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

QUARTERLY FINANCIAL REPORT

for the period ended

MARCH 31, 2018

QUARTER ENDED MARCH 31, 2018

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FINANCIAL STATEMENTS (Unaudited)

CH ENERGY GROUP CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

(In Thousands)

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Operating Revenues		
Electric	$ 147,167	$ 135,546
Natural gas	70,568	59,433
Total Operating Revenues	217,735	194,979
Operating Expenses		
Operation:		
Purchased electricity and fuel used in electric generation	58,553	41,474
Purchased natural gas	35,100	22,715
Other expenses of operation - regulated activities	65,662	63,711
Other expenses of operation - non-regulated	50	67
Depreciation and amortization	13,733	12,691
Taxes, other than income tax	17,207	18,480
Total Operating Expenses	190,305	159,138
Operating Income	27,430	35,841
Other Income and Deductions		
Income from unconsolidated affiliates	291	351
Interest on regulatory assets and other interest income	1,059	838
Regulatory adjustments for interest costs	266	137
Other - net	(138)	(745)
Total Other Income	1,478	581
Interest Charges		
Interest on long-term debt	6,585	6,333
Interest on regulatory liabilities and other interest	1,610	1,618
Total Interest Charges	8,195	7,951
Income before income taxes	20,713	28,471
Income Tax Expense	3,890	11,156
Net Income	16,823	17,315
Dividends declared on Common Stock	5,500	5,500
Change in Retained Earnings	$ 11,323	$ 11,815

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

(In Thousands)

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Net Income	$ 16,823	$ 17,315
Other comprehensive income	-	-
Comprehensive Income	$ 16,823	$ 17,315

The accompanying notes are an integral part of these condensed financial statements.

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

(In Thousands)

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Operating Activities:		
Net income	$ 16,823	$ 17,315
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	12,056	11,268
Amortization	1,677	1,423
Deferred income taxes - net	1,891	9,802
Bad debt expense	923	840
Undistributed equity in earnings of unconsolidated affiliates	21	(351)
Pension expense	4,761	4,670
Other post-employment benefits ("OPEB") expense	(772)	(774)
Regulatory liability - rate moderation	(1,135)	(5,092)
Revenue decoupling mechanism recorded	4,834	968
Changes in operating assets and liabilities - net:		
Accounts receivable, unbilled revenues and other receivables	(27,406)	38
Fuel, materials and supplies	2,333	1,200
Special deposits and prepayments	36	(24)
Income and other taxes	2,282	1,530
Accounts payable	9,238	(3,485)
Accrued interest	1,122	2,368
Customer advances	(6,849)	(5,622)
Pension plan contribution	(11,406)	(13,261)
OPEB contribution	(1,302)	(1,533)
Revenue decoupling mechanism collected/(refunded) - net	585	(5,884)
Regulatory asset - site investigation and remediation ("SIR")	1,306	(796)
Regulatory asset - temporary state assessment	(532)	(843)
Regulatory liability - energy efficiency programs	5,998	8,096
Deferred natural gas and electric costs	8,252	678
Other - net	(7,183)	(2,254)
Net cash provided by operating activities	17,553	20,277
Investing Activities:		
Additions to utility and other property and plant	(37,925)	(38,142)
Other - net	(2,195)	(237)
Net cash used in investing activities	(40,120)	(38,379)
Financing Activities:		
Net change in short-term borrowings	10,000	20,000
Capital contributions	8,000	-
Dividends paid on Common Stock	(5,500)	(5,500)
Net cash provided by financing activities	12,500	14,500
Net Change in Cash, Cash Equivalents and Restricted Cash	(10,067)	(3,602)
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	17,140	20,374
Cash, Cash Equivalents and Restricted Cash at End of Period	$ 7,073	$ 16,772
Supplemental Disclosure of Cash Flow Information:		
Interest paid	$ 5,627	$ 4,134
Non-Cash Investing Activities:		
Accrued capital expenditures	$ 7,288	$ 3,761

The accompanying notes are an integral part of these condensed financial statements.

CH ENERGY GROUP CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

(In Thousands)

	March 31, 2018	December 31, 2017	March 31, 2017
ASSETS			
Utility Plant (Note 3)			
Electric	$ 1,372,473	$ 1,359,187	$ 1,316,085
Natural gas	508,046	502,226	461,303
Common	247,557	245,762	230,940
Gross Utility Plant	2,128,076	2,107,175	2,008,328
Less: Accumulated depreciation	532,536	523,450	508,927
Net	1,595,540	1,583,725	1,499,401
Construction work in progress	86,072	81,968	64,971
Net Utility Plant	1,681,612	1,665,693	1,564,372
Non-utility property & plant	524	524	524
Net Non-Utility Property & Plant	524	524	524
Current Assets			
Cash and cash equivalents	6,005	16,073	15,705
Accounts receivable from customers - net of allowance for doubtful accounts of $2.8 million, $3.0 million and $3.8 million, respectively.	86,313	63,949	61,203
Accounts receivable - affiliates (Note 17)	-	2,879	406
Accrued unbilled utility revenues	18,950	22,515	16,911
Other receivables	22,587	12,027	6,196
Fuel, materials and supplies (Note 1)	21,409	23,742	22,809
Regulatory assets (Note 4)	29,700	36,161	36,038
Income tax receivable	-	1,904	4,106
Fair value of derivative instruments (Note 15)	8	1,540	668
Special deposits and prepayments	23,550	23,468	22,368
Total Current Assets	208,522	204,258	186,410
Deferred Charges and Other Assets			
Regulatory assets - pension plan (Note 4)	20,032	24,862	46,968
Regulatory assets - other (Note 4)	149,609	143,105	124,830
Prefunded OPEB costs (Note 11)	4,188	2,784	-
Investments in unconsolidated affiliates (Note 6)	8,013	8,163	8,059
Other investments (Note 16)	39,496	36,077	35,985
Other	5,632	4,421	8,386
Total Deferred Charges and Other Assets	226,970	219,412	224,228
Total Assets	$ 2,117,628	$ 2,089,887	$ 1,975,534

The accompanying notes are an integral part of these condensed financial statements.

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

(In Thousands, except share amounts)

	March 31, 2018	December 31, 2017	March 31, 2017
CAPITALIZATION AND LIABILITIES			
Capitalization (Note 9)			
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	351,036	343,036	336,036
Retained earnings	291,159	279,836	259,899
Accumulated other comprehensive income	-	-	144
Total Equity	642,355	623,032	596,239
Long-term debt (Note 10)			
Principal amount	582,822	582,822	554,325
Unamortized debt issuance costs	(3,904)	(4,000)	(3,918)
Long-term debt less unamortized debt issuance costs	578,918	578,822	550,407
Total Capitalization	1,221,273	1,201,854	1,146,646
Current Liabilities			
Current maturities of long-term debt (Note 10)	31,503	31,503	34,406
Short-term borrowings (Note 8)	10,000	-	20,000
Accounts payable	49,552	48,620	29,680
Accounts payable - affiliates	105	-	-
Accrued interest	7,576	6,454	8,177
Accrued vacation and payroll	10,309	9,008	9,922
Customer advances	7,073	13,922	10,891
Customer deposits	7,449	8,414	7,618
Regulatory liabilities (Note 4)	6,116	5,489	20,384
Fair value of derivative instruments (Note 15)	4,267	1,764	1,983
Accrued environmental remediation costs (Note 13)	16,261	27,592	18,203
Accrued income and other taxes	368	-	-
Other current liabilities	25,575	24,078	12,375
Total Current Liabilities	176,154	176,844	173,639
Deferred Credits and Other Liabilities			
Regulatory liabilities - OPEB (Note 4)	35,579	35,945	25,709
Regulatory liabilities - other (Note 4)	408,907	402,948	178,092
Operating reserves	4,858	4,697	3,974
Fair value of derivative instruments (Note 15)	3,735	2,011	5,515
Accrued environmental remediation costs (Note 13)	39,006	26,920	37,405
Accrued OPEB costs (Note 11)	-	-	10,518
Accrued pension costs (Note 11)	9,782	20,172	27,147
Tax reserve (Note 5)	7,186	4,301	3,081
Other liabilities	24,117	24,250	21,717
Total Deferred Credits and Other Liabilities	533,170	521,244	313,158
Accumulated Deferred Income Tax (Note 5)	187,031	189,945	342,091
Commitments and Contingencies			
Total Capitalization and Liabilities	$ 2,117,628	$ 2,089,887	$ 1,975,534

The accompanying notes are an integral part of these condensed financial statements.

CH ENERGY GROUP CONDENSED 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, 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
Balance at December 31, 2017	15,961,400	$ 160	$ 343,036	$ 279,836	$ -	$ 623,032
Net income				16,823		16,823
Capital Contributions			8,000			8,000
Dividends declared on Common Stock				(5,500)		(5,500)
Balance at March 31, 2018	15,961,400	$ 160	$ 351,036	$ 291,159	$ -	$ 642,355

The accompanying notes are an integral part of these condensed financial statements.

CENTRAL HUDSON CONDENSED STATEMENT OF INCOME (UNAUDITED)

(In Thousands)

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Operating Revenues		
Electric	$ 147,167	$ 135,546
Natural gas	70,568	59,433
Total Operating Revenues	217,735	194,979
Operating Expenses		
Operation:		
Purchased electricity and fuel used in electric generation	58,553	41,474
Purchased natural gas	35,100	22,715
Other expenses of operation	65,662	63,716
Depreciation and amortization	13,733	12,691
Taxes, other than income tax	17,199	18,476
Total Operating Expenses	190,247	159,072
Operating Income	27,488	35,907
Other Income and Deductions		
Interest on regulatory assets and other interest income	1,054	832
Regulatory adjustments for interest costs	266	137
Other - net	(142)	(756)
Total Other Income	1,178	213
Interest Charges		
Interest on long-term debt	6,324	6,048
Interest on regulatory liabilities and other interest	1,610	1,618
Total Interest Charges	7,934	7,666
Income Before Income Taxes	20,732	28,454
Income Tax Expense	3,896	11,139
Net Income	$ 16,836	$ 17,315

CENTRAL HUDSON CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

(In Thousands)

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Net Income	$ 16,836	$ 17,315
Other comprehensive income	-	-
Comprehensive Income	$ 16,836	$ 17,315

The accompanying notes are an integral part of these condensed financial statements.

CENTRAL HUDSON CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)

(In Thousands)

	Three Months Ended March 31, 2018	2017
Operating Activities:		
Net income	$ 16,836	$ 17,315
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	12,056	11,268
Amortization	1,677	1,423
Deferred income taxes - net	13	9,832
Bad debt expense	923	840
Pension expense	4,761	4,670
OPEB expense	(772)	(774)
Regulatory liability - rate moderation	(1,135)	(5,092)
Revenue decoupling mechanism recorded	4,834	968
Changes in operating assets and liabilities - net:		
Accounts receivable, unbilled revenues and other receivables	(28,752)	(161)
Fuel, materials and supplies	2,333	1,200
Special deposits and prepayments	36	(26)
Income and other taxes	5,278	1,485
Accounts payable	9,771	(3,460)
Accrued interest	860	2,082
Customer advances	(6,849)	(5,622)
Pension plan contribution	(11,406)	(13,261)
OPEB contribution	(1,302)	(1,533)
Revenue decoupling mechanism collected/(refunded) - net	585	(5,884)
Regulatory asset - SIR	1,306	(796)
Regulatory asset - temporary state assessment	(532)	(843)
Regulatory liability - energy efficiency programs	5,998	8,096
Deferred natural gas and electric costs	8,252	678
Other - net	(6,237)	(2,345)
Net cash provided by operating activities	18,534	20,060
Investing Activities:		
Additions to utility plant	(37,925)	(38,142)
Other - net	(2,321)	(231)
Net cash used in investing activities	(40,246)	(38,373)
Financing Activities:		
Net change in short-term borrowings	10,000	20,000
Dividends paid to parent - CH Energy Group	-	(4,000)
Net cash provided by financing activities	10,000	16,000
Net Change in Cash, Cash Equivalents and Restricted Cash	(11,712)	(2,313)
Cash, Cash Equivalents and Restricted Cash - Beginning of Period	14,607	13,889
Cash, Cash Equivalents and Restricted Cash - End of Period	$ 2,895	$ 11,576
Supplemental Disclosure of Cash Flow Information:		
Interest paid	$ 5,627	$ 4,134
Non-Cash Investing Activities:		
Accrued capital expenditures	$ 7,288	$ 3,761

The accompanying notes are an integral part of these condensed financial statements.

CENTRAL HUDSON CONDENSED BALANCE SHEET (UNAUDITED)

(In Thousands)

	March 31, 2018	December 31, 2017	March 31, 2017
ASSETS			
Utility Plant (Note 3)			
Electric	$ 1,372,473	$ 1,359,187	$ 1,316,085
Natural gas	508,046	502,226	461,303
Common	247,557	245,762	230,940
Gross Utility Plant	2,128,076	2,107,175	2,008,328
Less: Accumulated depreciation	532,536	523,450	508,927
Net	1,595,540	1,583,725	1,499,401
Construction work in progress	86,072	81,968	64,971
Net Utility Plant	1,681,612	1,665,693	1,564,372
Non-Utility Property and Plant	524	524	524
Net Non-Utility Property and Plant	524	524	524
Current Assets			
Cash and cash equivalents	1,827	13,540	10,509
Accounts receivable from customers - net of allowance for doubtful accounts of $2.8 million, $3.0 million and $3.8 million, respectively.	86,313	63,949	61,203
Accrued unbilled utility revenues	18,950	22,515	16,911
Other receivables	23,177	14,148	6,179
Fuel, materials and supplies (Note 1)	21,409	23,742	22,809
Regulatory assets (Note 4)	29,700	36,161	36,038
Income tax receivable	-	2,229	4,135
Fair value of derivative instruments (Note 15)	8	1,540	668
Special deposits and prepayments	23,512	23,430	22,327
Total Current Assets	204,896	201,254	180,779
Deferred Charges and Other Assets			
Regulatory assets - pension plan (Note 4)	20,032	24,862	46,968
Regulatory assets - other (Note 4)	149,609	143,105	124,830
Prefunded OPEB costs (Note 11)	4,188	2,784	-
Other investments (Note 16)	38,721	35,305	35,222
Other	5,582	4,455	7,989
Total Deferred Charges and Other Assets	218,132	210,511	215,009
Total Assets	$ 2,105,164	$ 2,077,982	$ 1,960,684

The accompanying notes are an integral part of these condensed financial statements.

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

(In Thousands, except share amounts)

	March 31, 2018	December 31, 2017	March 31, 2017
CAPITALIZATION AND LIABILITIES			
Capitalization (Note 9)			
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	324,250	307,414	278,955
Capital stock expense	(4,633)	(4,633)	(4,633)
Total Equity	643,880	627,044	598,585
Long-term debt (Note 10)			
Principal amount	568,950	568,950	538,950
Unamortized debt issuance costs	(3,831)	(3,926)	(3,837)
Long-term debt less unamortized debt issuance costs	565,119	565,024	535,113
Total Capitalization	1,208,999	1,192,068	1,133,698
Current Liabilities			
Current maturities of long-term debt (Note 10)	30,000	30,000	33,000
Short-term borrowings (Note 8)	10,000	-	20,000
Accounts payable	50,687	49,117	30,183
Accrued interest	7,271	6,411	7,844
Accrued vacation and payroll	10,309	9,008	9,922
Customer advances	7,073	13,922	10,891
Customer deposits	7,449	8,414	7,618
Regulatory liabilities (Note 4)	6,116	5,489	20,384
Fair value of derivative instruments (Note 15)	4,267	1,764	1,983
Accrued environmental remediation costs (Note 13)	16,261	27,592	18,203
Accrued income and other taxes	3,049	-	-
Other current liabilities	24,631	22,888	10,775
Total Current Liabilities	177,113	174,605	170,803
Deferred Credits and Other Liabilities			
Regulatory liabilities - OPEB (Note 4)	35,579	35,945	25,709
Regulatory liabilities - other (Note 4)	408,907	402,948	178,092
Operating reserves	4,858	4,697	3,974
Fair value of derivative instruments (Note 15)	3,735	2,011	5,515
Accrued environmental remediation costs (Note 13)	39,006	26,920	37,405
Accrued OPEB costs (Note 11)	-	-	10,518
Accrued pension costs (Note 11)	9,550	19,940	26,915
Tax reserve (Note 5)	7,186	4,301	3,081
Other liabilities	22,683	22,198	20,152
Total Deferred Credits and Other Liabilities	531,504	518,960	311,361
Accumulated Deferred Income Tax (Note 5)	187,548	192,349	344,822
Commitments and Contingencies			
Total Capitalization and Liabilities	$ 2,105,164	$ 2,077,982	$ 1,960,684

The accompanying notes are an integral part of these condensed financial statements.

CENTRAL HUDSON CONDENSED 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, 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
Balance at December 31, 2017	16,862,087	$ 84,311	$ 239,952	$ (4,633)	$ 307,414	$ -	$ 627,044
Net income					16,836		16,836
Balance at March 31, 2018	16,862,087	$ 84,311	$ 239,952	$ (4,633)	$ 324,250	$ -	$ 643,880

The accompanying notes are an integral part of these condensed financial statements.

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” or the “Company”), 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”) electric 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, 2018 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 Condensed 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 Condensed Consolidated Statement of Comprehensive Income.

The Quarterly Condensed Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”), which for regulated 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 Condensed 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 4 – "Regulatory Matters" for additional information regarding regulatory accounting.

Unaudited Quarterly Condensed Financial Statements

The accompanying Condensed Consolidated Financial Statements of CH Energy Group and Condensed 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 Condensed Financial Statements do not contain all footnote disclosures concerning accounting policies and other matters, which are included in the December 31, 2017 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, 2017 are included for supplemental information.

Rates, Revenues, and Cost Adjustment Mechanisms

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 mechanisms by which electric and natural gas rates are adjusted to recover the actual purchased electricity and purchased natural gas costs including hedging 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 authorized by the PSC and used for the development of 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 or Central Hudson'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 13 - "Commitments and Contingencies".

Revenue Recognition

Revenue from Contracts with Customers

Central Hudson delivers electric and gas energy services to residential and non-residential customers based on approved tariff rates. Central Hudson records revenue as electric and natural gas is delivered based on either the customers' meter read or estimated usage for the month, an output measure of progress based on kWh or Ccf delivered. Customers simultaneously receive and consume the benefits provided by Central Hudson. Revenue consists of a fixed customer charge and a charge per kWh or Ccf, which is fixed at the time of delivery. Additionally, non-residential electric service customers pay a per kW demand charge which is also fixed at the time of delivery. Customers within the Company's service territory can elect to purchase the commodity from Central Hudson or a retail marketer. Amounts billed to customers are due within 20 days from the date the bill was rendered, and any payment not received by the due date is considered delinquent and incurs a late payment fee. All performance obligations are satisfied for tariff sales.

Central Hudson records an estimate of unbilled revenue for service rendered to customers subsequent to their billing date and through the end of the month. Unbilled revenues are dependent upon a number of factors that require management's judgment including estimates of retail sales and customer usage patterns.

Central Hudson receives payments from certain customers based on a predetermined budget billing schedule. Budget billing does not represent a contract asset or liability but rather just a receivable/liability because there are no further performance obligations required to be satisfied before the Company has the right to collect/refund the customer's consideration. Consideration is due when control of the energy is transferred to the customer and is satisfied with the passage of time. Budget billing liability balances are recorded within the customer advances line item in the balance sheet.

Alternative Revenues

In accordance with Accounting Standard Codification ("ASC") 980, and as authorized by the PSC, Central Hudson records alternative revenues in response to past activities or completed events, if certain criteria are met. Central Hudson has identified in both, its electric and natural gas revenues, alternative revenue programs. Alternative revenues are generally intended to compensate a regulated utility for fluctuations in revenue due to weather abnormalities, external factors and demand side initiatives promoted by the regulator, as well as incentive awards if the utility achieves certain objectives, such as reducing costs, reaching specified milestones, or improving customer service. Central Hudson recognizes alternative revenues when the criteria associated with the mechanism has been met and not when billed to customers.

Other Revenues

Other revenues, which are not contract revenues, consist of pole attachment rents, finance charges, miscellaneous fees and other revenue adjustments.

Customer Assistance Programs

Central Hudson provides discounts through certain customer assistance programs intended to help low to moderate income families in our service territory manage their energy burden. Discounts available under these programs are determined at the time the performance obligation is satisfied and are recorded as an expense to match revenue collected in rates for the benefit of eligible customers.

Cash and Cash Equivalents

CH Energy Group and Central Hudson consider temporary cash investments with a maturity (when purchased) of three months or less, to be cash equivalents.

Restricted Cash

Restricted cash primarily consists of cash collected from developers and held in escrow related to a potential System Delivery Ability upgrade project pursuant to terms and conditions of the New York Independent System Operator's ("NYISO") Open Access Transmission Tariff. As of March 31, 2018, December 31, 2017 and March 31, 2017 restricted cash was approximately $1.1 million, respectively, and was included in the CH Energy Group and Central Hudson's Balance Sheets in "Other – long-term assets".

The following tables provide a reconciliation of cash, cash equivalents and restricted cash reported as of March 31, 2018 and March 31, 2017 within the Condensed Statements of Financial Position for CH Energy Group and Central Hudson that sum to the total of the same such amounts shown in the corresponding Condensed Statement of Cash Flows.

CH Energy Group
(In Thousands)

	March 31, 2018	March 31, 2017
Cash and cash equivalents	$ 6,005	$ 15,705
Restricted cash included in other long-term assets	1,068	1,067
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	$ 7,073	$ 16,772

Central Hudson
(In Thousands)

	March 31, 2018	March 31, 2017
Cash and cash equivalents	$ 1,827	$ 10,509
Restricted cash included in other long-term assets	1,068	1,067
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	$ 2,895	$ 11,576

Fuel, Materials & Supplies

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

	March 31, 2018	December 31, 2017	March 31, 2017
Natural gas	$ 1,862	$ 5,075	$ 1,939
Fuel used in electric generation	488	441	453
Materials and supplies	19,059	18,226	20,417
Total	$ 21,409	$ 23,742	$ 22,809

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 Condensed Consolidated Balance Sheet and Central Hudson's Condensed Balance Sheet. The accumulated depreciation associated with these regulated assets is also reported on the Condensed 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 Condensed 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 – 3 "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. 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, which is 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. Central Hudson reclassifies cost of removal recovered in excess of amounts incurred to date from accumulated depreciation to regulatory liabilities for presentation in its Condensed Balance Sheet in accordance with generally accepted accounting principles.

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 actual R&D expense and the rate allowances deferred for future recovery from or return to customers. See Note 7 – "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. See Note 10 – "Capitalization – Long-Term Debt" for additional details.

Income Tax

CH Energy Group and its subsidiaries file consolidated federal income tax returns with FortisUS Inc. ("FortisUS") 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. CH Energy Group and CHEC file state income tax returns in the states in which it conducts business. See Note 5 – "Income Tax" for additional information regarding income taxes and tax reform.

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 plans, 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 any underfunded status of the Retirement Plan and SERP (collectively "Pension") and OPEB defined benefit plans as a liability on its balance sheet. The underfunded status is measured as the difference between the fair value of qualified plans' assets and the projected benefit obligation ("PBO") for the plans. The SERP is a non-qualified plan under the Employee Retirement Income Security Act guidelines and therefore, although funded annually to achieve 110% of the plan's accumulated benefit obligation, the trust assets of this plan are not included in the calculation of the funded status for accounting purposes. The Pension status includes the SERP PBO although it does not take into consideration the SERP trust assets. Central Hudson recognizes a regulatory asset for the underfunded amount because these future costs are probable for recovery from customers in future rates.

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, as well as, employer contributions.

For more information see Note 11 – "Post-Employment Benefits".

Additionally, Central Hudson sponsors a contributory Deferred Compensation Plan ("Deferred Compensation Plan") for certain members of management and members of the Central Hudson Board of Directors. Although the Deferred Compensation Plan is a non-qualified plan, Central Hudson has established a trust for funding the associated liability to participants. For more information, see Note 16 – "Other Fair Value Measurements".

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 12 – "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. See Note 9 – "Capitalization-Common and Preferred Stock" for additional information. CH Energy Group's other subsidiaries do not have expressed restrictions on their ability to pay dividends.

Derivatives

From time to time, Central Hudson enters into derivative contracts in conjunction with the Company's enterprise risk management program to hedge certain risk exposures 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 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 and all associated costs 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 mechanisms in revenues. See Note 15 – "Accounting for Derivative Instruments and Hedging Activities" for further details.

Normal Purchases and Normal Sales

Central Hudson enters into forward energy purchase 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 exception for these contracts, which are not required to be measured at fair value and are accounted for on an accrual basis. Central Hudson currently does not enter into generation sales contracts. See Note 13 – "Commitments and Contingencies" for further details.

Reclassification

Certain amounts in the prior year's financial statements and in Note 14 – "Segments and Related Information" have been reclassified to conform to the 2018 presentation on CH Energy Group and Central Hudson's financial statements. These reclassifications had no effect on the reported results of operations.

In the first quarter of 2018, the Company made a change in policy election to classify its short-term borrowings in the Condensed Statement of Cash Flows as net. Previously, short-term advances and repayments on short-term borrowings were shown gross. This change in reporting had no effect on previously reported cash flows from investing activities in the Condensed Statement of Cash Flows.

In accordance with the adoption of ASU No. 2017-07 Presentation of Pension Costs, the non-service cost component was reclassified from operating expenses to other – net for the period ended March 31, 2017 for CH Energy Group and Central Hudson in both the Condensed Statements of Income and in the related segment note.

Recently Adopted Accounting Policies

Revenue from Contracts with Customers
Effective January 1, 2018, CH Energy Group and Central Hudson adopted ASC 606, using the modified retrospective approach, which requires recognition of revenue when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the Company expects to receive. The Company continues to recognize revenue for tariff-based commodity and delivery sales to retail and wholesale customers, which represent its primary source of revenue, as the related commodity is delivered. Prior period revenues have not been adjusted and continue to be reported under ASC Topic 605. There was no adjustment identified or recorded to the opening balance of retained earnings upon adoption. The new guidance requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers and that the presentation of alternative revenue programs be separate from revenue from contract with customers. Central Hudson has applied the practical expedient to consideration received from customers on a billing schedule and has not adjusted the promised amount for the effect of a significant finance component because the period between a transfer of goods or services will be one year or less. Due to the use of the practical expedient, the Company does not consider this to have a significant financing element. See Note 2 - "Revenue and Receivables" for additional disclosure related to CH Energy Group and Central Hudson's operating revenues and accounts receivables.

As part of the implementation of ASC 606, CH Energy Group and Central Hudson made an accounting policy election to report revenues net of utility taxes. The following summary shows the effect of the accounting change to CH Energy Group and Central Hudson's condensed income statements for the three months ended March 31, 2017 had the accounting policy election been applied retrospectively:

CH Energy Group		March 31, 2017	
	As Reported	Adoption of ASU 2014-09	As Adjusted
Operating revenues	$ 194,979	$ (2,262)	$ 192,717
Taxes, other than income tax	18,480	(2,262)	16,218
Net income	17,315	-	17,315

Central Hudson		March 31, 2017	
	As Reported	Adoption of ASU 2014-09	As Adjusted
Operating revenues	$ 194,979	$ (2,262)	$ 192,717
Taxes, other than income tax	18,476	(2,262)	16,214
Net income	17,315	-	17,315

Financial Instruments
Effective January 1, 2018, CH Energy Group and Central Hudson adopted ASU No. 2016-01, 2018-03 and 2018-04. These ASUs amend 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. The adoption of these ASUs was applied prospectively. There was no material impact on the financial condition, results of operation and cash flows of CH Energy Group and its subsidiaries upon adoption.

Statement of Cash Flows
Effective January 1, 2018, CH Energy Group and Central Hudson adopted ASU No. 2016-15 and 2016-18. ASU No. 2016-15 amends Topic 230 that 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 cash flow issues and apply to all entities that are required to present a statement of cash flows under Topic 230. ASU No. 2016-18 requires that an entity 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. These updates were applied retrospectively. There was no material impact on the financial condition, results of operation and cash flows of CH Energy Group and its subsidiaries upon adoption.

Presentation of Pension Costs
Effective January 1, 2018, CH Energy Group and Central Hudson adopted ASU No. 2017-07 which amended Topic 715 requiring 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 amendment also allows only the service cost component to be eligible for capitalization when applicable. Effective January 1, 2018 CH Energy Group and Central Hudson present the non-service cost component as part of non-operating income and expenses for reporting under GAAP. However the non-service cost component will continue to be reported as a component of operating expense for regulatory purposes and will be fully collectible from customers as authorized by the PSC. As such, there will be no impact on net income during the remaining term of the current rate plan. In addition, effective January 1, 2018, Central Hudson modified its capitalization policy to only capitalize a portion of the service cost components. Impacts to operating expenses, capital expenditures or rate base are expected to be incorporated in new rates which will be effective July 1, 2018. The amendment was adopted retrospectively for the income statement presentation of service costs, and prospectively for the capitalization of benefit costs. The non-service cost component reclassified from operating expenses to other – net for the period ended March 31, 2017 for CH Energy Group and Central Hudson is $0.8 million respectively.

Compensation - Stock Compensation
Effective January 1, 2018, CH Energy Group and Central Hudson adopted ASU No. 2017-09. ASU No. 2017-09 amends Topic 718 providing guidance about which changes to the terms or

conditions of a share-based payment award require an entity to apply modification accounting. The amendment was applied prospectively to an award modified on or after the adoption date. There was no material impact on the financial position, results of operations and cash flows of CH Energy Group and its subsidiaries upon adoption.

Note 2 - Revenues and Receivables

Central Hudson disaggregates revenue by segment (electric and natural gas operations) and by revenue type, revenue from contract with customers, alternative revenue programs and other revenue.

Revenue from Contract with Customers

Central Hudson records revenue as electricity and natural gas is delivered based on either the customers' meter read or estimated usage for the month. For full service customers, this includes delivery and supply of electricity and natural gas. For retail choice customers, this includes only delivery as these customers purchase supply from a retail marketer. Sales and usage-based taxes and other assessments collected on behalf of the State of New York are excluded from revenues. Central Hudson has applied the practical expedient to consideration received from customers on a billing schedule and has not adjusted the promised amount for the effect of a significant finance component because the period between a transfer of goods or services will be one year or less.

Alternative Revenues

Central Hudson's alternative revenue programs include: electric and natural gas RDMs, Gas Merchant Function Charge lost revenues, Empire-Zone lost revenue and revenue requirements for leak prone pipe replacements and Reforming Energy Vision ("REV") Orders. In addition, Central Hudson's recognizes target based alternative revenue programs for reduced service terminations, gas expansion performance, gas infrastructure enhancements, and energy efficiency incentives when targets are met.

Other Revenues

Other revenues consist of pole attachment rents, finance charges, miscellaneous fees and other revenue adjustments. Included in other revenue adjustments are changes to regulatory deferral balances to reverse the impact of refunds/(collections) of previously recognized deferrals and negative revenue adjustments ("NRAs") pursuant to PSC Orders.

The following summary presents CH Energy Group's and Central Hudson's operating revenues disaggregated by segment and revenue source for the three months ended March 31, 2018 and 2017 (In Thousands):

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017 (1)
Electric		
Revenues from Contract with Customers (ASC 606)	$ 152,739	$ 120,951
Alternative Revenues (Non ASC 606)	(3,392)	(303)
Other Revenue Adjustments (Non ASC 606)	(2,180)	14,898
Total Operating Revenues Electric	$ 147,167	$ 135,546
Natural Gas		
Revenues from Contract with Customers (ASC 606)	$ 74,905	$ 57,839
Alternative Revenues (Non ASC 606)	(375)	371
Other Revenue Adjustments (Non ASC 606)	(3,962)	1,223
Total Operating Revenues Natural Gas	$ 70,568	$ 59,433

(1) Effective January 2018, the Company made an accounting policy election to present revenues, net of utility taxes prospectively, with no impact to net income. Utility taxes included in revenue for the period ended March 31, 2017 is $2.3 million.

Accounts Receivables

Accounts receivables balances for CH Energy Group and Central Hudson for the periods ended March 31, 2018, December 31, 2017 and March 31, 2017 are as follows (In Thousands):

	March 31, 2018	December 31, 2017	March 31, 2017
Balance at Beginning Period - Net of Reserve	$ 63,949	$ 58,146	$ 58,146
Billed to customers/adjustments	247,540	704,307	198,602
Customer payments	(223,552)	(692,055)	(193,791)
Bad debt write-offs	(1,624)	(6,449)	(1,754)
Balance at End of Period - Net of Reserve	$ 86,313	$ 63,949	$ 61,203

NOTE 3 – Utility Plant - Central Hudson

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, 2018	Utility Plant December 31, 2017	Utility Plant March 31, 2017
Electric:				
Production	25-85	$ 39,597	$ 39,553	$ 38,945
Transmission	30-80	352,080	347,094	333,426
Distribution	7-80	975,148	966,797	939,420
Other	40	5,648	5,742	4,294
Total		$ 1,372,473	$ 1,359,187	$ 1,316,085
Natural Gas:				
Transmission	19-80	$ 57,414	$ 57,310	$ 56,048
Distribution	28-95	450,189	444,474	404,812
Other	N/A	443	442	443
Total		$ 508,046	$ 502,226	$ 461,303
Common:				
Land and Structures	50	$ 76,182	$ 76,172	$ 74,247
Office and Other Equipment, Radios and Tools	8-35	54,662	54,162	51,499
Transportation Equipment	10-12	63,406	63,335	62,247
Other	3-10	53,307	52,093	42,947
Total		$ 247,557	$ 245,762	$ 230,940
Gross Utility Plant		$ 2,128,076	$ 2,107,175	$ 2,008,328

For the three months ended March 31, 2018 and 2017, the borrowed component of funds used during construction and recorded as a reduction of interest expense was $0.3 million and $0.2 million, and the equity component reported as other income was $0.3 million for both periods.

Included in the Net Utility Plant balance of $1.7 billion at March 31, 2018 and December 31, 2017, and $1.6 billion at March 31, 2017, is $82.2 million, $80.9 million and $74.3 million of intangible utility plant assets, comprised primarily of computer software costs, land, transmission and water rights and the related accumulated amortization of $38.7 million, $37.0 million and $32.4 million, respectively.

As of March 31, 2018 and December 31, 2017, Central Hudson has reclassified from utility plant assets $45.7 million, and as of March 31, 2017 $46.4 million, respectively, of cost of removal recovered through the rate-making process in excess of amounts incurred to date as a regulatory liability.

As of March 31, 2018 and December 31, 2017, AROs for Central Hudson were approximately $1.1 million, and as of March 31, 2017, ARO was $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 4 – 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, 2018	December 31, 2017	March 31, 2017
Regulatory Assets:			
Deferred purchased electric costs (Note 1)	$ 5,412	$ 7,808	$ 7,826
Deferred purchased natural gas costs (Note 1)	4,673	10,529	5,632
Deferred unrealized losses on derivatives - Electric (Note 15)	4,260	1,256	1,983
Deferred unrealized losses on derivatives - Natural Gas (Note 15)	7	509	-
PSC general and temporary state assessment and carrying charges	1,536	987	4,291
RDM and carrying charges - Electric	-	380	-
RDM and carrying charges - Natural gas	-	347	-
Deferred debt expense on re-acquired debt	522	521	521
Deferred and accrued costs - SIR (Note 13)	1,523	3,315	6,406
Deferred storm costs and carrying charges	166	346	-
Deferred vacation pay accrual	8,684	7,463	8,303
Other	2,917	2,700	1,076
Total current regulatory assets	$ 29,700	$ 36,161	$ 36,038
Deferred pension costs (Note 11)	$ 20,032	$ 24,862	$ 46,968
Carrying charges - pension reserve	4,405	4,148	3,288
Deferred unrealized losses on derivatives - Electric (Note 15)	3,735	2,011	5,515
Deferred and accrued costs - SIR and carrying charges (Note 13)	57,765	56,458	56,667
Deferred debt expense on re-acquired debt	2,766	2,897	3,287
Income taxes recoverable through future rates	13,132	24,387	23,737
Energy efficiency incentives and carrying charges	667	667	5,418
Tax reform - unprotected deferred tax asset (Note 5)	17,607	23,267	-
Reforming the Energy Vision and carrying charges	9,566	9,138	7,122
Deferred storm costs and carrying charges	26,533	8,531	7,926
Other	18,733	16,501	11,870
Carrying charges balancing [1]	(5,300)	(4,900)	-
Total long-term regulatory assets	$ 169,641	$ 167,967	$ 171,798
Total Regulatory Assets	$ 199,341	$ 204,128	$ 207,836
Regulatory Liabilities:			
Rate moderator - Electric	$ 456	$ 1,008	$ 4,300
Rate moderator - Natural Gas	967	2,942	4,448
RDM and carrying charges - Electric	3,569	-	10,128
RDM and carrying charges - Natural Gas	1,116	-	840
Deferred unrealized gains on derivatives - Electric (Note 15)	-	1,539	612
Deferred unrealized gains on derivatives - Natural Gas (Note 15)	8	-	56
Total current regulatory liabilities	$ 6,116	$ 5,489	$ 20,384
Rate moderator - Electric and carrying charges	$ 36,812	$ 36,372	$ 35,810
Rate moderator - Natural Gas and carrying charges	7,807	5,944	4,298
Customer benefit fund	2,852	2,902	3,982
Deferred cost of removal (Note 3)	45,715	45,665	46,376
Income taxes refundable through future rates	9,472	17,690	22,495
Deferred OPEB costs (Note 11)	35,579	35,945	25,709
Carrying charges - OPEB reserve	6,893	6,404	4,599
Deferred property taxes and carrying charges	8,195	5,181	3,854
Deferred unbilled electric and natural gas revenues	5,082	5,082	5,082
Energy efficiency programs and carrying charges	71,190	64,130	41,123
Tax reform - protected deferred tax liability (Note 5)	197,418	198,576	-
Other	22,771	19,902	10,473
Carrying charges balancing [1]	(5,300)	(4,900)	-
Total long-term regulatory liabilities	$ 444,486	$ 438,893	$ 203,801
Total Regulatory Liabilities	$ 450,602	$ 444,382	$ 224,185
Net Regulatory Liabilities	$ (251,261)	$ (240,254)	$ (16,349)

(1) The amounts represent the netting on the balance sheet of carrying charges that are probable to be collected through the offsetting of these amounts against regulatory liabilities in the pending rate case.

2017 Electric and Gas Rate Filing Request

Central Hudson filed an electric and natural gas rate case on July 28, 2017 with the PSC seeking electric and natural gas delivery revenue increases of $43.0 million and $18.1 million, respectively, to become effective July 1, 2018. The rate filing was made in order to align electric and natural gas delivery rates with the projected costs of providing service to our customers.

On April 18, 2018, a Joint Proposal ("JP") was filed proposing a comprehensive three-year rate plan for Central Hudson's electric and natural gas delivery service to be effective for the period beginning July 1, 2018 and ending June 30, 2021. The JP was signed by the Company, Department of Public Service Staff, Multiple Intervenors, Utility Intervention Unit, Dutchess County, Public Utility Law Project, Pace Center for Climate Change, Natural Resources Defense Council, Department of Defense, Acadia Center, NY Geothermal Energy Organization and Bob Wyman. To the extent Commission approval of the JP occurs after July 1, 2018 the JP includes a make whole provision to ensure that Central Hudson recovers the allowed Rate Year 1 ("RY1") revenues by the end of RY1.

The JP proposes revenue increases which, if approved, would result in average residential monthly bill impacts of 1.33%, 2.99% and 4.41% for electric customers and 2.05%, 4.40% and 5.45% for natural gas customers in each year of the rate plan.

The proposed revenue requirements reflect an allowed return on equity of 8.80% for all three years with a common equity ratio of 48% for RY 1, 49% for RY2 and 50% for RY3. Earnings in excess of 9.30% will be shared with customers. The revenue requirements reflect authorization for capital expenditures of over $650 million over the term of the rate plan including an increase in information technology investments, funding to begin implementing a multi-year plan to construct a Training Center and Primary Control Center, continued investment for Leak Prone Pipe Replacement, and Distribution Automation and Network Strategy. The revenue requirements also reflect an increase in funding for Transmission and Distribution Right of Way Maintenance, increased low income discounts, funding to eliminate credit/debit card and walk-in center payment fees paid by customers and an increase in energy efficiency program costs which will be moved into base rates.

The JP introduces five electric and one natural gas Earnings Adjustment Mechanism with targets set for minimum, midpoint and maximum performance. Potential maximum earnings adjustments total $2.0 million in 2018, $4.3 million in 2019, $4.7 million in 2020 and $4.9 million in 2021.

The proposed rates reflect a reduction to the customer charge for residential and electric small commercial classes. A Rate Adjustment Mechanism is proposed to return or collect certain deferrals and costs on a timely basis and the electric RDM has been expanded to include SCs 3, 5 and 8.

The JP also proposes changes to various performance mechanisms for electric, natural gas and customer service. For electric reliability, the System Average Interruption Frequency Index ("SAIFI") target is raised to 1.38 in 2018 and gradually reduced back to 1.30 by the end of the rate plan. In the natural gas business, gas safety metric targets were restated for calendar year 2018 and other changes were made including revised targets for all metrics, a reduction to potential NRAs and additional positive revenue adjustments for surpassing certain gas safety metrics. For customer service, the JP includes more stringent Customer Satisfaction and PSC Complaint targets, new Call Answer Rate and Residential Termination/Uncollectible metrics and a reduction in the total potential NRAs.

On April 19, 2018 the Commission issued the following Ruling on Schedule:

- May 2, 2018-Statements in Support of Opposition to the Joint Proposal
- May 9, 2018 Statements in Reply to Other Parties' Positions
- May 21, 2018 - Start of Evidentiary Hearing

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	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.

On June 8, 2017, pursuant to the Joint Proposal Central Hudson submitted a notice of non-income based calculation of state tax and supporting documentation to the Secretary related to calendar year 2016 and recorded during the Rate Year ended June 30, 2017. As defined in Section V, subpart A4 (f) of the Joint Petition "If the Company is required to file state income tax on a non-net income based tax calculation, it will file a notice with the Secretary including the calculation of the incremental state income tax and the change that caused the Company to fall into a non-net income based tax calculation. This notice will be in lieu of the filing of a deferral petition and would not be subject to the Commission's traditional three-part deferral test." Central Hudson began accruing carrying charges on these deferred incremental expenses and will continue to accrue carrying charges until such time as the Commission approves, and Central Hudson receives, recovery of the deferred balance.

Other PSC Proceedings

Deferral Accounting and Recovery of Additional Distribution and Transmission Vegetation Management Funds and Relief from the 2016 Frequency Performance Metric

On May 5, 2017, Central Hudson filed a petition with the PSC seeking approval for accounting authority to defer incremental funding associated with Central Hudson's hazard tree trimming program. The Company also sought relief from its 2016 SAIFI service quality negative revenue adjustment, resulting from Central Hudson's inability to meet the 2016 SAIFI target agreed to as part of the Joint Proposal approved by the PSC in Case 14-E-0318 effective June 17, 2015. The petition demonstrated the Company's deteriorating reliability performance and subsequent failure of the SAIFI target were the direct result of factors that were outside of its control and requested: 1) the establishment of an incremental $5.0 million of funding towards the distribution danger tree program to be initiated during its current rate agreement; 2) deferral authority for $1.9 million of incremental transmission trimming funding because Central Hudson's transmission program will be suspended in September 2017 due to inadequate funding in its current rate agreement; and 3) relief from the 2016 SAIFI penalty. The petition described the impacts of hazard trees resulting from the infestation of the Emerald Ash Borer, Federal and New York State ("NYS") imposed restrictions on the time of year when Central Hudson can trim due to the Indiana and Long eared bats and the current insufficient funding to maintain the recommended four year routine trimming cycle. All of these factors, which are outside the Company's control, contributed to the Company failing its 2016 SAIFI electric reliability service quality performance metric. On September 19, 2017, the PSC issued an Order Denying, in Part, Deferral Accounting and Recovery of Additional Distribution and Transmission Vegetation Management Funds and Relief from the 2016 Frequency Performance Metric. The Order allows deferral authority of up to $2.0 million of incremental funding for a targeted distribution hazard tree program, provided that the Company's electric regulatory earned return on equity ("ROE") for the Rate Year Ended June 30, 2018 does not exceed the allowed ROE of 9.0%. Any regulatory earnings in excess of the allowed ROE will be used to reduce the amount deferred. The method of recovery and allocation to customers will be determined in the Company's pending electric rate proceeding, Case 17-E-0459. All other aspects of the deferral petition were denied. The Company will spend the $2.0 million but has elected to not defer and will continue to monitor whether the Company should exercise its authority to do so during the Rate Year ending June 30, 2018.

Deferral Accounting and Recovery of Distributed System Platform Related Cost

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 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 Earnings 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 an ongoing basis including but not limited to costs associated with the development of an interconnection portal to facilitate Distribution Energy Resources ("DER") connection 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 July 13, 2017, the PSC issued Order Approving Deferral Accounting and Recovery of Distributed System Platform Related Cost, Case 17-E-0113, authorizing Central Hudson to recover approximately $1.8 million plus carrying charges via a Miscellaneous Charge Factor to become effective August 1, 2017.

Governmental Mandates Exceeding 10 Basis Points or More of Return on Common Equity

The Order Approving Rate Plan dated June 17, 2015 in Cases 14-E-0318 and 14-G-0319 authorized deferral of incremental costs that individually have material consequences (10 basis points or more of return on common equity for either the gas department or the electric department) related to new legislative, governmental, Commission or other regulatory actions. There are currently regulatory asset balances associated with two deferrals for costs under this provision incurred 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 pending 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 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 pending rate case filing.

In the Matter of Utility Preparation & Response to Power Outages During the March 2018 Winter Storms – DPS 18-00618

On March 14, 2018, following the March 2018 Nor'easter storms on March 2nd (Riley) and March 7th (Quinn), the PSC notified the chief executives of the state's major electric utility companies that an investigation into preparedness of and response to the two early March storms was underway, including all aspects of the Companies' filed and approved emergency plans. The investigation will include evaluation under the Commission's Emergency Response Scorecard that was filed by Central Hudson with the Commission on April 11, 2018. In addition, per state regulations, the Company is required to perform and file with the Commission an Emergency Response Performance Assessment within 60 days. Central Hudson's performance assessment is due May 11, 2018. The PSC Staff will conduct 20 public statements hearings ("PSH") in April throughout the state to receive public comments regarding the storm preparedness and response of the electric companies. PSH are scheduled for April 16 and April 23 in Central Hudson's service territory in Athens in Greene County and in Poughkeepsie in Dutchess County, respectively. The Company is responding to numerous Staff data requests that have been submitted as part their extensive review of the Company's storm preparedness and responsiveness.

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, 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" which allowed 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 required that 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 concurrently 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 and the recording of unbilled revenue. The deferral is included in "Regulatory Liabilities – other long-term" in CH Energy Group and Central Hudson's Condensed Balance Sheets.

NOTE 5 – 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 balance for the three months ended March 31, 2018 and 2017 are $2.7 million and $1.1 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 Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.* At March 31, 2018, the tax reserve ending balance includes no offset for tax benefits.

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,	
	2018	2017
Tax reserve balance at the beginning of the period	$ 4,301	$ 1,703
Change in natural gas transmission and distribution repair deduction	229	263
Change in tax benefit offset	2,656	1,115
Tax reserve balance at the end of the period	$ 7,186	$ 3,081

Income Tax Examinations

Jurisdiction	Tax Years Open for Audit
Federal	2014 – 2016
New York State	2014 – 2016

Tax Reform

On December 22, 2017, President Trump signed the Tax Cuts and Jobs Act into legislation, which enacted significant changes to the Internal Revenue Code including a reduction in the U.S. federal corporate income tax rate from 35% to 21% effective for tax years beginning after 2017. The Company is required to revalue its deferred tax assets and liabilities at the new federal corporate income tax rates as of the date of the enactment. On December 29, 2017 the Commission issued an order initiating a proceeding, Case 17-M-0851, to study the Tax Cuts and Jobs Act legislation in order to preserve the benefits for ratepayers. On March 29, 2018 the DPS staff issued their proposals and recommendations. As a result, Central Hudson recorded a regulatory liability of $198.6 million due to the revaluation of plant related deferred tax liabilities which are protected under tax normalization rules. The Company's deferred taxes are subject to a normalization method of accounting for the excess tax reserves resulting from the change in the federal statutory tax rate which involves the use of the average rate assumption method for the determination of the timing of the return of the excess deferred taxes to customers. This regulatory liability is included within deferred taxes associated with accelerated deductions of capitalized utility plant assets for rate-making purposes when determining rate base. The regulatory liability is adjusted monthly to reflect the amortization of the balance under the normalization rules. The Company also recorded a regulatory asset of $23.3 million due to the revaluation of non-plant related deferred taxes, which is not subject to the normalization rules. This balance is adjusted monthly to account for the difference between the current federal tax rate of 21% and the 35% federal rate that was in effect when customer rates were set for the period of January 1, 2018 through June 30, 2018. Beginning July 1, 2018, rates are expected to be reset utilizing the current federal tax rate.

The following is a summary of Central Hudson's activity related to its protected deferred tax liability (In Thousands):

	March 31, 2018	December 31, 2017
Protected Tax Liability at the beginning of the period	$ 198,576	$ -
Change in Protected Tax Liability	(1,158)	198,576
Protected Tax Liability at the end of the period	$ 197,418	$ 198,576

The following is a summary of Central Hudson's activity related to its unprotected deferred tax asset (In Thousands):

	March 31, 2018	December 31, 2017
Unprotected Tax Asset at the beginning of the period	$ 23,267	$ -
Change in Unprotected Tax Asset	(5,659)	23,267
Unprotected Tax Asset at the end of the period	$ 17,608	$ 23,267

Components of Income Tax - CH Energy Group

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

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Current federal income tax	$ 992	$ 550
Current state income tax	1,008	803
Deferred federal income tax	1,855	8,837
Deferred state income tax	35	966
Total income tax expense	$ 3,890	$ 11,156

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 Condensed Consolidated Statement of Income (In Thousands):

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Net income	$ 16,823	$ 17,315
Current federal income tax	992	550
Current state income tax	1,008	803
Deferred federal income tax	1,855	8,837
Deferred state income tax	35	966
Income before income taxes	$ 20,713	$ 28,471
Computed federal tax at 21% (35% in 2017)	$ 4,350	$ 9,965
State income tax net of federal tax benefit	824	1,150
Amortization of protected deferred tax liability[1]	(896)	-
Depreciation flow-through	448	803
Cost of removal	(403)	(608)
Other	(433)	(154)
Total income tax expense	$ 3,890	$ 11,156
Effective tax rate - federal	13.8%	33.0%
Effective tax rate - state	5.0%	6.2%
Effective tax rate - combined	18.8%	39.2%

[1] Under normalization rules, plant-related deferred taxes reverse at the same rate as the original deferral.

For the three months ended March 31, 2018, the lower combined effective tax rate was driven by the reduction in the federal income tax rate from 35% to 21%, the result of the Tax Cuts and Jobs Act, the impact and details of which are noted above under Tax Reform, which was enacted into law on December 22, 2017 and effective January 1, 2018. The effective tax rate for the three months ended March 31, 2018 was also reduced by decreases in the book reserves, which are not considered income for tax purposes and the associated deferred taxes that are recorded with an offsetting regulatory asset or liability.

Components of Income Tax - Central Hudson

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

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Current federal income tax	$ 2,868	$ 532
Current state income tax	1,014	775
Deferred federal income tax	13	8,866
Deferred state income tax	1	966
Total income tax expense	$ 3,896	$ 11,139

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 Condensed Statement of Income (In Thousands):

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Net income	$ 16,836	$ 17,315
Current federal income tax	2,868	532
Current state income tax	1,014	775
Deferred federal income tax	13	8,866
Deferred state income tax	1	966
Income before income taxes	$ 20,732	$ 28,454
Computed federal tax at 21% (35% in 2017)	$ 4,354	$ 9,959
State income tax net of federal tax benefit	802	1,132
Amortization of protected deferred tax liability[1]	(896)	-
Depreciation flow-through	448	803
Cost of removal	(403)	(608)
Other	(409)	(147)
Total income tax expense	$ 3,896	$ 11,139
Effective tax rate - federal	13.9%	33.0%
Effective tax rate - state	4.9%	6.1%
Effective tax rate - combined	18.8%	39.1%

(1) Under normalization rules, plant-related deferred taxes reverse at the same rate as the original deferral.

For the three months ended March 31, 2018, the lower combined effective tax rate was driven by the reduction in the federal income tax rate from 35% to 21%, the result of the Tax Cuts and Jobs Act, the impact and details of which are noted above under Tax Reform, which was enacted into law on December 22, 2017 and effective January 1, 2018. The effective tax rate for the three months ended March 31, 2018 was also reduced by decreases in the book reserves, which are not considered income for tax purposes and the associated deferred taxes that are recorded with an offsetting regulatory asset or liability.

NOTE 6 – 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, 2018 there has been no activity in 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 1, 2016 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, 2018 CHET made no capital contributions to Transco. Additionally, Transco filed proposals related to the AC Transmission Order with the NYISO in April 2016. A final decision on whether a project will be awarded is expected in the third quarter of 2018. As of March 31, 2018, December 31, 2017 and March 31, 2017, CHET's investment in Transco was approximately $7.3 million, $7.1 million and $7.2 million, respectively.

CHEC has equity investments in Partnerships, one of which holds investments in energy sector start-up companies. As of March 31, 2018, December 31, 2017 and March 31, 2017, the value of CHEC's equity investments were $0.7 million, $1.0 million and $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 7 – Research and Development

Central Hudson's R&D expenditures for the three months ended March 31, 2018 and March 31, 2017 were $0.7 million and $1.1 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 8 – 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)
Uncommitted Credit Facilities	Available up to $40 million(4)		Available up to $40 million(4)

	CH Energy Group			Central Hudson		
	March 31, 2018	December 31, 2017	March 31, 2017	March 31, 2018	December 31, 2017	March 31, 2017
Outstanding (In Thousands):						
Committed Credit(1)	$ -	$ -	$ 10,000	$ -	$ -	$ 10,000
Uncommitted Credit(4)	10,000	-	10,000	10,000	-	10,000
Total	$ 10,000	$ -	$ 20,000	$ 10,000	$ -	$ 20,000
Weighted Average Interest Rate	2.43%	0.00%	1.53%	2.43%	0.00%	1.53%

(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 Standard 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) For all periods, Central Hudson had $25 million of uncommitted credit available through arrangements with Bank of America, N.A., and Citizens Bank, N.A. Beginning June 30, 2017, Central Hudson also had a $15 million uncommitted credit arrangement with the Bank of Nova Scotia, 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 9 – Capitalization – Common and Preferred Stock

Capitalization

On January 17, 2018, CH Energy Group received a capital contribution of $8.0 million from its parent FortisUS. The contribution was recorded as paid in capital, see CH Energy Group's Consolidated Statement of Equity.

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 $53.5 million and $48.7 million in dividends to CH Energy Group for the periods ended March 31, 2018 and 2017, 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, 2018 and 2017, CH Energy Group paid dividends to FortisUS of $5.5 million.

Central Hudson did not pay any dividends to its parent CH Energy Group during the first quarter of 2018. During the three months ended March 31, 2017, Central Hudson paid dividends to CH Energy Group of $4.0 million.

Preferred Stock

Other than the one share of Junior Preferred Stock, Central Hudson has no outstanding preferred stock as of March 31, 2018 and March 31, 2017.

NOTE 10 – 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, 2018	December 31, 2017	March 31, 2017
CH Energy Group:			
Promissory notes	$ 614,325	$ 614,325	$ 588,731
Less: current portion	(31,503)	(31,503)	(34,406)
Principal portion of long-term-debt	582,822	582,822	554,325
Less: unamortized debt issuance costs	(3,904)	(4,000)	(3,918)
Net long-term debt - CH Energy Group	$ 578,918	$ 578,822	$ 550,407
Central Hudson:			
Promissory notes	$ 598,950	$ 598,950	$ 571,950
Less: current portion	(30,000)	(30,000)	(33,000)
Principal portion of long-term-debt	568,950	568,950	538,950
Less: unamortized debt issuance costs	(3,831)	(3,926)	(3,837)
Net long-term debt - Central Hudson	$ 565,119	$ 565,024	$ 535,113

At March 31, 2018, 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 on March 21, 2017 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 replaced a similar interest rate cap that expired on March 26, 2017. There has been no payout on these interest rate caps for the three months ended March 31, 2018 and 2017.

The principal amount of Central Hudson's outstanding 1999 Series B NYSERDA Bonds totaled $33.7 million at March 31, 2018. 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% for a given month. There were no payouts on this interest rate cap during the periods presented.

See Note 15 – "Accounting for Derivative Instruments and Hedging Activities" for fair value disclosures related to the recovery of these interest costs.

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.

Debt Covenants

CH Energy Group's $15.4 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 those of CH Energy Group, including restrictions with respect to Central Hudson's indebtedness and assets.

As of March 31, 2018, CH Energy Group and Central Hudson are in compliance with all covenants.

NOTE 11 – 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, variations in expenses for post-employment benefit plans at Central Hudson do not have any impact on earnings.

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, 2018 and 2017 are as follows (In Thousands):

	Pension Benefits		OPEB	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2018	2017	2018	2017
Service cost	$ 3,265	$ 2,954	$ 466	$ 460
Interest cost	6,260	6,687	1,182	1,362
Expected return on plan assets	(8,508)	(8,503)	(1,893)	(1,836)
Amortization of prior service cost (credit)	257	290	(1,267)	(1,153)
Amortization of recognized actuarial net (gain)/loss	4,561	4,178	(231)	(258)
Net Periodic (Benefit) Cost	$ 5,835	$ 5,606	$ (1,743)	$ (1,425)

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

	March 31, 2018(1)	December 31, 2017(1)	March 31, 2017(1)
Accrued pension costs	$ (10,832)	$ (21,221)	$ (28,197)

(1) Includes approximately $232K at March 31, 2018, December 31, 2017 and March 31, 2017, respectively of accrued pension liability recorded at CH Energy Group as a result of the resignation in 2014 of a CH Energy Group officer with a change in control agreement.

Accrued pension costs include the difference between the PBO for the Retirement Plan and the market value of the pension assets and any liability for the non-qualified SERP. The under-funded status does not reflect approximately $26.8 million of SERP trust assets.

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, 2018(1)	December 31, 2017(1)	March 31, 2017(1)
Prefunded (accrued) pension costs prior to funding status adjustment	$ 5,151	$ (420)	$ 15,611
Additional liability required	(15,983)	(20,801)	(43,808)
Accrued pension costs	$ (10,832)	$ (21,221)	$ (28,197)
Total offset to additional liability - regulatory assets - pension plan	$ 15,983	$ 20,801	$ 43,808

(1) Includes approximately $232K at March 31, 2018, December 31, 2017 and March 31, 2017, respectively of accrued pension liability recorded at CH Energy Group as a result of the resignation in 2014 of a CH Energy Group officer with a change in control agreement.

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, 2018 and 2017 were as follows (In Thousands):

Retirement Plan		OPEB	
Three Months Ended March 31,		Three Months Ended March 31,	
2018	2017	2018	2017
$ 11,144	$ 13,000	$ 1,302	$ 1,533

During the first quarter of 2018 and 2017 Central Hudson made contributions of $3.3 million and $0.7 million to the SERP.

Retirement Plan Policy and Strategy

Central Hudson's Retirement Plan investment policy seeks to reduce the Plan's funded status volatility while targeting a rate of growth equivalent to that of the liability within reasonable risk tolerance levels. In addition to traditional risk and return measures, the policy reflects liability-based considerations, including the Retirement Plan's funded status, contribution requirements and financial statement items. Due to market fluctuations, Retirement Plan assets require rebalancing from time to time to maintain the asset allocation within target ranges.

Asset allocation targets in effect as of March 31, 2018, as well as actual asset allocations as of March 31, 2018, December 31, 2017, and March 31, 2017, 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, 2018	December 31, 2017	March 31, 2017
Equity Securities	45%	50%	55%	51.4%	50.9%	51.0%
Debt Securities	45%	50%	55%	48.4%	47.3%	47.1%
Other[1]	0%	0%	10%	0.2%	1.8%	1.9%

[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) 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. Central Hudson's matching contributions for the three months ended March 31, 2018 and 2017 were $1.2 million and $1.1 million. Central Hudson also provides an additional contribution of 4% to the 401(k) plan of annualized base salary for eligible employees who do not qualify for Central Hudson's Retirement Income Plan.

NOTE 12 – Equity-Based Compensation

Share Unit Plan Units

In January 2018, officers of Central Hudson were granted 49,012 Units under the Central Hudson 2018 Share Unit Plan ("2018 SUP"), representing the officers' long-term incentives. Two-thirds of the issued 2018 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 2018 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 2018, CH Energy Group granted 29,514 Units to an officer of CH Energy Group under a 2018 Performance Share Unit Plan ("2018 PSUP"). CH Energy Group adopted a similar Performance Share Unit Plan in 2017 ("2017 PSUP") and in 2016 ("2016 PSUP") and issued Units to an officer of CH Energy Group under each plan, 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 Central Hudson were granted Units under the Central Hudson 2017 ("2017 SUP") Share Unit Plan, and Officers of CH Energy Group and Central Hudson were granted Units under the Central Hudson 2016 ("2016 SUP") and 2015 ("2015 SUP") Share Unit Plans, collectively the ("SUP plans"); representing the officers' long-term incentives. Two-thirds of the SUP Units granted under the SUP plans are performance based and vest at the end of the respective three-year performance period upon achievement of specified cumulative performance goals. The remaining SUP Units that were granted under the SUP plans are time-based and vest at the end of the respective three-year period without regard to performance. Awards granted under the 2015 SUP vested and were paid out during the first quarter of 2018. 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	Time Based		Performance Based	
	Grant Date	Fair Value	Granted	Outstanding	Granted	Outstanding(4)
2018 PSUP	January 1, 2018	$ 36.59	-	-	29,514	29,813
2017 PSUP	January 1, 2017	$ 30.85	-	-	30,085	31,502
2016 PSUP(1)	April 1, 2016	$ 31.00	-	-	18,806	20,447

Central Hudson:		Grant Date	Time Based		Performance Based	
	Grant Date	Fair Value	Granted	Outstanding(4)	Granted	Outstanding(4)
2018 SUP	January 1, 2018	$ 36.59	16,337	16,503	32,675	33,006
2017 SUP	January 1, 2017	$ 30.85	18,359	19,223	36,717	38,447
2016 SUP(1)(2)	January 1, 2016	$ 27.26	23,352	24,063	46,704	32,996
2015 SUP(2)(3)	January 1, 2015	$ 33.47	15,795	-	31,591	-

(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 outstanding under the Central Hudson 2016 SUP from 70,056 to 53,700 Units.
(2)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.
(3)In the first quarter of 2018, 51,821 units under the 2015 SUP vested and were paid out at $39.59 per SUP unit for a total of approximately $2.1 million.
(4)Includes notional dividends accrued as of March 31, 2018.

Compensation Expense

The following table summarizes expense for share unit plan units for the three months ended March 31, 2018 and 2017 (In Thousands):

	Three Months Ended March 31,	
	2018	2017
CH Energy Group	$ 1,270	$ 1,232
Central Hudson	$ 1,268	$ 1,231

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.

Under the SUP and PSUP agreements, the amount of any outstanding awards payable to an employee who retires during the term of the grant and who has 15 years of service and provides at least six months prior notice of retirement under the terms of the 2016, 2017 and 2018 SUP plans, respectively, 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 all periods presented, 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.

Employee Share Purchase Plan

Effective May 17, 2017, the Company adopted the Fortis Amended and Restated 2012 Employee Share Purchase Plan ("ESPP"). Fortis authorized 600,000 of its common shares to be offered under the ESPP. The ESPP allows eligible employees of Fortis and adopting subsidiaries to contribute during any investment period an amount not less than 1% and not more than 10% of their eligible compensation to purchase Fortis' common shares. Under the ESPP, employees are entitled to fund contributions through interest free loans from the Company. At March 31, 2018 and December 31, 2017, employee loans due to the Company related to the ESPP were approximately $0.1 million and $0.2 million.

The ESPP provides that the Company will contribute as additional salary an amount equal to 10% of an employee's contribution to a maximum contribution of 1% of eligible compensation. The Company will also contribute an amount equal to 10% of all dividends payable by Fortis on all common stock allocated to an employee's ESPP account. Common shares are purchased under the ESPP concurrent with the quarterly dividend payment dates of March 1, June 1, September 1 and December 1. The cost of Central Hudson's contribution for the three months ended March 31, 2018 was approximately $0.01 million.

NOTE 13 – Commitments and Contingencies

There were no material changes in the nature and amounts of Central Hudson's commitments from those disclosed in the 2017 Annual Financial Report, except as noted below.

Electricity Purchase Commitments

Central Hudson meets its capacity and electricity obligations through contracts with capacity and energy providers, purchases from the NYISO energy and capacity markets and its own generating capacity.

In 2016, Central Hudson entered into an agreement with Entergy Nuclear Power Marketing, LLC to purchase electricity, on a unit contingent basis at defined prices, from December 1, 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 November 2013, Central Hudson entered into a contract to purchase installed capacity from the Roseton Generating Facility from May 2014 through April 2017. This contract expired on April 30, 2017 and was not renewed. In June 2014, Central Hudson entered into a contract to purchase available installed capacity from the Danskammer Generating Facility from October 2014 through July 2018 with approximately $10.8 million in purchase commitments remaining as of March 31, 2018.

Energy Credit Purchase Obligations

In August 2016, the PSC issued Order 15-E-0302 adopting a Clean Energy Standard that includes renewable energy credits ("RECs") and zero-emissions credit ("ZECs") requirements. Beginning in 2017, load serving entities ("LSEs"), which include Central Hudson, are required to obtain RECs and ZECs in amounts determined by the PSC. LSEs may satisfy their REC obligation by either purchasing RECs acquired through central procurement by NYSERDA, by self-supply through direct purchase of tradable RECs, or by making alternative compliance payments. LSEs will purchase ZECs from NYSERDA at prices approved by the PSC based on qualifying in-state nuclear plant output and Central Hudson's full-service customer NYCA load-ratio share. At March 31, 2018, based on Central Hudson's estimated load to be served, the commitment to procure RECs would be less than $0.1 million and approximately $8.1 million for ZECs. The requirement to procure RECs and ZECs will continue based upon Central Hudson's future load served to its customers through 2029.

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 of 2006, Central Hudson plans to make contributions that maintain the target funded percentage at 80% or higher. In January 2018, Central Hudson made contributions for 2017 of $11.1 million to the Retirement Plan and $1.3 million to the OPEB plans, resulting in a funded status that met Central Hudson's objective. Actual contributions for 2018 could vary significantly based upon economic growth, projected investment returns, inflation and interest rate assumptions. Actual funded status could vary significantly based on asset returns and changes in the discount rate used to estimate the present value of future obligations.

Supplemental Executive Retirement Plan

As a result of the acquisition of CH Energy Group, Inc. by Fortis 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. In January 2018, Central Hudson made a contribution to the SERP for 2017 of $3.3 million resulting in a funding status that achieves the requirements of the Trust agreement. Actual contributions for 2018 could vary based on investment returns and interest rates.

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, 2018, CHET's investment in Transco was approximately $7.3 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, 2018, CH Energy Group 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 ("MGP") 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") which expired on March 31, 2018, or Brownfield Cleanup Agreement ("BCA"). The DEC has placed seven sites on the New York State Environmental Site Remediation Database. In addition, Central Hudson is also performing environmental SIR at two other non-MGP sites within its service territory. The first site, Little Britain Road, operating under a VCA, still requires additional necessary SIR related work performed. Central Hudson's outside legal counsel has initiated efforts, in advance of the VCA program's expiration, to execute either a Consent Order or BCA to replace the VCA. The second site, Eltings Corners, is proceeding with SIR related work stipulated within the facility's' current Resource Conservation and Recovery Act Hazardous Waste Storage Permit issued and administered by the DEC under 6NYCRR Part 373.

Central Hudson accrues for remediation costs based on the amounts that can be reasonably estimated at a point in time. As of March 31, 2018, Central Hudson has accrued $55.3 million with respect to all SIR activities, including operation, maintenance and monitoring costs ("OM&M"), of which $16.3 million is anticipated to be spent in the next twelve months.

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.

   - **Site #9 – Little Britain Road** - RI in Progress
     - Per DEC recommendation, Central Hudson completed a survey of the site monitoring wells, developed remaining wells and collected groundwater samples for laboratory analysis in May 2017. The results of the sampling event were submitted to the DEC for review with a recommendation on the next course of action in August 2017. Based on the results, the DEC has required a supplemental investigation. As such, Central Hudson submitted a work plan to the DEC and received approval in February 2018.
     - An Environmental Easement was executed with the DEC in December 2017 and subsequently the proof of recording was submitted to the DEC in January 2018.
     - In February, a request for proposal was prepared and disseminated to Environmental Engineering Firms ("EEF") to complete the investigation activities. Commencement is anticipated in second quarter of 2018.

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 EEF in March 2017. Pre-Design Investigation ("PDI") and RD activities commenced in May 2017 with full-scale remediation projected to commence in mid-2018 pending receipt of required regulatory approvals and permits.
     - A RD/RAWP detailing the upland (including bulkhead installation) and Hudson River remediation activities was submitted to the DEC in February 2018. Central Hudson is currently coordinating a meeting with the DEC to discuss.
     - Approximately $46.3 million has been accrued as of March 31, 2018, based on the scope of work and cost estimate developed for remediation and OM&M activities, of which $12.6 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.
  - PDI activities were completed during the second quarter of 2017 and the results were submitted as an appendix to the RAWP to the DEC in September 2017.
  - Bid responses from environmental remediation contractors were received for evaluation in October 2017 and a contract to complete the remedial activities was executed in January 2018. Pending required regulatory approvals, remedial activities are anticipated to commence in the second quarter of 2018.
  - Approximately $3.2 million has been accrued as of March 31, 2018, based on the scope of work and cost estimate developed for remediation and OM&M activities, of which $3.1 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.

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** – Post-Remediation 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.
  - An Environmental Easement for Area A was executed with the DEC and filed with the Orange County Clerk in March 2017.
  - The CCR for Area A was approved by the DEC in August 2017.
  - At the request of the DEC a draft SMP was resubmitted in June 2017 for review and approval. In August and November 2017 the DEC requested several modifications. A final SMP was submitted to the DEC in December 2017 and approved in February 2018.
  - The DEC approved the FER summary letter in February 2018 and issued a Satisfactory Completion letter changing the site classification from active to closed on February 28, 2018.

- **Site #2 – Newburgh Area B and C** – Post-Remediation In Progress
  - At the request of the DEC, a CCR associated with the remedial activities completed in Areas B & C and a draft SMP related to Area B were resubmitted for review and approval in June 2017. The CCR was approved in July 2017. The final SMP was submitted to the DEC in December 2017 and approved in February 2018. The DEC issued a Satisfactory Completion letter changing the site classification from active to closed on February 28, 2018.
  - Approximately $2.3 million has been accrued for all areas of Site #2, as of March 31, 2018, based on the scope of work and cost estimate developed for remediation

and OM&M activities, of which $0.1 million is expected to be spent in the next twelve months.

- **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 April 2017. 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 2017.
  - In October 2016, as per the request of the DEC, an updated SMP was submitted for review and approval. The SMP was subsequently approved in October 2017.
  - All required remedial work was completed and a Release and Covenant Not to Sue Letter was issued on March 27, 2018 by the DEC.

- **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 April 2017. No actionable findings were noted and the required PRR summarizing the results was submitted to the DEC for review in April 2017.

- **Site #6 – Kingston** – Post-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 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 were completed in June 2017.
  - An Environmental Easement was executed with the DEC and filed with the Ulster County Clerk in the third quarter of 2017.
  - The final SMP was submitted and approved by the DEC in November 2017.
  - The DEC approved the FER and issued a Certificate of Completion ("COC") in December 2017 and the COC was subsequently filed with the Ulster County Clerk.
  - Approximately $2.5 million has been accrued as of March 31, 2018, based on the scope of work and estimated costs for OM&M activities, of which $0.1 million is expected to be spent over the next twelve months.

– *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.

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 $17.4 million recovered through March 31, 2018.
- The total spent in the three months ended March 31, 2018 and 2017 related to site investigation and remediation was approximately $0.5 million and $2.5 million.
- The regulatory asset balance including carrying charges as of March 31, 2018, December 31, 2017 and March 31, 2017 was $59.3 million, $59.8 million and $63.1 million, respectively, 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, 2018 and 2017. We do not expect insurance recoveries to offset a meaningful portion of total costs.

Other Environmental Matters

On April 17, 2017, Central Hudson received a Request for Information from the United States Environmental Protection Agency (“EPA”) pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act, regarding the Wappingers Creek Superfund Site in Wappinger Falls, NY. In July 2017, Central Hudson responded to the Request for Information by submitting information and documents to the EPA. Since that submittal, the Company has received no further communication from the EPA regarding this matter. The Company cannot predict the outcome of, or assess the extent of liability, if any, relating to this matter.

Litigation

Asbestos Litigation

Central Hudson is involved in various asbestos lawsuits.

As of March 31, 2018, of the 3,372 asbestos cases brought against Central Hudson, 1,179 remain pending. Of the cases no longer pending against Central Hudson, 2,037 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 14 – 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), CHGT which has no current activity, 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 natural gas.

CH Energy Group Segment Disclosure

(In Thousands)

	Three Months Ended March 31, 2018				
	Segments		Other Businesses and Investments	Eliminations	Total
	Central Hudson				
	Electric	Natural Gas			
Revenues from external customers	$ 147,167	$ 70,568	$ -	$ -	$ 217,735
Intersegment revenues	9	146	-	(155)	-
Total operating revenues	147,176	70,714	-	(155)	217,735
Energy supply costs	58,562	35,246	-	(155)	93,653
Operating expenses	64,512	18,349	58	-	82,919
Depreciation and amortization	10,549	3,184	-	-	13,733
Operating income (loss)	13,553	13,935	(58)	-	27,430
Other income, net	876	302	300	-	1,478
Finance charges	5,965	1,969	261	-	8,195
Income (loss) before income taxes	8,464	12,268	(19)	-	20,713
Income tax expense (benefit)	752	3,144	(6)	-	3,890
Net Income (Loss) Attributable to CH Energy Group	$ 7,712	$ 9,124	$ (13)	$ -	$ 16,823
Segment Assets at March 31, 2018	$ 1,663,080	$ 442,084	$ 14,259	$ (1,795)	$ 2,117,628

CH Energy Group Segment Disclosure

(In Thousands)

	Three Months Ended March 31, 2017				
	Segments		Other Businesses and Investments	Eliminations	Total
	Central Hudson				
	Electric	Natural Gas			
Revenues from external customers	$ 135,546	$ 59,433	$ -	$ -	$ 194,979
Intersegment revenues	6	116	-	(122)	-
Total operating revenues	135,552	59,549	-	(122)	194,979
Energy supply costs	41,480	22,831	-	(122)	64,189
Operating expenses[(1)]	63,578	18,614	66	-	82,258
Depreciation and amortization	9,799	2,892	-	-	12,691
Operating income (loss)	20,695	15,212	(66)	-	35,841
Other income, net[(1)]	320	(107)	368	-	581
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

[(1)] Effective January 2018, the Company adopted ASU 2017-07 which required the non-service cost component of pension cost to be reported outside income from operation and under other income, net. Non-service cost component of $0.8 million for the period ended March 31, 2017 have been reclassified to conform to 2018 presentation.

NOTE 15 - 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 derivative contracts are typically either exchange-traded or over-the-counter ("OTC") instruments. 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. Central Hudson uses derivative contracts to reduce the impact of volatility in the prices of natural gas and electricity and to hedge exposure to volatility in interest rates for its variable rate long-term debt. 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 mechanisms. 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 mechanisms 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, 2018 are as follows:

Central Hudson	% of Requirement Hedged [1]
Electric Derivative Contracts:	0.93 million MWh
April – December 2018	27.7%
2019	19.1%
Natural Gas Derivative Contracts:	0.4 million Dth
November – December 2018	6.5%
January – March 2019	7.4%

(1) Projected coverage as of March 31, 2018.

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 its $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 22 total agreements held by Central Hudson, 11 contain credit-risk contingent features and two were in a liability position. As of March 31, 2018, the amount that would be required to settle these instruments if the contingent features were triggered was $4.9 million.

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, 2018, December 31, 2017, and March 31, 2017, 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, 2018, December 31, 2017 and March 31, 2017 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	Gross Amounts Not Offset in the Statement of Financial Position: Cash Collateral Received	Net Amount
As of March 31, 2018						
Derivative Contracts:						
Central Hudson - natural gas	$ 8	$ -	$ 8	$ -	$ -	$ 8
Total CH Energy Group and Central Hudson Assets	$ 8	$ -	$ 8	$ -	$ -	$ 8
As of December 31, 2017						
Derivative Contracts:						
Central Hudson - electric	$ 1,540	$ -	$ 1,540	$ 482	$ -	$ 1,058
Total CH Energy Group and Central Hudson Assets	$ 1,540	$ -	$ 1,540	$ 482	$ -	$ 1,058
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

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	Gross Amounts Not Offset in the Statement of Financial Position: Cash Collateral Received	Net Amount
As of March 31, 2018						
Derivative Contracts:						
Central Hudson - electric	$ 7,995	$ -	$ 7,995	$ -	$ -	$ 7,995
Central Hudson - natural gas	7	-	7	-	-	7
Total CH Energy Group and Central Hudson Liabilities	$ 8,002	$ -	$ 8,002	$ -	$ -	$ 8,002
As of December 31, 2017						
Derivative Contracts:						
Central Hudson - electric	$ 3,266	$ -	$ 3,266	$ 482	$ -	$ 2,784
Central Hudson - natural gas	509	-	509	-	-	509
Total CH Energy Group and Central Hudson Liabilities	$ 3,775	$ -	$ 3,775	$ 482	$ -	$ 3,293
As of March 31, 2017						
Derivative Contracts:						
Central Hudson - electric	$ 7,498	$ -	$ 7,498	$ 612	$ -	$ 6,886
Total CH Energy Group and Central Hudson Liabilities	$ 7,498	$ -	$ 7,498	$ 612	$ -	$ 6,886

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, 2018, December 31, 2017 and March 31, 2017, 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, 2018[(1)]				
Assets:				
Derivative Contracts:				
Central Hudson - natural gas	$ 8	$ 8	$ -	$ -
Total CH Energy Group and Central Hudson Assets	$ 8	$ 8	$ -	$ -
Liabilities:				
Derivative Contracts:				
Central Hudson - electric	$ 7,995	$ -	$ 7,995	$ -
Central Hudson - natural gas	7	7	-	-
Total CH Energy Group and Central Hudson Liabilities	$ 8,002	$ 7	$ 7,995	$ -
As of December 31, 2017[(1)]				
Assets:				
Derivative Contracts:				
Central Hudson - electric	$ 1,540	$ -	$ 1,540	$ -
Total CH Energy Group and Central Hudson Assets	$ 1,540	$ -	$ 1,540	$ -
Liabilities:				
Derivative Contracts:				
Central Hudson - electric	$ 3,266	$ -	$ 3,266	$ -
Central Hudson - natural gas	509	509	-	-
Total CH Energy Group and Central Hudson Liabilities	$ 3,775	$ 509	$ 3,266	$ -
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

(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, 2018, December 31, 2017 and March 31, 2017 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,	
	2018	2017
Balance at Beginning of Period	$ -	$ 512
Unrealized losses	-	(7,398)
Realized losses	-	(4,866)
Purchases	-	-
Issuances	-	-
Sales and settlements	-	4,866
Transfers in and/ out of Level 3	-	-
Balance at End of Period	$ -	$ (6,886)
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	$ -	$ -

At March 31, 2018, Central Hudson's derivative contracts were comprised of swap contracts for electricity and natural gas. All natural gas contracts are classified as Level 1 and all electric contracts are classified as Level 2 in the fair value hierarchy.

All electric swap contracts which had previously been classified as Level 3 were reclassified and transferred to Level 2 on December 31, 2017. Since the NYISO Zone G forward prices obtained from OTC Global Holdings, as posted on the S&P Global Market Intelligence website and used to calculate the fair value of the electric swap contracts are observable, Management has determined that Level 2 classification is appropriate.

Unrealized gains and losses on Central Hudson's derivative contracts have no impact on earnings since the energy contracts are subject to regulatory deferral.

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 mechanisms in revenues.

For the three months ended March 31, 2018 and 2017, neither CH Energy Group's nor Central Hudson had derivatives designated as hedging instruments. The following table summarizes the effects of CH Energy Group's and Central Hudson's 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,		
	2018	2017	Location of Gain (Loss)
Central Hudson:			
Electricity swap contracts	$ 1,767	$ (4,866)	Deferred purchased electric costs(1)
Natural gas swap contracts	(369)	353	Deferred purchased natural gas costs(1)
Total CH Energy Group and Central Hudson	$ 1,398	$ (4,513)	

(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

In October 2017, Central Hudson entered into a weather option for the period December 1, 2017 through March 31, 2018, 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 mechanisms. 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 $1.4 million premium paid was amortized to purchased electricity over the term of the contract and the $2.2 million payout earned was recorded as a reduction to purchased electricity in the Statement of Income, with $1.3 million recorded in the first quarter of 2018.

In 2016, Central Hudson entered into a similar weather option for the period December 1, 2016 through March 31, 2017. The aggregate limit on the contract was $5 million. 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.

Central Hudson – Natural Gas

In October 2017, Central Hudson entered into a weather option for the period December 1, 2017 through March 31, 2018, 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 mechanisms. 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 earned under the contract. Therefore, this contract was accounted for in accordance with guidance specific to accounting for weather derivatives. The $1.2 million premium paid was amortized to purchased natural gas over the term of the contract. The $3.8 million payout earned was recorded as a reduction to purchased natural gas in the Statement of Income, with $2.9 million recognized in the first quarter of 2018.

In 2016, Central Hudson entered into a similar weather option for the period December 1, 2016 through March 31, 2017. The aggregate limit on the contract was $5 million. The premium paid was amortized to purchased natural gas over the term of the contract and there were no associated payouts upon the settlement of the contract.

NOTE 16 – Other Fair Value Measurements

Other Assets Recorded at Fair Value

In addition to the derivatives reported at fair value discussed in Note 15 – "Accounting for Derivative Instruments and Hedging Activities", CH Energy Group and Central Hudson report certain other assets at fair value in the Condensed Balance Sheets. The following table summarizes the amount reported at fair value related to these assets as of March 31, 2018, December 31, 2017 and March 31, 2017 (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, 2018:				
Other Investments	$ 10,849	$ 10,849	$ -	$ -
As of December 31, 2017:				
Other Investments	$ 7,574	$ 7,574	$ -	$ -
As of March 31, 2017:				
Other Investments	$ 9,759	$ 9,759	$ -	$ -

As of March 31, 2018, December 31, 2017 and March 31, 2017, a portion of the trust assets for the funding of SERP and of the 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 "Other investments" within the Deferred Charges and Other Assets section of the CH Energy Group Consolidated Condensed and Central Hudson Condensed Balance Sheets.

The remaining amount reported in "Other investments" represents trust assets for the funding of the SERP and Deferred Compensation Plan held in trust owned life insurance policies, which are recorded at cash surrender value. As of March 31, 2018 and December 31, 2017 the total cash surrender value of trust-owned life insurance held by these trusts was approximately $28.6 million for both periods. The change in the cash surrender value is reported in "Other – net" income in the CH Energy Group Condensed Consolidated and Central Hudson Condensed Income Statements.

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 (In Thousands):

CH Energy Group

	March 31, 2018		December 31, 2017		March 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed rate debt	$ 550,625	$ 592,783	$ 550,625	$ 614,950	$ 525,031	$ 581,168
Variable rate debt	63,700	63,700	63,700	63,700	63,700	63,700
Total	$ 614,325	$ 656,483	$ 614,325	$ 678,650	$ 588,731	$ 644,868
Estimated effective interest rate		4.35%		4.33%		4.37%

Central Hudson

	March 31, 2018		December 31, 2017		March 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed rate debt	$ 535,250	$ 576,178	$ 535,250	$ 598,255	$ 508,250	$ 562,351
Variable rate debt	63,700	63,700	63,700	63,700	63,700	63,700
Total	$ 598,950	$ 639,878	$ 598,950	$ 661,955	$ 571,950	$ 626,051
Estimated effective interest rate		4.29%		4.26%		4.29%

NOTE 17 – 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 principal 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 Companies, respectively, for the three months ended March 31, 2018 and 2017 (In Thousands):

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
CH Energy Group (Thompson Hine LLP)	$ 459	$ 522
Central Hudson (Thompson Hine LLP)	$ 445	$ 506
Central Hudson (The Chazen Companies)	$ 116	$ 40

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. In addition, CH Energy Group and Central Hudson may also incur charges from Fortis for federal income taxes under their tax sharing agreement. 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, 2018, December 31, 2017 and March 31, 2017 for CH Energy Group and Central Hudson are as follows (In Thousands):

	March 31, 2018	December 31, 2017	March 31, 2017
CH Energy Group(1)	Fortis(2)	Fortis(3)	Fortis
Accounts Receivable	$ 244	$ 2895	$ 406
Accounts Payable	$ 349	$ 16	$ -

	March 31, 2018			December 31, 2017			March 31, 2017		
Central Hudson(1)	CHEG	Fortis(2)	Other Affiliates	CHEG	Fortis(3)	Other Affiliates	CHEG	Fortis	Other Affiliates
Accounts Receivable	$ 545	$ 40	$ 6	$ 55	$ 2,156	$ 5	$ 75	$ 4	$ -
Accounts Payable	$ 976	$ 343	$ -	$ 710	$ -	$ -	$ 700	$ -	$ -

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

(2) During Q1 2018, Central Hudson received mutual aid from UNS an affiliate company of Central Hudson. These amounts are not charged to operating expense. As of March 31, 2018, the balance included in the Accounts Payable amounts for CH Energy Group and Central Hudson was approximately $0.3 million.

(3) During 2017, Central Hudson provided mutual aid and assistance for service restoration efforts to Turks and Caicos Islands Power Company – Fortis TCI Ltd., a Fortis subsidiary and Central Hudson affiliate company. These amounts are not charged to operating expense, but rather are billed fully to the affiliate company. The total amount of service and materials provided to Fortis TCI Ltd. in 2017 for restoration efforts was approximately $4.4 million. As of December 31, 2017, the balance included in the Accounts Receivable amounts for CH Energy Group and Central Hudson was approximately $2.3 million.

Related party transactions in operating expenses for the three months ended March 31, 2018 and 2017 for CH Energy Group and Central Hudson are as follows (In Thousands):

	Three Months Ended March 31, 2018		Three Months Ended March 31, 2017	
	CHEG	Fortis[(1)]	CHEG	Fortis[(1)]
CH Energy Group	$ -	$ 821	$ -	$ 542
Central Hudson	$ 912	$ -	$ 666	$ -

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

NOTE 18 – 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.

Leases
ASU No. 2016-02, 2017-13 and 2018-01 - *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. 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 its financial condition, results of operations and cash flows.

Derivatives and Hedging
ASU No. 2017-12 *Derivatives and Hedging* amends the hedge accounting recognition and presentation requirements in ASC 815, improving the transparency and understandability of information conveyed to financial statement users about an entity’s risk management activities and reducing the complexity of and simplifying the application of hedge accounting by preparers. This update is effective for calendar years beginning January 2019 and is to be applied using a modified retrospective approach, 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.

NOTE 19 – Subsequent Events

An evaluation of subsequent events through the date these Condensed Consolidated Financial Statements were issued was completed to determine whether circumstances warranted recognition and disclosure of events or transactions in the Condensed Consolidated Financial Statements as of March 31, 2018.

On April 16, 2018, CH Energy Group's Board of Directors approved a $5.5 million dividend payment to its parent FortisUS.

On April 16, 2018, CH Energy Group's Board of Directors approved the acceptance of a capital contribution in the amount of $8.0 million from its parent FortisUS to be received in the second quarter of 2018.

On April 16, 2018, Central Hudson's Board of Directors approved the acceptance of a capital contribution in the amount of $2.5 million from its parent CH Energy Group to be received in the second quarter of 2018.

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

For the Three Months Ended March 31, 2018

This information should be read in conjunction with the Quarterly Condensed Financial Statements and the notes contained herein, and the audited 2017 Annual Financial Report's financial statements and notes, and Management's Discussion and Analysis of Financial Condition and Results of Operations.

Company: CH Energy Group is the holding company parent corporation of four principal, wholly owned subsidiaries, Central Hudson Gas & Electric Corporation ("Central Hudson" or the "Company"), Central Hudson Enterprises Corporation, 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"), a leader in the North American regulated electric and gas utility business, with fiscal 2017 revenue of CAD$8.3 billion and total assets of approximately CAD$48 billion. Fortis and its subsidiaries' 8,500 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 deliver 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

Management continues to focus on investment in Central Hudson's electric and natural gas infrastructure as the core of its strategy. Central Hudson's five year forecast includes an average of approximately $220 million of capital expenditures per year. The long-term capital program provides for continued strengthening of existing electric and gas infrastructure, expansion of gas distribution systems, new common facilities, and investments in information and distribution system technologies that will improve reliability and customer satisfaction. Central Hudson has effectively managed its operational challenges, including significant weather events, in the past few years.

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 Independent System Operator in April 2016. A final decision on whether a project will be awarded is not expected until the third quarter of 2018.

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		
	2018	2017	Change
Electricity Sales (GWh)	1,295	1,244	51
Natural Gas Sales (PJ)	9.4	8.9	0.5
(In millions)			
Revenues	$ 217.7	$ 195.0 (1)	$ 22.7
Energy Supply Costs - Matched to Revenues	93.7	64.3	29.4
Operating Expenses - Matched to Revenues	20.5	24.8 (1) (2)	(4.3)
Operating Expenses - Other	62.3	57.3	5.0
Depreciation and Amortization	13.7	12.7	1.0
Other Income, net	1.1	0.2 (2)	0.9
Finance Charges	7.9	7.7	0.2
Income Taxes	3.9	11.1	(7.2)
Net income	$ 16.8	$ 17.3	$ (0.5)

(1) Effective January 2018, the Company made an accounting policy election to present revenues, net of utility taxes prospectively, with no impact to net income. Revenues and operating expenses matched to revenues for the period ended March 31, 2017 have not been adjusted to conform to 2018 presentation. Utility taxes included in revenue for the period ended March 31, 2017 is $2.3 million.

(2) Effective January 2018, the Company adopted ASU 2017-07 which required the non-service cost component of pension cost to be reported outside income from operation and under other income, net. Non-service cost component of $0.8 million for the period ended March 31, 2017 has been reclassified to conform to 2018 presentation.

Earnings: Earnings for the first quarter of 2018 were relatively unchanged as compared to the same period in 2017. The rate increase effective July 1, 2017 was partially offset by an increase in operating expenses, including higher storm restoration costs, tree trimming activity in response to the impact of hazardous trees resulting from insect infestation, and an increase in street light and other distribution maintenance expense. Additionally impacting earnings in the first quarter of 2018 were regulatory deferrals to return revenues to customers for estimated shared earnings and net plant and depreciation results that were below targets established in the 2015 Rate Order.

Energy supply costs reflect higher electric and natural gas commodity prices in 2018 as compared to 2017, coupled with higher 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, Central Hudson is authorized to bill customers' volumetric factors for the recovery of bad debt and working capital costs related to commodity purchases. Fluctuations in volume and price will impact the revenues collected through these factors.

Electricity Sales & Natural Gas Sales: Electricity and natural gas sales increased 4.1% and 5.6%, respectively, due to colder than normal weather in the first quarter of 2018 when compared to the corresponding period in 2017. Sales variations do not have a material impact on Central Hudson's earnings as a result of its RDM structure.

Depreciation and Amortization: Depreciation and amortization increased over the comparable prior year periods 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 for the quarter increased primarily as a result of the reclassification of non-service cost component of pension costs.

Corporate Taxes: The decrease in corporate Income tax was driven by a decrease in the effective tax rate from 39.1% in prior period to 18.8% for the quarter ended March 31, 2018, as well as, a decrease in pre-tax book income. The lower combined effective rate was primarily driven by the decrease in the federal income tax rate from 35% to 21% as mandated in the Tax Cuts and Jobs Act. This did not have a material impact on earnings as the benefits are being deferred for future pass back to customers.

Central Hudson Revenues - Electric
Period Ended March 31

(In millions)	Year to Date		
	2018	**2017**	**Change**
Revenues with Matching Expense Offsets:[(1)]			
Recovery of commodity purchases	$ 56.6	$ 40.4	$ 16.2
Sales to others for resale	2.0	1.1	0.9
Impact of Tax Cuts and Jobs Act[(2)]	(3.9)	-	(3.9)
Other revenues with matching offsets	17.6	20.6	(3.0)
Subtotal	72.3	62.1	10.2
Revenues Impacting Earnings:			
Customer sales	78.1	71.3	6.8
RDM and other regulatory mechanisms	(3.3)	(0.2)	(3.1)
Revenue requirement of bonus depreciation	(0.5)	(0.4)	(0.1)
Other revenues	0.6	2.7	(2.1)
Subtotal	74.9	73.4	1.5
Total Electric Revenues	$ 147.2	$ 135.5	$ 11.7

(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.

(2) Revenues have been reduced as a result of the deferral of the lower income tax expense under the Tax Cuts and Jobs Act for future return to customers. The offset to this revenue reduction is presented in the Income Tax Expense line in the Condensed Statement of Income.

Central Hudson Revenues - Natural Gas
Period Ended March 31

(In millions)	Year to Date		
	2018	**2017**	**Change**
Revenues with Matching Expense Offsets:[(1)]			
Recovery of commodity purchases	$ 27.5	$ 17.3	$ 10.2
Sales to others for resale	7.6	5.5	2.1
Impact of Tax Cuts and Jobs Act[(2)]	(1.8)	-	(1.8)
Other revenues with matching offsets	3.3	5.0	(1.7)
Subtotal	36.6	27.8	8.8
Revenues Impacting Earnings:			
Customer sales	34.6	29.1	5.5
RDM and other regulatory mechanisms	(1.2)	1.9	(3.1)
Revenue requirement of bonus depreciation	(0.3)	(0.2)	(0.1)
Other revenues	0.9	0.8	0.1
Subtotal	34.0	31.6	2.4
Total Natural Gas Revenues	$ 70.6	$ 59.4	$ 11.2

(1) Revenues with matching offsets do not affect earnings since they offset related costs, the most significant being energy cost adjustment revenues, which provide for the recovery of purchased 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.

(2) Revenues have been reduced as a result of the deferral of the lower income tax expense under the Tax Cuts and Jobs Act for future return to customers. The offset to this revenue reduction is presented in the Income Tax Expense line in the Condensed Statement of Income.

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 represent amounts billed in the current period to recover actual costs for particular expenses (most notably, purchased electricity and purchased natural gas, pensions and Other Post-Employment Benefits ("OPEBs") and New York State ("NYS") energy efficiency programs). Any difference between these revenues and the actual expenses incurred is deferred for future recovery from or refund to customers and, therefore, does not impact earnings, with the exception of related carrying charges, which are recorded within other income or interest charges in the CH Energy Group and Central Hudson Statement of Income. Additionally, in the first quarter of 2018, matched revenues also included revenues deferred for future pass back to customers related to the benefits of the Tax Cuts and Jobs Act.

Electric & Natural Gas Revenue:

The quarter over quarter increase in electric and natural gas revenue can primarily be attributed to increased recoveries of purchased commodity costs and the increase in customer delivery rates effective July 1, 2017, as approved in the 2015 Rate Order. Partially offsetting the increase in electric revenue were the deferral of revenue for future pass back to customers resulting from shared earnings and the net plant and depreciation results below defined targets in the 2015 Rate Order.

Central Hudson Operating Expenses
Period Ended March 31

(In millions)	Year to Date		
	2018	2017	Change
Expenses Currently Matched to Revenues:[(1)]			
Purchased electricity	$ 58.6	$ 41.5	$ 17.1
Purchased natural gas	35.1	22.8	12.3
Pension & OPEB[(3)]	3.6	3.0	0.6
NYS energy programs	11.4	10.9	0.5
Major storm reserve	0.2	1.2	(1.0)
PSC Temporary State Assessment	-	2.1	(2.1)
Other matched expenses	5.3	7.6	(2.3)
Subtotal	114.2	89.1	25.1
Other Operating Expense Variations:			
Tree trimming	4.5	4.2	0.3
Property and school taxes[(2)]	15.0	13.8	1.2
Weather related service restoration	3.7	2.4	1.3
Distribution maintenance	2.8	1.9	0.9
Uncollectible accounts and reserve	0.9	0.8	0.1
Depreciation and amortization	13.7	12.7	1.0
Other expenses	35.4	34.2	1.2
Subtotal	76.0	70.0	6.0
Total Operating Expenses	$ 190.2	$ 159.1	$ 31.1

(1) Includes expenses that, in accordance with the 2015 Rate Order, are adjusted in the current period to equal the revenues billed 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 5%, with a maximum of approximately $0.5 million, pre-tax per Rate Year.

(3) Effective January 2018, the Company adopted ASU 2017-07 which required the non-service cost component of pension cost to be reported outside income from operation and under other income, net. The non-service cost component for the period ended March 31, 2018 was $0.4 million and shown in Other-net in the Statement of Income. For the period ended March 31, 2017, approximately $0.8 million was reclassified to conform to current year presentation.

Operating Expenses: Operating expenses increased quarter over quarter primarily due to higher commodity prices. Further contributing to the increase in operating expenses were higher property and school taxes; an increase in depreciation and amortization as a result of increased capital investments; higher storm restoration costs; an increase in tree trimming activity to mitigate the impact of an environmental threat on Central Hudson’s distribution and transmission infrastructure; and increased costs associated with gas leak repairs. Partially offsetting the increase in operating expenses is the discontinuation of the NYS Temporary Assessment and the change in Central Hudson’s accounting policy effective January 1, 2018, to present utility taxes, net of revenue collected rather than gross.

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 these expenses.

Financial Position

The following table outlines the significant changes in the Balance Sheet of Central Hudson as of March 31, 2018.

CH Energy Group – Regulated – Central Hudson
Significant Changes in the Balance Sheets
as of March 31, 2018
(In millions)

Balance Sheet Account	Increase (Decrease)	Explanation
Accounts receivable	22.4	Increase is primarily due to increases in electric and natural gas commodity costs, coupled with higher sales as a result of colder than normal weather.
Other Receivable	9.0	Increase primarily due to mutual aid provided in hurricane affected areas in Puerto Rico, the balance of which is currently $10.5 million, as well as, expected receipt related to weather derivative contracts.
Regulatory assets - current	(6.5)	Decrease is due to the recovery of previously deferred commodity costs, partially offset by unrealized mark-to-market losses related to open electric and gas derivative contracts.
Regulatory assets - long term	6.5	Increase is primarily due to two major storm events in March 2018, partially offset by a decrease in income taxes recoverable through future rates.
Short-term borrowings	10.0	Proceeds from short-term borrowings were used to fund capital projects and working capital needs.
Customer advances	(6.8)	Account includes the credit balances for budget billing program customers. The decrease during the quarter is primarily due to the seasonality of the business, coupled with increases in electric and natural gas commodity costs.
Regulatory liabilities - long term	6.0	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, collections of property tax above the amortized property and school tax expense during the winter heating season, and deferrals of revenues for future pass back to customers resulting from estimated shared earnings and net plant and depreciation results below defined targets in the 2015 Rate Order. Partially reducing these increases to the liability was lower income taxes due back to customers through future rates predominately related to deferred taxes on unrealized market to market losses on commodity derivative contracts.
Accrued pension costs	(10.4)	Decrease primarily due to an $11.1 million pension contribution made to the retirement plan in January 2018.

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	
	2018	**2017**
Cash, cash equivalents and restricted cash - beginning of period	$ 17.1	$ 20.4
Operating Activities	17.6	20.3
Investing Activities	(40.1)	(38.4)
Financing Activities	12.5	14.5
Cash, cash equivalents and restricted cash - end of period	$ 7.1	$ 16.8
Dividends paid on Common Stock - CH Energy Group	$ (5.5)	$ (5.5)
Dividends paid to parent - Central Hudson	$ -	$ (4.0)

CH Energy Group had cash, cash equivalents and restricted cash of $7.1 million and $16.8 million as of March 31, 2018 and 2017, respectively.

Operating Activities: Cash generated from operating activities was $17.6 million for the three months ended March 31, 2018, compared to $20.3 million for the corresponding period in 2017. The $2.7 million decrease in cash provided by operating activities is primarily due to various changes in working capital, primarily driven by timing.

Investing Activities: Cash used in investing activities was $40.1 million for the three months ended March 31, 2018, as compared to $38.4 million for the same period in the prior year. Capital expenditures were relatively constant in the periods and reflected the Company's ongoing commitment to making significant investments in our delivery systems, our supporting facilities and IT systems in an effort to better serve our customers. Capital expenditures for the year ending December 31, 2018 are estimated to be approximately $215 million.

Financing Activities: Cash generated from financing activities decreased $2.0 million for the first three months of 2018 compared with 2017. During 2018, CH Energy Group received a capital contribution of $8.0 million from its parent FortisUS Inc. ("FortisUS"), as well as, borrowed $10 million to fund capital projects and for working capital needs. Dividend payments were consistent in both periods at $5.5 million.

Anticipated Sources and Uses of Cash

CH Energy Group's cash flow is primarily generated by the operations of its utility subsidiary, Central Hudson. Generally, the subsidiary does not accumulate significant amounts of cash but rather provides cash to CH Energy Group in the form of dividends.

Central Hudson expects to fund capital expenditures with cash from operations, a combination of short-term and long-term borrowings and capital infusions from FortisUS. Central Hudson may alter its plan for capital expenditures as its business needs require.

Central Hudson intends to fund growth in its long-lived assets in a manner that maintains an equity ratio of no less than 48%, excluding short-term debt balances. Central Hudson plans to utilize short-term debt to fund seasonal and temporary variations in working capital requirements. If wholesale energy prices increase, Central Hudson would expect a corresponding increase in its current level of working capital.

Central Hudson anticipates that the enactment of the Tax Cuts and Jobs Act will result in lower revenues from customers due to the change in the federal income tax rate from 35% to 21%. The resulting decrease in cash coupled with the impact of new restrictions for regulated utilities under the Tax Cuts and Jobs Act related to bonus depreciation deductibility will require Central Hudson to seek additional sources to fund working capital.

CH Energy Group believes cash generated from operations and funds obtained from its financing program will be sufficient in 2018 and the foreseeable future to meet working capital needs, pay dividends on its Common Stock, and fund investments to fulfill CHET's investment in Transco and Central Hudson's public service obligations and growth objectives.

CH Energy Group's secondary sources of funds are its cash reserves and its credit facilities. CH Energy Group's ability to use its credit facility is contingent upon maintaining certain financial covenants. CH Energy Group does not anticipate that those covenants will restrict its access to funds in 2018 or the foreseeable future.

Committed Credit Facilities

By Order issued and effective September 18, 2015, the PSC authorized an increase in Central Hudson's committed available credit facilities to $200 million. On October 15, 2015, Central Hudson entered into a five-year revolving 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 with a maturity date of July 10, 2020. Consolidated CH Energy Group's committed credit as of March 31, 2018 and December 31, 2017 was $250 million.

There were no outstanding amounts under either credit facility as of March 31, 2018 and December 31, 2017.

Uncommitted Credit

At March 31, 2018 and December 31, 2017, Central Hudson had uncommitted short-term credit arrangements with three commercial banks totaling $40 million of which $10 million was outstanding at March 31, 2018. There was no outstanding balance at December 31, 2017.

Central Hudson's Bond Ratings

	March 31, 2018		December 31, 2017	
	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 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.

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, 2018		December 31, 2017	
		%		%
Long-term Debt[(1)]	$ 614.3	48.5	$ 614.3	49.6
Short-term Debt	10.0	0.8	-	-
Common Equity	642.4	50.7	623.0	50.4
Total	$ 1,266.7	100.0	$ 1,237.3	100.0

(1) Includes current maturities of long term debt.

Central Hudson

	March 31, 2018		December 31, 2017	
		%		%
Long-term Debt[(1)]	$ 599.0	47.8	$ 599.0	48.9
Short-term Debt	10.0	0.8	-	-
Common Equity	643.9	51.4	627.0	51.1
Total	$ 1,252.9	100.0	$ 1,226.0	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.

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, 2017

Regulation: There were no material changes to Central Hudson's regulatory accounting policies during the three months ended March 31, 2018.

Critical Accounting Estimates: There were no material changes to CH Energy Group's or Central Hudson's critical accounting estimates during the three months ended March 31, 2018.

GAAP: There were no material changes to CH Energy Group's or Central Hudson's accounting policies during the three months ended March 31, 2018, except as noted below:

Revenue from Contracts with Customers
Effective January 1, 2018, CH Energy Group and Central Hudson adopted Accounting Standard Codification ("ASC") 606, which requires recognition of revenue when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the company expects to receive using the modified retrospective approach. As part of the implementation of ASC 606, CH Energy Group and Central Hudson made an accounting policy election to report revenues net of utility taxes.

Presentation of Pension Costs
Effective January 1, 2018, CH Energy Group and Central Hudson adopted ASU No. 2017-07 which requires employers to report the service cost component in the same line item as other compensation costs and Non-Service Costs ("NSC") be presented in the income statement outside income from operations. The amendments also allow only the service cost component to be eligible for capitalization. PSC Case 17-M-0363 allowed regulated entities to no longer capitalize non-service costs components of pension and OPEB as required by accounting principles generally accepted in the United States of America and permitted continuation of deferral accounting treatment. As part of the implementation of ASU 2017-07, CH Energy Group and Central Hudson have changed the capitalization rate to exclude the NSC component and will report NSC in Other Net in the Condensed Consolidated Statements of Income.

Business Outlook and Summary of Significant Business Risks

Outlook

There were no material changes to the Company's mission and strategy since its 2017 Annual Financial Report.

Risk Factors

The were no material changes to the Company's risk factors, as set forth in its 2017 Annual Financial Report, during the first quarter of 2018.

Regulatory Proceedings

There were no material changes in Central Hudson's regulatory proceedings from those disclosed in the 2017 Annual Financial Report, except as noted below.

Clean Energy Standard Proceedings
In June 2015, the Governor announced New York's 2015 State Energy Plan as a comprehensive roadmap to build a clean, resilient and affordable energy system for NYS. On March 15, 2018, the Commission ordered modifications to the existing Maintenance Tier program, which applies only to eligible, preexisting renewable facilities. The modifications include expanding the number of already-built renewable energy projects eligible for funding under the program in cases of need, increasing the size threshold for eligible existing hydroelectric facilities from 5 MW up to 10 MW, and lowering regulatory burdens making it easier to participate in the program if the facility is under economic duress. This will facilitate the State meeting its renewable targets by 2030 but also lessen the burden on existing ratepayers. Additionally in 2018, NYSERDA awarded $1.4 billion for 26 new large-scale renewable energy projects from the 2017 Renewable Energy Standard Solicitation. The awarded projects are located throughout NYS and include 22 solar farms, three wind farms, and one hydroelectric project. These projects are expected to be operational by 2022 and, once operational, will add more than 1,380 MW of renewable capacity. NYSERDA expects these projects to create more than 3,000 short and long term jobs in construction, operations and maintenance.

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 ("VDER")" to propose valuation methods for DER. These compensation reforms are being considered as a reform to net metering. On February 21, 2018 the PSC issued an order that expanded the eligibility for participation in Value Stack from 2 MW to projects up to 5MW subject to the existing VDER technology eligibility and with the exception of Combined Heat and Power. In addition to increasing the size cap from 2 MW to 5 MW the Order states: 1) projects are subject to the same compensation mechanisms and tranche system as projects smaller than 2MW (Value Stack), 2) allows multiple 2 MW projects that are located next to each other to combine, 3) doesn't require a low income component, 4) revised the treatment of overflow in tranches going forward by limiting tranche overflow to a max of 1MW so that if project size exceeds the remaining capacity in the current tranche by more than 1 MW, the entire project is placed in the next tranche and 5) allows an individual satellite account to be served by several generators, including multiple remote generators at host sites and a generator located at the satellite account with a cumulative rated capacity of up to 5 MW.

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

Community Choice Aggregation ("CCA")

On January 18, 2018 and March 16, 2018, the PSC approved CCA programs filed by Good Energy and Joule Assets, Inc. respectively, subject to certain modification to their implementation plans and filing of a final Data Protection Plan. CCA programs provide municipalities with the opportunity to aggregate electric and/or gas supply on behalf of their residents and small businesses on an opt-out basis. The CCA framework requires that one or more municipalities, or their designee in the role of a CCA administrator, file an Implementation Plan and Data Protection Plan for Commission approval. In addition, they must submit certifications of local authorization before requesting data from a utility, soliciting proposals from energy service companies ("ESCO"s), or beginning operation of a CCA program. The CCA Framework Order requires that Implementation Plans include: (a) a description of the program and its goals, including plans for value-added services; (b) a public outreach plan, including multiple forms of outreach and engagement over a period of no less than two months; (c) drafts of written communications with residents, including opt-out letters; (d) contact information for a CCA liaison to respond to questions or concerns by potential CCA customers; and (e) identification of at least one local official or agency in each municipality that residents of that municipality may contact with questions or comments. To date, seven communities within the Central Hudson service territory have each exercised their Municipal Home Rule Law authority to initiate a CCA program. Additional communities may pass local laws in the future to join or establish a CCA. Under the program regulations, residents and small businesses can decline the opportunity to join a CCA. The approved Joule Assets' CCA program also allows CCA members to become community-distributed generation subscribers, allowing residents to participate in local community-scale renewable energy projects. Once the final Good Energy and Joule Assets' implementation plans are approved by the Commission, Central Hudson is required to provide aggregated and customer specific–data to CCA Administrators and ESCOs under the terms and timeframes in the Commission's April 21, 2016 CCA Framework Order. Prior to the transfer of any customer data, the CCA Administrator is required to execute a Data Security Agreement with the Company.

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. Central Hudson's most recent implementation plan update was filed on March 20, 2018 in which the Company reported nineteen recommendations completed and closed by Staff, thirty-three recommendations considered completed by the Company but pending Staff's review, and seven still in progress. The recommendations are not expected to have a significant impact on Central Hudson's earnings, financial position or cash flows.

Impact of Changes in Federal Tax Law

On December 29, 2017 the Commission issued an order initiating a proceeding, Case 17-M-0815, to study the potential effects of the enactment of the December 22, 2017 Tax Cuts and Jobs Act on the tax expenses and liabilities of New York State utilities, and the regulatory treatment of any windfalls in order to preserve the benefits for ratepayers. Among items of most significance that will be addressed in the proceeding are the impacts of the reduction in the corporate federal income tax rate from 35% to 21% (not currently reflected in the Company's currents rates), as well as the treatment of bonus depreciation and net operating losses. The Order directs the PSC Staff to issue their recommendations for the treatment of the Tax Cuts and Jobs Act's effects. A Technical Conference was held on February 9, 2018 to inform and assist in developing a subsequent Staff recommendation to the Commission.

On March 29, 2018 Staff filed its proposal that contains recommendations to the Commission for the treatment of the effects of the Tax Act associated with 1) how to capture the net benefits for customers; 2) ratemaking mechanisms that can be employed to return ongoing and deferred benefits to customers; 3) the accounting and ratemaking treatment of the major tax changes required by the Tax Act; and 4) the interest rate to be applied to the deferred benefits until these benefits are passed back to customers. Comments by interested parties on Staff's recommendations are due on or before June 27, 2018.

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

In the Matter of Utility Preparation & Response to Power Outages During the March 2018 Winter Storms – DPS 18-00618

On March 14, 2018, following the March 2018 Nor'easter storms on March 2nd (Riley) and March 7th (Quinn), the PSC notified the chief executives of the state's major electric utility companies that an investigation into preparedness of and response to the two early March storms was underway, including all aspects of the Companies' filed and approved emergency plans. The investigation will include evaluation under the Commission's Emergency Response Scorecard that was filed by Central Hudson with the Commission on April 11, 2018. In addition, per state regulations, the Company is required to perform and file with the Commission an Emergency Response Performance Assessment within 60 days. Central Hudson's performance assessment is due May 11, 2018. The PSC Staff will conduct 20 public statements hearings ("PSH") in April throughout the state to receive public comments regarding the storm preparedness and response of the electric companies. PSH are scheduled for April 16 and April 23 in Central Hudson's service territory in Athens in Greene County and in Poughkeepsie in Dutchess County, respectively. The Company is responding to numerous Staff data requests that have been submitted as part their extensive review of the Company's storm preparedness and responsiveness.

2017 Electric and Gas Rate Filing Request

Central Hudson filed an electric and natural gas rate case on July 28, 2017 with the PSC seeking electric and natural gas delivery revenue increases of $43 million and $18.1 million, respectively, to become effective July 1, 2018. The rate filing was made in order to align electric and natural gas delivery rates with the projected costs of providing service to our customers.

On April 18, 2018, a Joint Proposal ("JP") was filed proposing a comprehensive three-year rate plan for Central Hudson's electric and natural gas delivery service to be effective for the period beginning July 1, 2018 and ending June 30, 2021. The JP was signed by the Company, Department of Public Service Staff, Multiple Intervenors, Utility Intervention Unit, Dutchess

County, Public Utility Law Project, Pace Center for Climate Change, Natural Resources Defense Council, Department of Defense, Acadia Center, NY Geothermal Energy Organization and Bob Wyman. To the extent Commission approval of the JP occurs after July 1, 2018 the JP includes a make whole provision to ensure that Central Hudson recovers the allowed Rate Year 1 (“RY1”) revenues by the end of RY1.

The JP proposes revenue increases which, if approved, would result in average residential monthly bill impacts of 1.33%, 2.99% and 4.41% for electric customers and 2.05%, 4.40% and 5.45% for natural gas customers in each year of the rate plan.

The proposed revenue requirements reflect an allowed return on equity of 8.80% for all three years with a common equity ratio of 48% for RY1, 49% for RY2 and 50% for RY3. Earnings in excess of 9.30% will be shared with customers. The revenue requirements reflect authorization for capital expenditures of over $650 million over the term of the rate plan including an increase in information technology investments, funding to begin implementing a multi-year plan to construct a Training Center and Primary Control Center, continued investment for Leak Prone Pipe Replacement, and Distribution Automation and Network Strategy. The revenue requirements also reflect an increase in funding for Transmission and Distribution Right of Way Maintenance, increased low income discounts, funding to eliminate credit/debit card and walk-in center payment fees paid by customers and an increase in energy efficiency program costs which will be moved into base rates.

The JP introduces five electric and one natural gas Earnings Adjustment Mechanism with targets set for minimum, midpoint and maximum performance. Potential maximum earnings adjustments total $2.0 million in 2018, $4.3 million in 2019, $4.7 million in 2020 and $4.9 million in 2021.

The proposed rates reflect a reduction to the customer charge for residential and electric small commercial classes. A Rate Adjustment Mechanism is proposed to return or collect certain deferrals and costs on a timely basis and the electric RDM has been expanded to include SCs 3, 5 and 8.

The JP also proposes changes to various performance mechanisms for electric, natural gas and customer service. For electric reliability, the System Average Interruption Frequency Index target is raised to 1.38 in 2018 and gradually reduced back to 1.30 by the end of the rate plan. In the natural gas business, gas safety metric targets were restated for calendar year 2018 and other changes were made including revised targets for all metrics, a reduction to potential NRAs and additional positive revenue adjustments for surpassing certain gas safety metrics. For customer service, the JP includes more stringent Customer Satisfaction and PSC Complaint targets, new Call Answer Rate and Residential Termination/Uncollectible metrics and a reduction in the total potential negative revenue adjustments.

On April 19, 2018 the Commission issued the following Ruling on Schedule:

- May 2, 2018-Statements in Support of Opposition to the Joint Proposal
- May 9, 2018 Statements in Reply to Other Parties’ Positions
- May 21, 2018 - Start of Evidentiary Hearing

FORWARD-LOOKING STATEMENTS

Statements included in this Quarterly 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, tax 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.