased primarily as a result of the higher natural gas prices, collections for energy efficiency programs as mandated in the Clean Energy Fund Order and weather events that resulted in higher service restoration costs in the first quarter of 2017 as compared to 2016. During the first quarter of 2017, there were two “major” storm events as defined by the 2015 Rate Order and as such incremental costs of $3.3 million associated with the restoration efforts for these events have been deferred. Expenses and matching revenues were recognized in the current period for the amount billed to customers for the major storm reserve allowance in delivery rates under the 2015 Rate Order, which had been previously deferred for future storm events. The incremental restoration costs of these two storms exceeded the major storm reserve allowance collected to date and therefore, additional expenses and matching revenues will be recognized each period for amounts billed until the full incremental costs are recovered. Further contributing to the increase in operating expenses were higher property and school taxes and an increase in depreciation and amortization as a result of increased capital investments. These increases were partially offset by decreases in distribution maintenance expense as a result of resource allocation to weather related storm restoration activities in the first quarter of 2017 as noted above and a decrease in the amount written off for uncollectible accounts.

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.

Financial Position

The following table outlines the significant changes in the Balance Sheet of Central Hudson as of March 31, 2017.

CH Energy Group – Regulated – Central Hudson
Significant Changes in the Balance Sheets
as of March 31, 2017

(Dollars In millions)

Balance Sheet Account	Increase (Decrease)	Explanation
Regulatory assets - related to pension plan costs	(5.3)	Decrease is primarily due to the amortization of net periodic pension costs and actuarial losses.
Short-term borrowings	20.0	Proceeds from short-term borrowings were used to fund increased working capital needs in the quarter.
Accounts payable	(12.2)	Decrease is primarily a result of the timing of purchases related to the capital program, including items related to informational and operational technology, as well as timing of remediation work associated with manufactured gas plant (" MGP") sites.
Customer advances	(5.6)	Account includes the credit balances for budget program customers. The decrease in the quarter is primarily due to the seasonality of the business.
Regulatory liabilities - current	(11.2)	Decrease is primarily due to decreases in the rate moderator for bill credits provided to customers, the current period settlement of electric and gas derivative contracts and the refund of previously overcollected revenues to customers through RDMs.
Regulatory liabilities other-long term	15.6	Increase is primarily due to continued collections for energy efficiency programs with delayed remittance to New York State Energy Research Development Authority ("NYSERDA") in accordance with the Clean Energy Fund Order and income taxes refundable through future rates.
Accrued environmental remediation costs	(20.0)	Decrease is primarily due to lowered estimated remediation costs related to the North Water Street MGP site and payments related to remediation work performed at the Kingston MGP site.
Accrued pension costs	(12.1)	Decrease is primarily due to a $13.0 million pension contribution made to the retirement plan.
Accumulated deferred income tax	5.1	Increase is primarily due to the accounting requirement to recognize deferred taxes for the difference between tax basis of assets and liabilities and the book basis.

Liquidity And Capital Resources

The following table outlines the summary of cash flow:

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

	Year to Date			
		2017		**2016**
Cash, beginning of period	$	19.3	$	13.6
Operating Activities		20.3		61.4
Investing Activities		(38.4)		(41.2)
Financing Activities		14.5		(18.5)
Cash, end of period	$	15.7	$	15.2
Dividends paid on Common Stock - CH Energy Group	$	(5.5)	$	(5.5)
Dividends paid to parent - Central Hudson	$	(4.0)	$	-

Operating Activities: Net cash flows from operating activities for the three months ended March 31, 2017 were $41 million lower than the corresponding period in 2016. The decrease in net operating cash flows was primarily a result of pension plan contributions and bonus depreciation. There was a pension contribution made in January 2017, whereas in 2016, the planned annual contribution was made in calendar year 2015. Bonus depreciation tax provisions enacted in December 2015 resulted in a tax refund in the first quarter of 2016. The bonus depreciation remains in effect for 2017.

Investing Activities: Net cash used in investing activities decreased $2.8 million from the same period in the prior year primarily as a result of the acceleration of the 2016 capital plan based on favorable weather in the first quarter of 2016 as compared to the winter storms experienced during the first quarter of 2017. Central Hudson is still on target to meet its 2017 capital plan.

Financing Activities: Net cash flows from financing activities were $33 million higher in the first quarter of 2017 in comparison to prior period as a result of excess cash from operating activities utilized for the repayment of short term debt in 2016. The payment of dividends remained consistent in both periods.

Committed Credit Facilities

By Order issued and effective September 18, 2015, the PSC authorized an increase in Central Hudson's committed available credit to $200 million. On October 15, 2015, Central Hudson entered into a credit agreement with six commercial banks.

On July 10, 2015, CH Energy Group entered into a Third Amended and Restated Credit Agreement with four commercial banks. The credit commitment of the banks under the facility is $50 million. Consolidated CH Energy Group committed credit as of March 31, 2017 is $250 million.

Committed credit facilities for CH Energy Group and Central Hudson at March 31, 2017 and December 31, 2016 is as follows: *(In millions)*

	Credit Limit	March 31, 2017 Outstanding	March 31, 2017 Available	December 31, 2016 Outstanding	December 31, 2016 Available	Maturity
CH Energy Group	$ 250	$ 10	$ 240	$ -	$ 250	July 10, 2020/ October 15, 2020
Central Hudson (regulated)	$ 200	$ 10	$ 190	$ -	$ 200	October 15, 2020

Uncommitted Credit

Central Hudson has uncommitted short-term credit arrangements with two commercial banks totaling $25 million of which there was $10 million outstanding at March 31, 2017. At December 31, 2016, there was no outstanding balance.

Central Hudson's Bond Ratings

	March 31, 2017		December 31, 2016	
	Rating[1]	Outlook	Rating[1]	Outlook
S&P	A-	Stable	A-	Stable
Moody's	A2	Stable	A2	Stable
Fitch	A-	Stable	A-	Stable

(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.

Central Hudson's strong investment-grade credit ratings help facilitate access to long-term debt, however, management can make no assurance that future financing will be available or economically viable.

CH Energy Group and Central Hudson's capital structure is as follows: *(Dollars in millions)*

CH Energy Group

	March 31, 2017		December 31, 2016	
		%		%
Long-term Debt[1]	$ 588.7	48.9	$ 588.7	50.2
Short-term Debt	20.0	1.6	-	-
Common Equity	596.2	49.5	584.4	49.8
Total	$ 1,204.9	100.0	$ 1,173.1	100.0

(1) Includes current maturities of long term debt.

Central Hudson

	March 31, 2017		December 31, 2016	
		%		%
Long-term Debt[1]	$ 571.9	48.0	$ 571.9	49.4
Short-term Debt	20.0	1.7	-	-
Common Equity	598.6	50.3	585.3	50.6
Total	$ 1,190.5	100.0	$ 1,157.2	100.0

(1) Includes current maturities of long term debt.

Per the 2015 Rate Order, 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.

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, 2016

Regulation: There were no material changes to Central Hudson’s regulatory accounting policies in the three months ended March 31, 2017.

Critical Accounting Estimates: There were no material changes to CH Energy Group’s or Central Hudson’s critical accounting estimates in the three months ended March 31, 2017.

GAAP: There were no material changes to CH Energy Group’s or Central Hudson’s accounting policies in the three months ended March 31, 2017.

Business Outlook and Summary of Significant Business Risks

Outlook

There were no material changes to the Company’s mission and strategy since its 2016 Annual Financial Report.

Risk Factors

The were no material changes to the Company’s risk factors, as set forth in its 2016 Annual Financial Report, during the first three months of 2017.

Regulatory Proceedings

There were no material changes in Central Hudson’s regulatory proceedings from those disclosed in the 2016 Annual Financial Report, except as noted below.

<u>Reforming the Energy Vision Proceeding</u>

In 2014, Governor Cuomo and the PSC announced the commencement of its Reforming the Energy Vision (“REV”) proceeding 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”. In

2015 Central Hudson formed the Energy Transformation & Solutions Division to lead the Company's efforts associated with REV. On May 19, 2016, the PSC issued the REV Track 2 "Order Adopting a Ratemaking and Utility Revenue Model Policy Framework". On June 30, 2016, Central Hudson filed its Distributed System Implementation Plan ("DSIP") and Benefit Cost Analysis Handbook pursuant to the Order Adopting Distributed System Implementation Plan Guidance issued 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.

On March 9, 2017, the Commission adopted an Order addressing a subset of matters regarding the Initial and Supplemental DSIP filed by utilities. In the Order, the Commission provided guidance with respect to 1) hosting capacity, 2) interconnection portals, 3) non-wire alternatives, 4) aggregated customer data privacy and, 5) energy storage. The Commission also directed the utilities to complete the hosting capacity analysis for all circuits at and above 12kV by October 1, 2017; to dedicate adequate resources to this effort to ensure that Phase 1 is fully implemented no later than October 1, 2017 and to file within 60 days of the issuance of the Order additional information and revised matrices clearly describing how the Non-Wires-Alterative ("NWA") Suitability Criteria will be applied as a standard procedure in the development of transmission and distribution project justification; identifying all projects in their five year capital plans that meet the criteria and when a NWA solicitation will likely be issued for those projects. On March 9, 2017, the Commission also adopted an Order directing the Joint Utilities to make modifications to their interconnection Survey Process and proposed Earnings Adjustment Mechanism that was filed on September 16, 2016. The revised filing should include more information on weighting for both survey types and questions in each survey; information describing when certain survey types are administered and more information on data collection and close-out surveys on failed applications.

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

<u>Clean Energy Standard ("CES") Proceedings</u>

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 State ("NYS"). On January 21, 2016, the PSC issued an Order expanding the scope of the Large Scale Renewable ("LSR") proceeding to incorporate consideration and implementation of a CES that is designed to meet the Governor's SEP 50 by 30 renewable mandates. On January 25, 2016, Staff issued its Clean Energy Standard Whitepaper, which outlines the policy objectives of a CES mandate. On August 1, 2016, the Commission issued an Order Adopting a Clean Energy Standard and on September 1, 2016, a Clean Energy Standard Implementation Proposal was issued in which Staff proposes that the Commission direct utilities to amend certain tariffs to allow for the recovery of the costs. Tier 1 compliant Renewable Energy Credit ("RECs"), Zero Emission Credits ("ZECs") and Alternative Compliance Payments ("ACPs") costs incurred in compliance with the CES Order will be recovered through volumetric supply charges collected from their retail commodity customers and Tier 2 maintenance resources costs will be recovered from all delivery customers on a volumetric basis. The proposal also addressed cost recovery that may be incurred by the utilities in their role as the financial backstop, as delineated in the August 1, 2016 CES Order.

On February 22, 2017 the Commission issued an Order Adopting Tariff Amendments for the recovery of costs associated with RECs, ZECs, and any ACPs and costs associated with Tier 2 Maintenance Contracts and Backstop Charges. Compliance tariffs were filed to become effective April 1, 2017 providing for the collections of RECs, ZECs and ACPs costs through existing supply mechanisms and recovery of any Tier 2 maintenance contact and backstop costs through the System Benefit Charge rate bill line items.

A number of parties have filed lawsuits against the PSC's clean energy plan for infringement on FERC jurisdiction over wholesale electricity markets. NYS's CES plan for supporting nuclear generation through ZECs has also drawn criticism for discriminating against other carbon-free technologies, unfairly increasing the rate burden on down-state consumers and hurting non-subsidized generators.

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("DER") – 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 DER. These compensation reforms are being considered as a reform to net metering. A series of technical conferences and collaborative meetings were held and a Staff Straw Proposal was issued on October 27, 2016 for positions taken and the reasons therefore for the proposed interim methodology.

On March 9, 2017 the Commission adopted an Order directing utilities to file tariff leaves implementing the transition from Net Energy Metering ("NEM") to a Value of Distributed Energy Resources Phase One tariff. Central Hudson has completed several compliance filings related to the Order. On March 31, 2017, Central Hudson requested and was granted an extension until April 27, 2017 for filing new tariffs implementing the transition from NEM to a Value of Distributed Energy Resources Phase One Tariff. In addition, Central Hudson and the other investor owned electric utilities are required to make the following filings: on or before April 24, 2017 file a work plan and timeline for developing locationally granular prices to reflect the full value to their distribution systems from DER additions; and on or before May 1, 2017, file an Implementation Proposal for public review and comment. The Implementation Proposal will provide the framework for transitioning the compensation mechanism away from net metering to a new compensation mechanism based on a defined value stack.

Various stakeholders and Staff are expected to provide comments and participate in collaborative discussions regarding the utility work plans and implementation proposals prior to a Commission Order on these matters.

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

Accuracy and Effectiveness of Certain Utility Reliability and Customer Service Reported Data Operations Audit

On March 10, 2017, the PSC approved Central Hudson's Audit Implementation Plan filed on May 20, 2016. The Company is required to file status reports with the Commission on recommendation implementation progress every four months until all recommendations are fully implemented.

Operations Audit of Internal Staffing Levels and Use of Contractors for Selected Core Utility Functions

Following the February 16, 2017 release of Liberty Consulting Group's Final Report of the Operations Audit of Staffing Levels at Major New York State Energy Utilities by the Commission and in compliance with PSL 66(19)b, the Commission directed utilities to file their implementation plans within 30 days. Central Hudson submitted its implementation plan addressing Liberty's fourteen audit recommendations for the Company on March 23, 2017.

Low Income Proceeding

On May 20, 2016, the PSC issued its Order Adopting Low Income Program Modifications and Directing Utility Filings. 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. For Central Hudson, the low income budget program costs increased from $4.2 million to $12.1 million, an increase of nearly $8.0 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. Central Hudson filed its Low Income Implementation Plan with the Commission on September 16, 2016.

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. On February 17, 2017 the Commission issued the Order "Implementation Plans with Modifications" which directed utilities to file compliance tariffs to become effective April 1, 2017. The Order approved the Company's proposal to phase out its existing Low Income Enhanced Powerful Opportunities Program ("EPOP") but required elimination of the discounted bill and incentive award payment components of the EPOP program for customers at the end of the 2016/2017 HEAP season, on or about April 15, 2017. Central Hudson was permitted to continue to use existing low income program cost allocation and cost recovery methods and was directed to modify its cost recovery method in the next rate filing so that program costs are allocated to service classes in proportion to class contribution to embedded cost of service transmission and distribution delivery revenue requirement.

Central Hudson will address modifications to the Low Income Program in its next rate filing.

Retail Access

On December 16, 2016 the PSC reaffirmed its July 15, 2016 moratorium on Energy Service Company ("ESCO") enrollment of customers who are participants in utility low-income programs by issuing an Order adopting a permanent prohibition on service to low-income customers by ESCOs. The Order, directs utilities to develop a number of communications for both ESCOs and their low-income customers informing them of the prohibition imposed by the PSC order. In addition, within 60 days of the order utilities were required to place a block on all low-income accounts preventing them from being enrolled with an ESCO. The PSC has also established evidentiary and collaborative tracks for consideration of whether ESCOs should be completely prohibited from serving their current products to mass-market customers and whether the regulatory regime, rules and Uniform Business Practices applicable to ESCOs need to be modified to implement such a prohibition, to provide additional guidance on acceptable rates and practices by ESCOs or to create enforcement mechanism to deter customer abuses and overcharging. The PSC is also interested in whether new ESCO rules and products can be developed that would provide sufficient value to mass-market customers such that new products could be provided to them by ESCOs in the future in a manner that could ensure just and reasonable rates. On January 26, 2017 a Procedural Conference to provide further guidance was held. Following the conference, the Administrative Law Judge issued a Ruling on Schedule and Procedure dated February 8, 2017 adopting the following schedule: pre-filed Direct Testimony and Exhibits due May 8, 2017; Rebuttal Testimony and Exhibits due June 5, 2017 and Evidentiary Hearings beginning June 26, 2017.

FORWARD-LOOKING STATEMENTS

Statements included in this Annual Financial 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 is 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’s Discussion and Analysis of Financial Condition and Results of Operations” section of CH Energy Group’s Quarterly and Annual Financial Reports. These reports are available in the Financial Information section of the 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.