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

QUARTERLY FINANCIAL REPORT

for the period ended

MARCH 31, 2020

QUARTER ENDED MARCH 31, 2020

TABLE OF CONTENTS

FINANCIAL STATEMENTS (Unaudited)

CH ENERGY GROUP
CONDENSED CONSOLIDATED STATEMENT OF INCOME (Unaudited)
(In Thousands)

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Operating Revenues		
Electric	$ 142,334	$ 136,826
Natural gas	65,912	71,959
Total Operating Revenues	208,246	208,785
Operating Expenses		
Operation:		
Purchased electricity	37,157	39,526
Purchased natural gas	21,070	30,080
Other expenses of operation - regulated activities	80,078	71,146
Other expenses of operation - non-regulated	55	(18)
Depreciation and amortization	16,504	14,673
Taxes, other than income tax	19,398	17,857
Total Operating Expenses	174,262	173,264
Operating Income	33,984	35,521
Other Income and Deductions		
Income from unconsolidated affiliates	370	278
Interest on regulatory assets and other interest income	891	761
Regulatory adjustments for interest costs	121	269
Non-service cost components of pension and other post-employment benefits ("OPEB")	4,437	1,674
Other - net	548	300
Total Other Income	6,367	3,282
Interest Charges		
Interest on long-term debt	8,103	7,639
Interest on regulatory liabilities and other interest	515	849
Total Interest Charges	8,618	8,488
Income Before Income Taxes	31,733	30,315
Income Tax Expense	5,584	5,966
Net Income	$ 26,149	$ 24,349

CH ENERGY GROUP
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)
(In Thousands)

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Net Income	$ 26,149	$ 24,349
Other Comprehensive Income:		
Employee future benefits - net of tax expense	35	23
Comprehensive Income	$ 26,184	$ 24,372

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, 2020	Three Months Ended March 31, 2019
Operating Activities:		
Net income	$ 26,149	$ 24,349
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation	13,647	12,792
Amortization	2,857	1,881
Deferred income taxes - net	6,786	4,821
Credit loss expense	2,453	1,454
Distributed (undistributed) equity in earnings of unconsolidated affiliates	(352)	(250)
Pension expense	843	3,417
OPEB credit	(2,133)	(2,409)
Regulatory liability - rate moderation	(4,277)	(2,956)
Regulatory asset - revenue decoupling mechanism ("RDM") recorded	(933)	4,031
Changes in operating assets and liabilities - net:		
Accounts receivable, unbilled revenues and other receivables	2,528	(10,614)
Fuel, materials and supplies	269	3,149
Special deposits and prepayments	(2,876)	(3,988)
Income and other taxes	(1,420)	829
Accounts payable	(1,142)	921
Accrued interest	3,492	2,125
Customer advances	(4,373)	(2,570)
Other advances	1,228	304
Pension plan contribution	(262)	(262)
OPEB contribution	(1,081)	(1,001)
Regulatory asset - RDM collected/(refunded) - net	(3,040)	(4,302)
Regulatory asset - major storm	416	(2,201)
Regulatory asset - site investigation and remediation ("SIR")	(22)	1,455
Regulatory liability - energy efficiency programs including clean energy fund	(196)	(4,200)
Regulatory asset - rate adjustment mechanisms ("RAM")	2,452	-
Regulatory asset - deferred natural gas and electric costs	3,758	(3,486)
Other - net	(1,405)	(758)
Net cash provided from operating activities	43,366	22,531
Investing Activities:		
Additions to utility plant	(53,925)	(48,548)
Other - net	(5,637)	(60)
Net cash used in investing activities	(59,562)	(48,608)
Financing Activities:		
Net change in short-term borrowings	30,000	-
Capital contribution	-	6,000
Dividends paid on Common Stock	-	(5,500)
Net cash provided from financing activities	30,000	500
Net Change in Cash, Cash Equivalents and Restricted Cash	13,804	(25,577)
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	21,075	43,801
Cash, Cash Equivalents and Restricted Cash at End of Period	$ 34,879	$ 18,224
Supplemental Disclosure of Cash Flow Information:		
Interest paid, net of amounts capitalized	$ 4,322	$ 5,386
Federal and state income taxes paid, net of refunds	$ 281	$ 429
Non-Cash Operating Activities:		
Right-of-Use Assets Obtained in Exchange for New Operating Lease Liabilities	$ -	$ 1,892
Non-Cash Investing Activities:		
Accrued capital expenditures	$ 16,021	$ 9,043

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

CH ENERGY GROUP
CONDENSED CONSOLIDATED BALANCE SHEET (Unaudited)
(In Thousands)

	March 31, 2020	December 31, 2019	March 31, 2019
ASSETS			
Utility Plant (Note 3)			
Electric	$ 1,545,372	$ 1,533,547	$ 1,453,959
Natural gas	625,480	615,857	571,779
Common	315,588	305,073	274,389
Gross Utility Plant	2,486,440	2,454,477	2,300,127
Less: Accumulated depreciation	590,996	580,633	562,003
Net	1,895,444	1,873,844	1,738,124
Construction work in progress	113,012	105,057	84,528
Net Utility Plant	2,008,456	1,978,901	1,822,652
Non-utility property & plant	524	524	524
Net Non-Utility Property & Plant	524	524	524
Current Assets			
Cash and cash equivalents	33,802	19,999	17,152
Accounts receivable from customers - net of allowance for credit losses of $6.2 million, $4.5 million and $2.9 million, respectively	74,556	69,171	83,426
Accounts receivable - affiliates (Note 17)	641	982	774
Accrued unbilled utility revenues - net of allowance for credit losses of $0.5 million, $0 million and $0 million, respectively	20,574	24,202	20,304
Other receivables	11,562	19,159	27,015
Fuel, materials and supplies (Note 1)	25,942	26,211	22,831
Regulatory assets (Note 4)	51,170	55,535	43,148
Income tax receivable	2,239	787	-
Fair value of derivative instruments (Note 15)	25	-	-
Special deposits and prepayments	29,686	26,810	27,937
Total Current Assets	250,197	242,856	242,587
Deferred Charges and Other Assets			
Regulatory assets - deferred pension costs (Note 4)	-	-	26,839
Regulatory assets - other (Note 4)	139,663	123,385	103,146
Prefunded OPEB costs (Note 11)	13,774	12,514	1,740
Investments in unconsolidated affiliates (Note 6)	9,521	9,169	8,000
Other investments (Note 16)	46,975	40,127	39,750
Other	9,860	10,363	6,588
Total Deferred Charges and Other Assets	219,793	195,558	186,063
Total Assets	$ 2,478,970	$ 2,417,839	$ 2,251,826

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, 2020	December 31, 2019	March 31, 2019
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	409,406	409,406	386,036
Retained earnings	388,394	363,445	334,228
Accumulated other comprehensive loss	(364)	(399)	(407)
Total Equity	797,596	772,612	720,017
Long-term debt (Note 10)			
Principal amount	717,497	717,497	659,215
Unamortized debt issuance costs	(4,345)	(4,446)	(4,194)
Net long-term debt	713,152	713,051	655,021
Total Capitalization	1,510,748	1,485,663	1,375,038
Current Liabilities			
Current maturities of long-term debt (Note 10)	41,718	41,718	28,607
Short-term borrowings (Note 8)	30,000	-	-
Accounts payable	43,785	50,063	42,518
Accounts payable - affiliates	158	-	-
Accrued interest	10,525	7,033	8,956
Accrued vacation and payroll	11,972	10,754	10,807
Customer advances	10,531	14,904	7,573
Customer deposits	7,617	7,655	7,550
Regulatory liabilities (Note 4)	90,528	94,730	92,401
Fair value of derivative instruments (Note 15)	3,836	6,262	3,296
Accrued environmental remediation costs (Note 13)	7,718	20,396	22,167
Accrued income and other taxes	-	-	5,540
Other current liabilities	34,466	40,572	33,764
Total Current Liabilities	292,854	294,087	263,179
Deferred Credits and Other Liabilities			
Regulatory liabilities - deferred pension costs (Note 4)	3,224	1,780	-
Regulatory liabilities - deferred OPEB costs (Note 4)	25,166	26,643	20,960
Regulatory liabilities - other (Note 4)	288,124	288,508	293,058
Operating reserves	4,660	4,544	4,916
Accrued environmental remediation costs (Note 13)	72,638	36,585	23,312
Accrued pension costs (Note 11)	11,414	11,228	34,319
Tax reserve (Note 5)	6,789	3,126	7,892
Other liabilities	32,644	34,592	24,196
Total Deferred Credits and Other Liabilities	444,659	407,006	408,653
Accumulated Deferred Income Tax (Note 5)	230,709	231,083	204,956
Commitments and Contingencies			
Total Capitalization and Liabilities	$ 2,478,970	$ 2,417,839	$ 2,251,826

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)

	Three Months Ended March 31, 2020					
	Common Stock					
	Shares Issued	Amount	Paid-In Capital	Retained Earnings	AOCI*	Total Equity
Balance at December 31, 2019	15,961,400	$ 160	$ 409,406	$ 363,445	$ (399)	$ 772,612
Accounting Standard Adoption – cumulative effect adjustment (Note 1)				(1,200)		(1,200)
Net income				26,149		26,149
Employee future benefits, net of tax					35	35
Balance at March 31, 2020	15,961,400	$ 160	$ 409,406	$ 388,394	$ (364)	$ 797,596

	Three Months Ended March 31, 2019					
	Common Stock					
	Shares Issued	Amount	Paid-In Capital	Retained Earnings	AOCI*	Total Equity
Balance at December 31, 2018	15,961,400	$ 160	$ 380,036	$ 315,379	$ (430)	$ 695,145
Net income				24,349		24,349
Capital contribution			6,000			6,000
Dividends declared on common stock				(5,500)		(5,500)
Employee future benefits, net of tax					23	23
Balance at March 31, 2019	15,961,400	$ 160	$ 386,036	$ 334,228	$ (407)	$ 720,017

*Accumulated other comprehensive income (loss)

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, 2020	2019
Operating Revenues		
Electric	$ 142,334	$ 136,826
Natural gas	65,912	71,959
Total Operating Revenues	208,246	208,785
Operating Expenses		
Operation:		
Purchased electricity	37,157	39,526
Purchased natural gas	21,070	30,080
Other expenses of operation	80,078	71,146
Depreciation and amortization	16,504	14,673
Taxes, other than income tax	19,395	17,852
Total Operating Expenses	174,204	173,277
Operating Income	34,042	35,508
Other Income and Deductions		
Interest on regulatory assets and other interest income	889	758
Regulatory adjustments for interest costs	121	269
Non-service cost components of pension and OPEB	4,442	1,675
Other - net	537	318
Total Other Income	5,989	3,020
Interest Charges		
Interest on long-term debt	7,895	7,402
Interest on regulatory liabilities and other interest	515	849
Total Interest Charges	8,410	8,251
Income Before Income Taxes	31,621	30,277
Income Tax Expense	5,565	5,940
Net Income	$ 26,056	$ 24,337

CENTRAL HUDSON

CONDENSED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

(In Thousands)

	Three Months Ended March 31, 2020	2019
Net Income	$ 26,056	$ 24,337
Other Comprehensive Income:		
Employee future benefits - net of tax expense	35	23
Comprehensive Income	$ 26,091	$ 24,360

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, 2020	Three Months Ended March 31, 2019
Operating Activities:		
Net income	$ 26,056	$ 24,337
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation	13,647	12,792
Amortization	2,857	1,881
Deferred income taxes - net	6,668	4,689
Credit loss expense	2,453	1,454
Pension expense	843	3,417
OPEB credit	(2,133)	(2,409)
Regulatory liability - rate moderation	(4,277)	(2,956)
Regulatory asset - RDM recorded	(933)	4,031
Changes in operating assets and liabilities - net:		
Accounts receivable, unbilled revenues and other receivables	2,174	(12,312)
Fuel, materials and supplies	269	3,149
Special deposits and prepayments	(2,886)	(3,988)
Income and other taxes	(1,316)	1,362
Accounts payable	(677)	1,303
Accrued interest	3,283	1,890
Customer advances	(4,373)	(2,570)
Other advances	1,228	304
Pension plan contribution	(262)	(262)
OPEB contribution	(1,081)	(1,001)
Regulatory asset - RDM collected/(refunded) - net	(3,040)	(4,302)
Regulatory asset - major storm	416	(2,201)
Regulatory asset - SIR	(22)	1,455
Regulatory liability - energy efficiency programs including clean energy fund	(196)	(4,200)
Regulatory asset - RAM	2,452	-
Regulatory asset - deferred natural gas and electric costs	3,758	(3,486)
Other - net	741	131
Net cash provided from operating activities	45,649	22,508
Investing Activities:		
Additions to utility plant	(53,925)	(48,548)
Other - net	(5,652)	(24)
Net cash used in investing activities	(59,577)	(48,572)
Financing Activities:		
Net change in short-term borrowings	30,000	-
Net cash provided from financing activities	30,000	-
Net Change in Cash, Cash Equivalents and Restricted Cash	16,072	(26,064)
Cash, Cash Equivalents and Restricted Cash - Beginning of Period	15,086	40,346
Cash, Cash Equivalents and Restricted Cash - End of Period	$ 31,158	$ 14,282
Supplemental Disclosure of Cash Flow Information:		
Interest paid, net of amounts capitalized	$ 4,322	$ 5,386
Federal and state income taxes paid, net of refunds	$ 273	$ -
Non-Cash Operating Activities:		
Right-of-Use Assets Obtained in Exchange for New Operating Lease Liabilities	$ -	$ 1,892
Non-Cash Investing Activities:		
Accrued capital expenditures	$ 16,021	$ 9,043

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

CENTRAL HUDSON

CONDENSED BALANCE SHEET (Unaudited)

(In Thousands)

	March 31, 2020	December 31, 2019	March 31, 2019
ASSETS			
Utility Plant (Note 3)			
Electric	$ 1,545,372	$ 1,533,547	$ 1,453,959
Natural gas	625,480	615,857	571,779
Common	315,588	305,073	274,389
Gross Utility Plant	2,486,440	2,454,477	2,300,127
Less: Accumulated depreciation	590,996	580,633	562,003
Net	1,895,444	1,873,844	1,738,124
Construction work in progress	113,012	105,057	84,528
Net Utility Plant	2,008,456	1,978,901	1,822,652
Non-Utility Property and Plant	524	524	524
Net Non-Utility Property and Plant	524	524	524
Current Assets			
Cash and cash equivalents	30,081	14,010	13,210
Accounts receivable from customers - net of allowance for credit losses of $6.2 million, $4.5 million and $2.9 million, respectively	74,556	69,171	83,426
Accrued unbilled utility revenues - net of allowance for credit losses of $0.5 million, $0 million and $0 million, respectively	20,574	24,202	20,304
Other receivables	11,711	19,295	28,729
Fuel, materials and supplies (Note 1)	25,942	26,211	22,831
Regulatory assets (Note 4)	51,170	55,535	43,148
Income tax receivable	1,043	-	-
Fair value of derivative instruments (Note 15)	25	-	-
Special deposits and prepayments	29,673	26,787	27,899
Total Current Assets	244,775	235,211	239,547
Deferred Charges and Other Assets			
Regulatory assets - deferred pension costs (Note 4)	-	-	26,839
Regulatory assets - other (Note 4)	139,663	123,385	103,146
Prefunded OPEB costs (Note 11)	13,774	12,514	1,740
Other investments (Note 16)	46,165	39,301	38,976
Other	9,859	10,363	6,574
Total Deferred Charges and Other Assets	209,461	185,563	177,275
Total Assets	$ 2,463,216	$ 2,400,199	$ 2,239,998

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, 2020	December 31, 2019	March 31, 2019
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	262,452	262,452	251,452
Accumulated other comprehensive loss	(364)	(399)	(407)
Retained earnings	455,313	430,457	389,932
Capital stock expense	(4,633)	(4,633)	(4,633)
Total Equity	797,079	772,188	720,655
Long-term debt (Note 10)			
Principal amount	706,950	706,950	646,950
Unamortized debt issuance costs	(4,291)	(4,390)	(4,131)
Net long-term debt	702,659	702,560	642,819
Total Capitalization	1,499,738	1,474,748	1,363,474
Current Liabilities			
Current maturities of long-term debt (Note 10)	40,000	40,000	27,000
Short-term borrowings (Note 8)	30,000	-	-
Accounts payable	44,767	50,423	43,360
Accrued interest	10,281	6,998	8,681
Accrued vacation and payroll	11,972	10,754	10,807
Customer advances	10,531	14,904	7,573
Customer deposits	7,617	7,655	7,550
Regulatory liabilities (Note 4)	90,528	94,730	92,401
Fair value of derivative instruments (Note 15)	3,836	6,262	3,296
Accrued environmental remediation costs (Note 13)	7,718	20,396	22,167
Accrued income and other taxes	-	273	9,197
Other current liabilities	33,462	38,006	32,701
Total Current Liabilities	290,712	290,401	264,733
Deferred Credits and Other Liabilities			
Regulatory liabilities - deferred pension costs (Note 4)	3,224	1,780	-
Regulatory liabilities - deferred OPEB costs (Note 4)	25,166	26,643	20,960
Regulatory liabilities - other (Note 4)	288,124	288,508	293,058
Operating reserves	4,660	4,544	4,916
Accrued environmental remediation costs (Note 13)	72,638	36,585	23,312
Accrued pension costs (Note 11)	11,182	10,996	34,087
Tax reserve (Note 5)	6,732	2,910	7,892
Other liabilities	30,985	32,347	22,786
Total Deferred Credits and Other Liabilities	442,711	404,313	407,011
Accumulated Deferred Income Tax (Note 5)	230,055	230,737	204,780
Commitments and Contingencies			
Total Capitalization and Liabilities	$ 2,463,216	$ 2,400,199	$ 2,239,998

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

CENTRAL HUDSON
CONDENSED STATEMENT OF EQUITY (Unaudited)
(In Thousands, except share amounts)

	Three Months Ended March 31, 2020						
	Common Stock						
	Shares Issued	Amount	Paid-In Capital	Capital Stock Expense	Retained Earnings	AOCI*	Total Equity
Balance at December 31, 2019	16,862,087	$ 84,311	$ 262,452	$ (4,633)	$ 430,457	$ (399)	$ 772,188
Accounting Standard Adoption – cumulative effect adjustment (Note 1)					(1,200)		(1,200)
Net income					26,056		26,056
Employee future benefits, net of tax						35	35
Balance at March 31, 2020	16,862,087	$ 84,311	$ 262,452	$ (4,633)	$ 455,313	$ (364)	$ 797,079

	Three Months Ended March 31, 2019						
	Common Stock						
	Shares Issued	Amount	Paid-In Capital	Capital Stock Expense	Retained Earnings	AOCI*	Total Equity
Balance at December 31, 2018	16,862,087	$ 84,311	$ 251,452	$ (4,633)	$ 365,595	$ (430)	$ 696,295
Net income					24,337		24,337
Employee future benefits, net of tax						23	23
Balance at March 31, 2019	16,862,087	$ 84,311	$ 251,452	$ (4,633)	$ 389,932	$ (407)	$ 720,655

*Accumulated other comprehensive income (loss)

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. CH Energy Group formed CHET to hold its 6.1% ownership interest in New York Transco LLC ("Transco"). 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, 2020 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 Condensed 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.

The 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 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, 2019 audited Financial Statements and, accordingly, should be read in conjunction with the Notes thereto. The balance sheets of CH Energy Group and Central Hudson as of March 31, 2019 are included for supplemental information.

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. The same accounting policies are used to prepare both the quarterly and the annual financial statements.

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 period. Current estimates as of and for the period ended March 31, 2020 reflect management's best assumptions at this time. As with all estimates, actual results may differ from those estimated. Estimates may be subject to future uncertainty as the novel Coronavirus pandemic ("COVID-19") continues to evolve, particularly the allowance for credit losses and the achievement of regulatory net plant targets.

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".

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 "Commission"), through an approved surcharge mechanism or through incorporation in the determination of the 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 recovered through a surcharge or 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.

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.

Restricted Cash

Restricted cash primarily consists of cash collected from developers and held in escrow related to a potential System Deliverability Upgrade project pursuant to terms and conditions of the New York Independent System Operator's ("NYISO") Open Access Transmission Tariff.

The following tables provide a reconciliation of cash, cash equivalents and restricted cash reported on the Balance Sheets for CH Energy Group and Central Hudson that sum to the total of the same such amounts shown in the corresponding Statements of Cash Flows.

CH Energy Group

(In Thousands)

	March 31, 2020	March 31, 2019
Cash and cash equivalents	$ 33,802	$ 17,152
Restricted cash included in other long-term assets	1,077	1,072
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	$ 34,879	$ 18,224

Central Hudson

(In Thousands)

	March 31, 2020	March 31, 2019
Cash and cash equivalents	$ 30,081	$ 13,210
Restricted cash included in other long-term assets	1,077	1,072
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	$ 31,158	$ 14,282

Financial Instruments

Effective January 1, 2020, CH Energy Group and Central Hudson adopted accounting guidance that requires the use of reasonable and supportable forecasts in the estimate of credit losses and the recognition of expected losses upon initial recognition of a financial instrument, in addition to using past events and current conditions. At March 31, 2020 there are no expected credit losses on financial instruments other than those on accounts receivable and unbilled utility revenues.

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, 2020	December 31, 2019	March 31, 2019
Natural gas	$ 3,207	$ 4,823	$ 1,834
Fuel used in electric generation	404	413	455
Materials and supplies	22,331	20,975	20,542
Total	$ 25,942	$ 26,211	$ 22,831

Reclassification

Certain amounts in the prior year's Note 4 – "Regulatory Matters" have been reclassified to conform to the 2020 presentation. These reclassifications had no effect on the reported results of operations.

Recently Adopted Accounting Pronouncements

Fair Value Measurement

Effective December 31, 2019, CH Energy Group and Central Hudson adopted elements of Accounting Standards Update ("ASU") No. 2018-13 *Changes to the Disclosure Requirements for Fair Value Measurement* that are allowed to be early adopted. The partial adoption of this ASU removed the following disclosures: (a) the amount of, and reasons for, transfers between level 2 and level 3 of the fair value hierarchy; (b) the policy for timing of transfers between levels; and (c) the valuation processes for level 3 fair value measurements. There was no material impact on the financial condition, results of operation and cash flows of CH Energy Group and its subsidiaries upon adoption as this is a disclosure requirement only.

Compensation—Retirement Benefits

Effective December 31, 2019, CH Energy Group and Central Hudson early adopted ASU No. 2018-14, *Changes to the Disclosure Requirements for Defined Benefit Plans* which clarified disclosure requirements for defined benefit pension and other postretirement plans. In particular, it removes the following disclosures: (a) the amounts in accumulated other comprehensive income expected to be recognized as components of net period benefit costs over the next fiscal period; (b) the amount and timing of plan assets expected to be returned to the employer; and (c) the effects of a one-percentage-point change on the assumed health care costs and the change in rates on service cost, interest cost and the benefit obligation for post-retirement health care benefits. There was no material impact on the financial condition, results of operation and cash flows of CH Energy Group and its subsidiaries upon adoption as this is a disclosure requirement only.

Financial Instruments

Effective January 1, 2020, CH Energy Group and Central Hudson adopted ASU No. 2016-13 *Measurement of Credit Losses on Financial Instruments* which requires entities to use a current expected credit loss ("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 Financial Accounting Standards Board believes will result in more timely recognition of such losses. Adoption of this ASU requires quantitative and qualitative disclosures regarding the activity in the allowance for credit losses for financial assets within the scope of the guidance. The adoption of this ASU resulted in an increase to CH Energy Group and Central Hudson's allowance for credit losses of $1.2 million with a cumulative adjustment to retained earnings effective January 1, 2020.

Future Accounting Pronouncements To Be Adopted

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

Income Taxes

ASU No. 2019-12, *Simplifying the Accounting for Income Taxes*, was issued in December 2019 to simplify the accounting for income taxes by eliminating certain exceptions to the guidance in ASC 740 related to the approach for intra-period tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The new guidance also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The amendment is effective for annual reporting periods beginning after December 15, 2020, and interim periods within those reporting periods. Early adoption of all changes is permitted in any interim or annual period, with any adjustments reflected as of the beginning of the fiscal year of adoption. Upon adoption, entities should disclose the nature and reason for the change in accounting principle, the transition methods, and a qualitative description of the financial statement line items affected by the change. CH Energy Group and its subsidiaries are currently evaluating the impact, if any, that the adoption of this standard will have on financial disclosures.

Reference Rate Reform

ASU No. 2020-04, *Reference Rate Reform (Topic 848)*, was issued on March 12, 2020 to address rate reference reform associated with LIBOR pricing model which is scheduled to be discontinued on December 31, 2021. The discontinuation of LIBOR has the potential to create significant challenges for companies due to the need to modify contracts and certain hedging relationships that use the reference rate. The ASU provides relief from the accounting analysis and impacts that may otherwise be required for modifications to agreements (loans, derivatives, borrowings) and provides optional expedients to enable companies to continue to apply hedge accounting to certain hedging relationships impacted by reference rate reform. Application is optional and is only available for companies to apply until December 31, 2022. CH Energy Group and its subsidiaries are currently evaluating the impact, if any, that the adoption of this standard will have on financial disclosures.

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 Contracts 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 delivery only as these customers purchase supply from a retail marketer. Sales and usage-based taxes are excluded from revenues. Consideration received from customers on a billing schedule is not adjusted 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 revenue, revenue requirement effect for incremental leak prone pipe miles replaced above the PSC targets and capital demonstration projects placed in service as authorized under Reforming the Energy Vision ("REV") Orders. In addition, Central Hudson records alternative revenues related to positive revenue adjustments and earnings adjustment mechanisms related to New York State clean energy goals, when prescribed 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 pursuant to PSC Orders.

The following summary presents CH Energy Group's and Central Hudson's operating revenues disaggregated by segment and revenue source (In Thousands):

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Electric		
Revenues from Contracts with Customers (ASC 606)	$ 134,045	$ 130,636
Alternative Revenues (Non ASC 606)	280	(2,956)
Other Revenue Adjustments (Non ASC 606)	8,009	9,146
Total Operating Revenues Electric	$ 142,334	$ 136,826
Natural Gas		
Revenues from Contracts with Customers (ASC 606)	$ 65,458	$ 73,418
Alternative Revenues (Non ASC 606)	2,561	(27)
Other Revenue Adjustments (Non ASC 606)	(2,107)	(1,432)
Total Operating Revenues Natural Gas	$ 65,912	$ 71,959

The increase in electric revenues from contracts with customers is primarily due to an increase in customer delivery rates partially offset by a decrease in commodity costs and lower sales volumes resulting from warmer weather. For natural gas, the decrease in commodity costs and lower sales more than offset the increase in delivery rates.

Revenue from contracts with customers for both electric and natural gas also include lower credits to customer bills for RDM refunds and rate moderation in 2020 when compared to 2019, which does not impact total revenues. The offset of these credits is reflected in other revenue. Other revenue adjustments for natural gas also include the deferral of Danskammer revenues.

The increase in alternative revenue programs for both electric and natural gas is due to higher revenue deferral resulting from actual billed revenues being lower than the 2018 Rate Order prescribed targets.

Allowance for Credit Losses

Accounts receivable are recorded net of an allowance for credit losses. The Company recorded an increase in the first quarter of 2020 related to its allowance for credit losses on the Company's receivables of $1.7 million (inclusive of the cumulative effect adjustment and current period allowance increase) and an allowance for credit losses on accrued unbilled utility revenues of $0.5 million. A summary of all changes in the allowance for credit losses for accounts receivable and accrued unbilled utility revenue balance is as follows:

		Three Months Ended March 31, 2020
Balance at December 31, 2019	$	(4,500)
Accounting Standard Adoption – cumulative effect adjustment		(1,200)
Credit loss expense		(2,453)
Bad debt write-offs (recoveries) - net		1,453
Balance at March 31, 2020	$	(6,700)

For the three month ended March 31, 2020, management recorded an additional increase to the allowance for credit losses based on a qualitative assessment of forecasted economic conditions related to COVID-19. This assessment included a regression analysis based on historical relationships of past due account receivable balances to several macroeconomic data points, most notably the national unemployment rate, and a forecast of scenarios reflecting expected increases to the unemployment rate. Management also considered certain qualitative factors differentiating this current situation from other significant events in the historical period, including the nature and cause of this economic downturn, as well as legislative actions taken which provide relief and assistance to customers financially impacted by the COVID-19 pandemic. The total impact is unknown at this time and is contingent upon the continuation of current legislative mandates and the related impacts on the economy.

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, 2020	Utility Plant December 31, 2019	Utility Plant March 31, 2019
Electric:				
Production	25-85	$ 42,964	$ 42,961	$ 39,676
Transmission	30-90	404,925	403,242	390,981
Distribution	7-80	1,091,002	1,080,869	1,017,545
Other	40	6,481	6,475	5,757
Total		$ 1,545,372	$ 1,533,547	$ 1,453,959
Natural Gas:				
Transmission	19-85	$ 59,730	$ 59,608	$ 58,955
Distribution	28-95	565,308	555,807	512,382
Other	N/A	442	442	442
Total		$ 625,480	$ 615,857	$ 571,779
Common:				
Land and Structures	50	$ 85,427	$ 86,278	$ 80,218
Office and Other Equipment, Radios and Tools	8-35	75,799	72,911	63,637
Transportation Equipment	10-12	73,036	73,017	68,311
Other	3-10	81,326	72,867	62,223
Total		$ 315,588	$ 305,073	$ 274,389
Gross Utility Plant		$ 2,486,440	$ 2,454,477	$ 2,300,127

For the three months ended March 31, 2020 and 2019, the borrowed component of funds used during construction and recorded as a reduction of interest expense was $0.4 million and $0.3 million, respectively and the equity component reported as other income was $0.5 million for both periods.

Included in the Net Utility Plant balance of $2.0 billion at March 31, 2020 and December 31, 2019 and $1.8 billion at March 31, 2019, is $116.5 million, $115.0 million and $94.5 million of intangible utility plant assets, comprised primarily of computer software costs, land, transmission and water rights and the related accumulated amortization of $55.4 million, $52.4 million and $46.0 million, respectively.

As of March 31, 2020, December 31, 2019, and March 31, 2019, Central Hudson has reclassified from utility plant assets $42.1 million, $43.0 million and $44.0 million, respectively, of cost of removal recovered through the rate-making process in excess of amounts incurred to date as a regulatory liability.

AROs for Central Hudson were approximately $0.6 million as of March 31, 2020 and December 31, 2019 and $0.7 million at March 31, 2019. 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, 2020	December 31, 2019	March 31, 2019
Regulatory Assets:			
Deferred purchased electric costs (Note 1)	$ 8,475	$ 8,013	$ 8,224
Deferred purchased natural gas costs (Note 1)	-	4,082	-
Deferred unrealized losses on derivatives - electric and natural gas (Note 15)	3,836	6,262	3,296
RAM - electric and carrying charges	10,759	13,518	8,800
RAM - natural gas and carrying charges	542	3,201	444 (4)
EAMs - electric	2,073	2,118	644 (4)
SC 8 Street Lighting and carrying charges	1,087	913 (4)	- (4)
Deferred variable rate note and carrying charges	1,521	1,373 (4)	733 (4)
RDM and carrying charges - natural gas	2,527	2,518	-
Deferred debt expense on re-acquired debt	2,247	2,377 (4)	2,767 (4)
Deferred pension costs	-	-	26,839
Demand management programs and carrying charges	10,866	10,747	9,100 (2)
Deferred and accrued costs - SIR (Note 13) and carrying charges	87,453	62,694	50,705
Deferred storm costs and carrying charges	11,847	11,420	20,330
Deferred vacation pay accrual	9,694	8,384	9,165
Income taxes recoverable through future rates	16,966	22,253	13,005
Tax reform - unprotected impacts	13,464	13,464	13,688
Other	8,580	6,102 (4)	6,055 (2)(4)
Carrying charges balancing	(1,104) (1)	(519) (1)	(662) (1)
Total Regulatory Assets	$ 190,833	$ 178,920	$ 173,133
Less: Current Portion of Regulatory Assets	$ 51,170	$ 55,535	$ 43,148
Total Long-term Regulatory Assets	$ 139,663	$ 123,385	$ 129,985
Regulatory Liabilities:			
Rate moderator - electric and carrying charges	$ 24,453	$ 26,583	$ 33,172
Rate moderator - natural gas and carrying charges	6,910	7,959	8,244
RDM and carrying charges - electric	6,720	10,735	10,940
RDM and carrying charges - natural gas	-	-	104
Deferred purchased natural gas costs (Note 1)	138	-	44
Clean Energy Fund and carrying charges	67,624	68,277	66,221 (3)
Tax reform - protected deferred tax liability	188,070	189,447	192,901
Deferred cost of removal (Note 3)	42,076	43,039	43,985
Deferred pension costs (Note 11)	3,224	1,780	-
Income taxes refundable through future rates	7,908	7,896	6,440
Deferred OPEB costs (Note 11)	25,166	26,643	20,960
Low income program and carrying charges	3,413	1,967 (4)	913 (4)
Net plant and depreciation targets	7,900	6,082	3,698
Fast charging infrastructure program and carrying charges	4,695	4,584	-
Energy efficiency programs and carrying charges	5,764	4,999	4,421 (3)
Deferred unbilled revenue	5,082	5,082	5,082
Other	9,003	7,107 (4)	9,955 (4)
Carrying charges balancing	(1,104) (1)	(519) (1)	(662) (1)
Total Regulatory Liabilities	$ 407,042	$ 411,661	$ 406,418
Less: Current Portion of Regulatory Liabilities	$ 90,528	$ 94,730	$ 92,400
Total Long-term Regulatory Liabilities	$ 316,514	$ 316,931	$ 314,018
Net Regulatory Liabilities	$ (216,209)	$ (232,741)	$ (233,285)

(1) These amounts represent March 31, 2020, December 31, 2019 and March 31, 2019 estimated netting on the balance sheet of carrying charges to be offset against regulatory liabilities and collected through Rate Case offset.

(2) REV balances of $9,443 reported as current and long term regulatory assets at March 31, 2019 has been reclassified to conform to the March 31, 2020 and December 31, 2019 presentation, with $9,100 reported in the Demand management programs line item and the remaining $343 in Other regulatory assets.

(3) Energy efficiency programs and carrying charges reported as of March 31, 2019 have been reclassified to conform to the March 31, 2020 and December 31, 2019 presentation, with $4,421 reported in the Energy efficiency program and carrying charges line item and the remaining $66,221 reported in the Clean Energy Fund and carrying charges line item.

(4) Balances reported in the Other regulatory assets and liabilities lines as of December 31, 2019 and March 31, 2019 have been reclassified to conform to the March 31, 2020 presentation.

2018 Rate Order

On June 14, 2018, the PSC issued an Order Approving Rate Plan in Cases 17-E-0459 and 17-G-0460. The 2018 Rate Order adopted the terms set forth in the April 18, 2018 Joint Proposal with minor modifications. The 2018 Rate Order was effective July 1, 2018, with Rate Year ("RY")1, RY2 and RY3 defined as the twelve months ending June 30, 2019, June 30, 2020 and June 30, 2021, respectively.

A summary of the key terms of the 2018 Rate Order is as follows:

	2018 Rate Order (dollars in millions)		
Description	RY1	RY2	RY3
Electric delivery rate increases	$19.7	$18.6	$25.1
Natural gas delivery rate increases	$6.7	$6.7	$8.2
Return on Equity	8.80%	8.80%	8.80%
Earnings sharing	Yes(1)	Yes(1)	Yes(1)
Capital structure – common equity	48%	49%	50%
Bill Credits - Electric	$6.0	$9.0	$11.0
Bill Credits - Natural Gas	$3.5	$4.0	$4.0
RDMs – electric and natural gas	Yes	Yes	Yes

(1) Return on equity > 9.3% and up to 9.8%, is shared 50% to customers, > 9.8% and up to 10.3%, is shared 80% to customers, and > 10.3% is shared 90% to customers.

On June 19, 2019, the Company filed a petition seeking expedited approval to modify the revenue allocation provisions and certain RDM targets of Central Hudson's service class 8 ("SC8") (public street and highway lighting customers) as approved in the 2018 Rate Order and the authority to defer and recover revenues resulting from the petition. The request was made to address an overestimate of lighting fixtures forecasted in a street lighting category which resulted in a misallocation of the revenue requirement that should have been recovered from all other Central Hudson customer classes. The annual impact is a shift of approximately $0.5 million, $0.7 million and $0.9 million for RY1, RY2 and RY3, respectively which is de minimis when allocated and collected from the non-lighting customer classes. The petition reassigned the collection of revenues amongst the service classes with no impact on Central Hudson's results of operations. On July 22, 2019, the Commission approved Central Hudson's petition as presented to modify SC8 RDM targets and defer the revenue shortfall as a regulatory asset with clarification that the onetime credit to SC8 customers should include carrying charges.

On June 21, 2019, Central Hudson filed its Non-Pipe Alternative Implementation Plan and compliance filing with the PSC. The plan proposes three projects impacting twenty-two gas customers. The proposed projects, referred to as "Transportation Mode Alternative" requires the conversion of existing natural gas users to alternative energy sources. For the initiative to be successful, 100% participation is required.

Other PSC Proceedings

FERC Proceeding

On December 31, 2019, Central Hudson submitted to the Commission a new rate schedule pursuant to Rate Schedule 12 of the NYISO Open Access Transmission Tariff ("OATT") to establish a Facilities Charge for System Deliverability Upgrades ("SDU") being installed on Central Hudson's transmission facilities, which are required to provide four Large Generating Facility Developers with Capacity Resource Interconnection Service. This charge provides Central Hudson with full recovery of all reasonably incurred costs related to the development, construction, operation and maintenance of the

SDU and a reasonable return on its investment. Project costs to be recovered by Central Hudson and allocated to the Load Serving Entities ("LSEs") pursuant to Rate Schedule 12 of the NYISO OATT are expected to be approximately $2.6 million plus operation, maintenance and other applicable costs and will be updated annually.

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 repair deduction for a significant amount of repair costs that were previously capitalized for tax purposes.

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

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 the uncertain tax position (In Thousands):

	CH Energy Group Three Months Ended March 31,		**Central Hudson** Three Months Ended March 31,	
	2020	2019	2020	2019
Tax reserve balance at the beginning of the period	$ 3,126	$ 7,675	$ 2,910	$ 7,675
Change in natural gas transmission and distribution repair deduction	176	239	176	239
Change in tax benefit offset (1)	3,487	(22)	3,646	(22)
Tax reserve balance at the end of the period	$ 6,789	$ 7,892	$ 6,732	$ 7,892

(1) Amounts are classified as 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.*

CH Energy Group

	Three Months Ended March 31,	
	2020	2019
Effective tax rate - federal	11.6%	13.2%
Effective tax rate - state	6.0%	6.5%
Effective tax rate - combined	17.6%	19.7%

Central Hudson

	Three Months Ended March 31,	
	2020	2019
Effective tax rate - federal	11.6%	13.2%
Effective tax rate - state	6.0%	6.4%
Effective tax rate - combined	17.6%	19.6%

For the three months ended March 31, 2020, the combined effective tax rate for CH Energy Group and Central Hudson is lower than the statutory rate due to tax normalization rules and the decrease year over year is due to a decrease in flow through tax items related to capital expenditures.

NOTE 6 – Investments in Unconsolidated Affiliates

In April 2019, National Grid and Transco were awarded the Segment B portion of one of its proposals related to the AC Transmission Order with NYISO for a transmission project that will improve the flow of power from upstate renewable resources to meet downstate demand and enhance the reliability and resilience of the grid. Transco will be authorized to earn a return on equity invested in the project (up to 53% of the project cost) of 9.65%, with up to an additional 1% available for incentives. The project has an estimated cost of $600 million plus interconnection costs and CHET’s equity funding requirement of this cost as a 6.1% owner of Transco is expected to be $19.4 million. At March 31, 2020, December 31, 2019 and March 31, 2019, CHET's investment in Transco was approximately $8.1 million, $7.9 million and $7.1 million.

CHEC has equity investments in limited partnerships, one of which holds investments in energy sector start-up companies. The value of CHEC's equity investments at March 31, 2020, December 31, 2019 and March 31, 2019 was $1.4 million, $1.3 million and $0.9 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 research and development expenditures for the three months ended March 31, 2020 and 2019 were $1.6 million and $1.1 million, respectively. These expenditures were for internal research programs and for contributions to research administered by the New York State Energy Research and Development Authority (“NYSERDA”), the Electric Power Research Institute and other industry organizations.

NOTE 8 – Short-Term Borrowing Arrangements

Committed Credit Facilities

On July 10, 2015, CH Energy Group entered into a Third Amended and Restated Credit Agreement with four commercial banks. The credit commitment of the banks under the agreement is $50 million with a maturity date of July 10, 2020. Proceeds received from the credit agreement are to be used for general corporate purposes. Included as part of the $50 million revolving credit agreement is a $10 million Swingline Facility, whereby loans are available up to $10 million with a maturity of 14 days or less. Under the credit agreement letters of credit are also available up to $25 million.

On March 13, 2020, Central Hudson entered into a $200 million, five-year revolving credit agreement with five commercial banks to replace the agreement that was set to expire on October 15, 2020. Proceeds received from the new revolving credit agreement are to be used for working capital needs and for general corporate purposes. Letters of credit are available up to $15 million from three participating banks.

The credit agreements include a covenant that the total consolidated 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 agreements are 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.

At March 31, 2020, CH Energy Group and Central Hudson had $30 million in borrowings outstanding under Central Hudson's committed credit agreements with an effective weighted average interest rate of 1.875%. At December 31, 2019 and March 31, 2019 there were no amounts outstanding under the various credit arrangements for CH Energy Group or Central Hudson. CH Energy Group and Central Hudson are in compliance with all debt covenants.

Uncommitted Credit

Central Hudson has $40 million of uncommitted credit available through arrangements with Bank of America, N.A., Citizens Bank, N.A and 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.

There were no outstanding borrowings for CH Energy Group or Central Hudson under the uncommitted credit agreements at March 31, 2020, December 31, 2019 and March 31, 2019.

NOTE 9 – Capitalization – Common and Preferred Stock

Capitalization

There were no capital contributions made during the first quarter of 2020. During the first quarter of 2019, CH Energy Group received a capital contribution of $6.0 million from its parent FortisUS Inc. ("FortisUS"). The contribution was recorded as paid in capital, see CH Energy Group and Central Hudson's Condensed 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 was restricted to a maximum annual payment of $66.1 million and $60.1 million in dividends to CH Energy Group for the periods ended March 31, 2020 and 2019, 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 49%). CH Energy Group's other subsidiaries do not have express restrictions on their ability to pay dividends.

There were no dividends paid during the first quarter of 2020. During the three months ended March 31, 2019, the Board of Directors of CH Energy Group declared and paid dividends of $5.5 million to FortisUS, the sole shareholder of CH Energy Group.

Preferred Stock

Other than one share of Junior Preferred Stock, Central Hudson had no outstanding preferred stock as of March 31, 2020, December 31, 2019, and March 31, 2019.

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.

There were no maturities or new issuances of long-term debt during the three months ended March 31, 2020 at CH Energy Group and Central Hudson. As of March 31, 2020, CH Energy Group and Central Hudson were in compliance with all covenants.

At March 31, 2020, 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 four year interest rate cap on March 26, 2020 that will expire on March 26, 2024. 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, 2020. There have been no payouts on these interest rate caps during the three months ended March 31, 2020 and 2019.

The principal amount of Central Hudson's outstanding 1999 Series B NYSERDA Bonds totaled $33.7 million at March 31, 2020. 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, Central Hudson purchased a three year interest rate cap on March 25, 2019. The rate cap has a notional amount equal to the outstanding principal amount of the Series B bonds and expires on April 1, 2022. 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 4% for a given month. This interest rate cap replaced a similar interest rate cap that expired on April 1, 2019. Central Hudson received a payout of $0.03 million during the three months ended March 31, 2020. There were no payouts on these interest rate caps during the three months ended March 31, 2019.

NOTE 11 – Post-Employment Benefits

Central Hudson has a non-contributory Retirement Income Plan ("Retirement Plan") covering substantially all of its employees hired before January 1, 2008 or May 1, 2008, as applicable, and a non-qualified Supplemental Executive Retirement Plan ("SERP") for certain executives (collectively "Pension"). 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 certain retired employees hired before January 1, 2008 or May 1, 2008, as applicable, through its post-retirement benefit plans.

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's net periodic benefit costs for its Pension and OPEB plans are as follows (In Thousands):

	Pension		OPEB	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2020	2019	2020	2019
Service cost	$ 3,363	$ 2,811	$ 417	$ 382
Interest cost	5,922	6,780	1,048	1,265
Expected return on plan assets	(8,836)	(7,775)	(1,985)	(1,694)
Amortization of prior service cost (credit)	162	166	(114)	(673)
Amortization of recognized actuarial net (gain)/loss	401	1,098	(979)	(784)
Net Periodic (Benefit) Cost	$ 1,012	$ 3,080	$ (1,613)	$ (1,504)

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

	March 31, 2020(1)(2)	December 31, 2019(1)(2)	March 31, 2019(1)(2)
Accrued pension costs	$ (12,491)	$ (12,304)	$ (35,369)

(1) Includes approximately $ 0.2 million at March 31, 2020, December 31, 2019 and March 31, 2019 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.

(2) Includes approximately $1.1 million at March 31, 2020 and December 31, 2019 and $1.0 million at March 31, 2019 that is reflected in the Balance Sheet under other current liabilities for pension costs due over the next twelve months.

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 $33.7 million, $26.5 million and $27.1 million of SERP trust assets at March 31, 2020, December 31, 2019 and March 31, 2019, respectively.

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, 2020(1)(2)	December 31, 2019(1)(2)	March 31, 2019(1)(2)
Accrued pension costs prior to funding status adjustment	$ (23,585)	$ (22,836)	$ (14,383)
Funding status adjustment required	11,094	10,532	(20,986)
Accrued pension costs	$ (12,491)	$ (12,304)	$ (35,369)
Offset to funding status adjustment - regulatory (liability) assets - pension plan	$ (11,577)	$ (11,061)	$ 20,448
Offset to funded status adjustment - accumulated OCI, net of tax of $126, $138 and $8, respectively	$ 357	$ 391	$ 407

(1) Includes approximately $0.2 million at March 31, 2020, December 31, 2019 and March 31, 2019 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.

(2) Includes approximately $1.1 million at March 31, 2020 and December 31, 2019 and $1.0 million at March 31, 2019 that is reflected in the Balance Sheet under other current liabilities for pension costs due over the next twelve months.

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 OCI, net of tax. However, Central Hudson has PSC approval to record regulatory assets or liabilities rather than adjusting comprehensive income to offset the funding status adjustment for amounts recoverable from customers in future rates. The amounts reported above as accumulated OCI, net of tax, relate to a former Central Hudson officer who transferred to an affiliated company but who continues to accrue benefits in Central Hudson's Retirement Plan and SERP. These amounts are charged to and reimbursed by the affiliated company.

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. Contribution levels for the SERP are based on maintaining a funding level at 110% of the present value of the accrued benefits payable under the Plan on an annual basis and can vary based on investment returns, discount rates, and participant demographics.

Contributions to the Central Hudson Retirement and OPEB Plans are as follows (In Thousands):

Retirement Plan		OPEB		SERP	
Three Months Ended March 31,		Three Months Ended March 31,		Three Months Ended March 31,	
2020	2019	2020	2019	2020	2019
$ -	$ -	$ 1,081	$ 1,001	$ 6,998	$ -

401(k) Retirement Plan

Central Hudson sponsors a 401(k) retirement plan ("401(k) plan") for its employees. The 401(k) plan provides for employee tax-deferred salary deductions for participating employees and employer matches. The matching benefit varies by employee group. Central Hudson's matching contributions for the three months ended March 31, 2020 and 2019 were $1.4 and $1.3 million, respectively. 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 2020, officers of CH Energy Group and Central Hudson were granted 19,912 Units under the 2020 Fortis Restricted Share Unit Plan ("2020 RSUP"), representing a portion of the officers' long-term incentives. The issued 2020 Restricted Units granted are time-based and vest at the end of the three-year period without regard to performance. Each 2020 RSUP 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, unless a participant does not satisfy their share ownership requirements or chooses to settle in shares. The settlement in shares by a participant will result in the modification from a liability award to an equity award and an election to settle in shares cannot be made later than 30 days prior to the awards vesting. 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 2020 RSUP Unit grant. Each 2020 RSUP Unit accrues notional dividend equivalents equal to the dividends declared by the Fortis Board of Directors on Fortis common shares.

In January 2020, officers of Central Hudson were granted 25,311 Units under the Central Hudson 2020 Share Unit Plan ("2020 SUP"), representing a portion of the officers' long-term incentives. The issued 2020 SUP Units granted are performance based and vest at the end of the three-year performance period upon achievement of specified cumulative performance goals. Each 2020 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 2020 SUP Unit grant. Each 2020 SUP Unit accrues notional dividend equivalents equal to the dividends declared by the Fortis Board of Directors on Fortis common shares.

In January 2020, CH Energy Group granted 21,770 Units to an officer of CH Energy Group under a 2020 Share Unit Plan ("2020 PSUP"). The issued 2020 PSUP Units granted are performance based and vest upon achievement of specified performance goals over the applicable three-year performance period. Each 2020 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 2020 PSUP Unit grant. Each 2020 PSUP Unit accrues notional dividend equivalents equal to the dividends declared by the Fortis Board of Directors on Fortis common shares.

Awards granted under the 2017 PSUP and 2017 SUP Plans vested and were paid out during the first quarter of 2020.

CH Energy Group:		Grant Date	Time Based		Performance Based	
	Grant Date	Fair Value	Granted	Outstanding[3]	Granted	Outstanding[3]
2020 RSUP	January 1, 2020	$ 53.97	7,257	7,318	-	-
2020 PSUP	January 1, 2020	$ 53.97	-	-	21,770	21,954
2019 PSUP	January 1, 2019	$ 33.10	8,838	9,236	26,514	27,707
2018 PSUP	January 1, 2018	$ 36.59	-	-	29,514	32,098
2017 PSUP[1]	January 1, 2017	$ 30.85	-	-	30,085	-

Central Hudson:		Grant Date	Time Based		Performance Based	
	Grant Date	Fair Value	Granted	Outstanding[2][3]	Granted	Outstanding[2][3]
2020 RSUP	January 1, 2020	$ 53.97	12,655	12,762	-	-
2020 SUP	January 1, 2020	$ 53.97	-	-	25,311	25,525
2019 SUP	January 1, 2019	$ 33.10	15,691	15,334	31,383	30,668
2018 SUP	January 1, 2018	$ 36.59	16,337	16,461	32,675	32,922
2017 SUP[1]	January 1, 2017	$ 30.85	18,359	-	36,717	-

[1] In the first quarter of 2020, 58,145 units under the 2017 SUP and 33,633 units under the 2017 PSUP vested and were paid out at $40.15 per unit for a total of approximately $5.1 million.
[2] In the second quarter of 2019, 3,337 2017 SUP units, 2,814 2018 SUP units, and 3,075 2019 SUP units were forfeited following the resignation of an Officer.
[3] Includes notional dividends accrued as of March 31, 2020.

Compensation Expense

The following table summarizes compensation expense for share unit plan units as follows (In Thousands):

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
CH Energy Group	$ 1,128	$ 1,525
Central Hudson	$ 1,128	$ 1,519

The liabilities associated with the 2020 RSUP, 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 2020 RSUP, SUP and PSUP agreements ("the Plans"), 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 Plans, is determined as if the employee continued to be an employee through the end of the performance period. In accordance with ASU 2014-12, in this situation, compensation expense for that individual is recognized over the requisite service period, instead of the performance period. In 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 Plans in which they have attained the required retirement age and met the required 15 years of service. Fluctuations in compensation expense in the comparative periods can result from changes in the Fortis Inc. common stock share price and the projected performance payout percentages.

NOTE 13 – Commitments and Contingencies

There were no significant changes in the nature and amounts of Central Hudson's commitments from those disclosed in the 2019 Annual Financial Report, except as noted below.

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, 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, through value stack payments, or by making alternative compliance payments. Through March 31, 2021 LSEs will purchase ZECs from NYSERDA at tranche prices approved by the PSC based on qualifying in-state nuclear plant output and Central Hudson's full-service customer New York Control Area load-ratio share. Starting April 1 2020, Central Hudson's obligation will be comprised of an administratively determined ZEC price, Central Hudson's monthly load volume, as defined by NYISO billing data and a load modifier adjustment factor. The actual obligation will be determined and is contingent upon actual load served. At March 31, 2020, based on Central Hudson's estimated annual load to be served through March 31, 2021, the total obligation to procure ZECs is estimated to be approximately $10.2 million and for RECs the purchase obligation through December 31, 2022 is estimated to be approximately $9.7 million. Central Hudson intends to fulfill its future REC obligation through NYSERDA and other value stack payments for renewable attributes that will be applied towards Central Hudson's REC requirement. The requirement to procure RECs and ZECs will continue based upon Central Hudson's future load served to its customers through 2029. These future costs are recoverable from customers through electric cost adjustment mechanisms.

Other Commitments

Pension and OPEB Funding Contributions

Central Hudson is subject to certain contractual benefit payment obligations. Decisions about how to fund the Retirement and OPEB Plans 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 and OPEB 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 for the Retirement Plan at 80% or higher. In January 2020, Central Hudson made a contribution for 2019 of $1.1 million to the 401(h) Plan to fund the management OPEB liabilities, in accordance with Central Hudson's OPEB policy and strategy. Actual contributions for 2020 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. Annual contributions to the SERP could vary based on investment returns, discount rates, and participant demographics. Central Hudson made a contribution to the SERP for 2019 of $7.0 million in March 2020, resulting in a funding status that achieves the requirements of the Trust agreement.

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, 2020, CHET's investment in Transco was approximately $8.1 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, 2020, CH Energy Group is not aware of any existing condition that would require any payments under this guarantee.

Contingencies

Environmental Matters

Central Hudson accrues for remediation costs based on the amounts that can be reasonably estimated at a point in time. As of March 31, 2020, Central Hudson has accrued $80.4 million with respect to all SIR activities, including operation, maintenance and monitoring costs ("OM&M"), of which $7.7 million is anticipated to be spent in the next twelve months.

Central Hudson currently has 9 sites within its service territory that are in various stages of environmental site investigation or remediation. SIR can be divided into various stages of completion based on the milestones of activities completed and reports reviewed. These stages, the costs accrued and the sites currently in each stage include (dollars in millions):

Stage	**Sites:**		**Total Accrued Cost at March 31, 2020**		**Estimated spend in the next twelve months:**
Investigation	# 9 - Little Britain Road (1)	$	1.3	$	0.2
Remedial Alternatives Analysis		$	-	$	-
Remedial Design		$	-	$	-
Remediation	#5 - North Water Street (2)	$	74.2	$	7.2
Post-Remediation Monitoring	#2 - Newburgh Areas A, B & C #3 - Laurel Street #4 - Catskill #6 - Kingston #8 - Eltings Corners	$	4.9	$	0.3
No Action Required	#1 - Beacon #7 - Bayeaux Street	$	-	$	-
Total		$	80.4	$	7.7

There were no significant updates during the first quarter of 2020 or changes in the nature and amounts of Central Hudson's contingencies related to environmental matters from those disclosed in the 2019 Annual Financial Report, except as noted below.

- **(1) Remedial Investigation in Progress - Site #9 – Little Britain Road**
  - The New York State Department of Environmental Conservation ("DEC") issued a letter of Completeness in August 2018, and a Brownfield Cleanup Agreement was fully executed with the DEC in March 2019.
  - Investigation activities were completed in November 2018 and the investigation summary report was approved in March 2019.
  - A draft Sub-slab Depressurization System ("SSDS") Evaluation Work Plan to evaluate the existing system was approved by the DEC in May 2019.
  - On July 22, 2019 the DEC requested additional investigation to be performed.
  - Baseline sampling of the SSDS commenced in early January 2020 and results were submitted to the DEC and New York State Department of Health ("NYSDOH") in March 2020. Additional evaluation sampling activities were completed in March 2020 and the results will be evaluated and submitted to the DEC and NYSDOH in the second quarter of 2020. At this time the Company anticipates that routine operation and maintenance of the SSDS will be required.
  - Results of the potable well canvas surrounding the site was submitted to the DEC in January 2020. Additionally, quarterly groundwater sampling was completed in December 2019 and the results were submitted in February 2020. The Remedial Investigation Work Plan is anticipated to be submitted in the second quarter of 2020 with investigation activities expected to be completed by the end of 2020.

- **(2) Remediation in Progress - Site #5 – North Water Street**
  - As a result of several issues relating to fabrication of the moon pool, remedial activities were halted in December 2019. As such, demobilization and winterization of equipment was completed in January 2020.
  - A Moon Pool Performance Root Cause Analysis Summary was submitted to the DEC for review on February 18, 2020 and a conference call was held on March 12, 2020 to discuss the analysis and a path forward. The analysis was reviewed with the parties including a discussion of the difficulties encountered with the moon pool and a recommendation that the moon pool containment and mechanical dredging approach is no longer technically feasible. The full report was provided to the DEC for further review and follow up.
  - Central Hudson presented its plan to further evaluate and perform a pilot test to demonstrate the use of hydraulic dredging for source removal. The DEC supports this approach and has continued to emphasize a path forward that includes the removal of source material versus an alternative remedial approach (i.e. capping).
  - Additionally, in response to inquiries from DEC, Central Hudson communicated several options for additional protections for Poughkeepsies' Water Treatment Facility ("PWTF") intake be evaluated; however, they were all deemed not viable. The supporting analysis, Water Intake Protection Evaluations, was provided to the DEC for further review.
  - Central Hudson has requested, received, and reviewed an assessment of a high-solids hydraulic dredging remedial alternative from a third party engineering consulting firm including predictive cost modeling for a pilot test and full-scale remediation ranging from $67 million to $110 million.
  - Based on the above discussions and analyses performed, Central Hudson has revised its estimate of the total remediation costs associated with this site in the first quarter of 2020 to remove "moon pool" mechanical dredging as a viable solution and record the low end of the range of projected costs for remediation activities at this site. The estimated costs will

continue to be refined and will be updated as further testing is performed and assumptions are refined based on the pilot test later in the year.

- The estimated spending as of March 31, 2020 for the next 12 months is based on performing the hydraulic pilot test in lieu of beginning mechanical dredging. This is a reduction of approximately $12.6 million in the expected current spend from the amount reported at December 31, 2019.

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 2018 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 2018 Rate Order includes cash recovery of approximately $25.7 million during the three-year rate plan period ending June 30, 2021, with $15.0 million recovered through March 31, 2020.
- The total spent related to site investigation and remediation for the three months ended March 31, 2020 and 2019 was approximately $1.3 million and $1.0 million, respectively.
- The regulatory asset balance including carrying charges as of March 31, 2020, December 31, 2019 and March 31, 2019 was $87.5 million, $62.7 million and $50.7 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 during the three months ended March 31, 2020 and 2019. We do not expect insurance recoveries to offset a meaningful portion of total costs.

Litigation

Asbestos Litigation

Central Hudson is involved in various asbestos lawsuits.

As of March 31, 2020, of the 3,380 asbestos cases brought against Central Hudson, 1,168 remain pending. Of the cases no longer pending against Central Hudson, 2,051 have been dismissed or discontinued without payment by Central Hudson and Central Hudson has settled 161 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."

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 2018 Rate Order is 80% for electric and 20% for natural gas.

CH Energy Group Segment Disclosure

(In Thousands)

	Three Months Ended March 31, 2020				
	Segments		Other		
	Central Hudson		Businesses		
		Natural	and		
	Electric	Gas	Investments	Eliminations	Total
Revenues from external customers	$ 142,334	$ 65,912	$ -	$ -	$ 208,246
Intersegment revenues	13	107	-	(120)	-
Total operating revenues	142,347	66,019	-	(120)	208,246
Income before income taxes	12,792	18,829	112	-	31,733
Net Income Attributable to CH Energy Group	$ 11,534	$ 14,522	$ 93	$ -	$ 26,149
Segment Assets at March 31, 2020	$ 1,775,979	$ 687,237	$ 16,950	$ (1,196)	$ 2,478,970

CH Energy Group Segment Disclosure

(In Thousands)

	Three Months Ended March 31, 2019				
	Segments		Other		
	Central Hudson		Businesses		
		Natural	and		
	Electric	Gas	Investments	Eliminations	Total
Revenues from external customers	$ 136,826	$ 71,959	$ -	$ -	$ 208,785
Intersegment revenues	15	138	-	(153)	-
Total operating revenues	136,841	72,097	-	(153)	208,785
Income before income taxes	12,886	17,391	38	-	30,315
Net Income Attributable to CH Energy Group	$ 11,358	$ 12,979	$ 12	$ -	$ 24,349
Segment Assets at March 31, 2019	$ 1,656,031	$ 583,967	$ 14,622	$ (2,794)	$ 2,251,826

NOTE 15 – Accounting for Derivative Instruments and Hedging Activities

Purpose of Derivatives

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 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 natural gas requirements covered with fixed price forward purchases at March 31, 2020 are as follows:

Central Hudson	% of Requirement Hedged [1]
Electric Derivative Contracts:	0.2 million MWh
May 2020 – September 2020	16.7%
Natural Gas Derivative Contracts:	0.3 million Dth
November 2020 – December 2020	5.4%
January 2021 – March 2021	4.7%

(1) Projected coverage as of March 31, 2020.

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 offset 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 26 total agreements held by Central Hudson, 11 agreements contain credit risk contingent features. As of March 31, 2020, two open contracts with credit risk contingent features were in a liability position and, if the contingent features were triggered, $2.5 million would be required to settle these instruments.

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, 2020, December 31, 2019 and March 31, 2019, 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 are as follows (In Thousands):

Description	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amount of Assets Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position: Financial Instruments	Cash Collateral Received	Net Amount
As of March 31, 2020[1]						
Derivative Contracts:						
Central Hudson - electric	$ -	$ -	$ -	$ -	$ -	$ -
Central Hudson - natural gas	25	-	25	25	-	-
Total CH Energy Group and Central Hudson Assets	$ 25	$ -	$ 25	$ 25	$ -	$ -
As of December 31, 2019[1]						
Derivative Contracts:						
Central Hudson - electric	$ -	$ -	$ -	$ -	$ -	$ -
Central Hudson - natural gas	-	-	-	-	-	-
Total CH Energy Group and Central Hudson Assets	$ -	$ -	$ -	$ -	$ -	$ -
As of March 31, 2019[1]						
Derivative Contracts:						
Central Hudson - electric	$ -	$ -	$ -	$ -	$ -	$ -
Central Hudson - natural gas	-	-	-	-	-	-
Total CH Energy Group and Central Hudson Assets	$ -	$ -	$ -	$ -	$ -	$ -

(1) Interest rate cap agreements are not shown in the above chart. As of March 31, 2020, December 31, 2019 and March 31, 2019 the fair value was $0.

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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, 2020[(1)]						
Derivative Contracts:						
Central Hudson - electric	$ 3,836	$ -	$ 3,836	$ 25	$ -	$ 3,811
Central Hudson - natural gas	-	-	-	-	-	-
Total CH Energy Group and Central Hudson Liabilities	$ 3,836	$ -	$ 3,836	$ 25	$ -	$ 3,811
As of December 31, 2019[(1)]						
Derivative Contracts:						
Central Hudson - electric	$ 5,542	$ -	$ 5,542	$ -	$ -	$ 5,542
Central Hudson - natural gas	720	-	720	-	-	720
Total CH Energy Group and Central Hudson Liabilities	$ 6,262	$ -	$ 6,262	$ -	$ -	$ 6,262
As of March 31, 2019[(1)]						
Derivative Contracts:						
Central Hudson - electric	$ 3,262	$ -	$ 3,262	$ -	$ -	$ 3,262
Central Hudson - natural gas	34	-	34	-	-	34
Total CH Energy Group and Central Hudson Liabilities	$ 3,296	$ -	$ 3,296	$ -	$ -	$ 3,296

(1) Interest rate cap agreements are not shown in the above chart. As of March 31, 2020, December 31, 2019 and March 31, 2019 the fair value was $0.

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, 2020, December 31, 2019 and March 31, 2019, 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, 2020(1)				
Assets:				
Derivative Contracts:				
Central Hudson - electric	$ -	$ -	$ -	$ -
Central Hudson - natural gas	25	25	-	-
Total CH Energy Group and Central Hudson Assets	$ 25	$ 25	$ -	$ -
Liabilities:				
Derivative Contracts:				
Central Hudson - electric	$ 3,836	$ -	$ 3,836	$ -
Central Hudson - natural gas	-	-	-	-
Total CH Energy Group and Central Hudson Liabilities	$ 3,836	$ -	$ 3,836	$ -
As of December 31, 2019(1)				
Assets:				
Derivative Contracts:				
Central Hudson - electric	$ -	$ -	$ -	$ -
Central Hudson - natural gas	-	-	-	-
Total CH Energy Group and Central Hudson Assets	$ -	$ -	$ -	$ -
Liabilities:				
Derivative Contracts:				
Central Hudson - electric	$ 5,542	$ -	$ 5,542	$ -
Central Hudson - natural gas	720	720	-	-
Total CH Energy Group and Central Hudson Liabilities	$ 6,262	$ 720	$ 5,542	$ -
As of March 31, 2019(1)				
Assets:				
Derivative Contracts:				
Central Hudson - electric	$ -	$ -	$ -	$ -
Central Hudson - natural gas	-	-	-	-
Total CH Energy Group and Central Hudson Assets	$ -	$ -	$ -	$ -
Liabilities:				
Derivative Contracts:				
Central Hudson - electric	$ 3,262	$ -	$ 3,262	$ -
Central Hudson - natural gas	34	34	-	-
Total CH Energy Group and Central Hudson Liabilities	$ 3,296	$ 34	$ 3,262	$ -

(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, 2020, December 31, 2019 and March 31, 2019 the fair value was $0.

The Effect of Derivative Instruments on the Statements of Income

Realized gains and losses on Central Hudson's derivative instruments are returned 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. Additionally, unrealized gains and losses on Central Hudson's derivative contracts have no impact on earnings since the energy contracts are subject to regulatory deferral.

For the three months ended March 31, 2020 and 2019, neither CH Energy Group 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, 2020	2019	Location of Gain (Loss)
Central Hudson:			
Electricity swap contracts	$ (8,843)	$ (1,808)	Deferred purchased electric costs(1)
Natural gas swap contracts	(941)	175	Deferred purchased natural gas costs(1)
Total CH Energy Group and Central Hudson	$ (9,784)	$ (1,633)	

(1) Realized gains and losses on Central Hudson's derivative instruments are returned to or recovered from customers through PSC authorized deferral accounting mechanisms with no net impact on results of operations.

Other Hedging Activities

Central Hudson – Electric

In October 2019, Central Hudson entered into a weather option for the period December 1, 2019 through March 31, 2020, to hedge the effect of significant variances in weather conditions on electricity costs. The aggregate limit on the contract was $5 million. The $1.5 million premium paid was amortized to purchased electricity over the term of the contract. The $0.1 million payout earned was recorded as a reduction to purchased electricity in the Statement of Income in the first quarter of 2020.

In 2018, Central Hudson entered into a similar weather option for the period December 1, 2018 through March 31, 2019. The aggregate limit on the contract was $5 million. The $1.5 million premium paid was amortized to purchased electricity over the term of the agreement and the payout earned of $0.7 million was recorded as a reduction to purchased electricity in the Statement of Income in the first quarter of 2019.

Central Hudson – Natural Gas

In October 2019, Central Hudson entered into a weather option for the period December 1, 2019 through March 31, 2020, to hedge the effect of significant variances in weather conditions and price on natural gas costs. The aggregate limit on the contract was $5 million. The $2.2 million premium paid was amortized to purchased natural gas over the term of the contract.

In 2018, Central Hudson entered into a similar weather option for the period December 1, 2018 through March 31, 2019. The aggregate limit of the contract was $5 million. The $2.3 million premium paid was amortized to purchased natural gas over the term of the agreement. The $0.5 million payout earned for the 2018 contract was recorded as a reduction to purchased natural gas in the Statement of Income during the first quarter of 2019.

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 Balance Sheets. The following table summarizes the amounts reported at fair value related to these assets (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, 2020:				
Other Investments	$ 15,892	$ 15,892	$ -	$ -
As of December 31, 2019:				
Other Investments	$ 8,865	$ 8,865	$ -	$ -
As of March 31, 2019:				
Other Investments	$ 9,527	$ 9,527	$ -	$ -

As of March 31, 2020, December 31, 2019, and March 31, 2019, a portion of the trust assets for the funding of the SERP and 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's and Central Hudson's 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, 2020, December 31, 2019, and March 31, 2019, the total cash surrender value of trust-owned life insurance held by these trusts was approximately $31.1 million, $31.6 and $30.4 million. The change in the cash surrender value is reported in "Other – net" income in the CH Energy Group's and Central Hudson's 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 maturities (Dollars In Thousands):

CH Energy Group

	March 31, 2020		December 31, 2019		March 31, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed rate debt	$ 695,515	$ 758,602	$ 695,515	$ 790,711	$ 624,122	$ 679,680
Variable rate debt	63,700	63,700	63,700	63,700	63,700	63,700
Total	$ 759,215	$ 822,302	$ 759,215	$ 854,411	$ 687,822	$ 743,380
Estimated effective interest rate		4.28%		4.31%		4.48%

Central Hudson

	March 31, 2020		December 31, 2019		March 31, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed rate debt	$ 683,250	$ 745,527	$ 683,250	$ 777,318	$ 610,250	$ 665,080
Variable rate debt	63,700	63,700	63,700	63,700	63,700	63,700
Total	$ 746,950	$ 809,227	$ 746,950	$ 841,018	$ 673,950	$ 728,780
Estimated effective interest rate		4.24%		4.27%		4.43%

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, and 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, as follows (In Thousands):

	Three Months Ended March 31,	
	2020	2019
CH Energy Group (Thompson Hine LLP)	$ 616	$ 532
Central Hudson (Thompson Hine LLP)	$ 599	$ 514
Central Hudson (The Chazen Companies)	$ 89	$ 217

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 dollar amounts.

Related party transactions included in accounts receivable and accounts payable for CH Energy Group and Central Hudson are as follows (In Thousands):

	March 31, 2020	December 31, 2019	March 31, 2019
CH Energy Group[1]	Fortis	Fortis	Fortis
Accounts Receivable	$ 641	$ 982	$ 774
Accounts Payable	$ 158	$ -	$ -

	March 31, 2020			December 31, 2019			March 31, 2019		
Central Hudson[1]	CHEG	Fortis	Other Affiliates	CHEG	Fortis	Other Affiliates	CHEG	Fortis	Other Affiliates
Accounts Receivable	$ 116	$ 26	$ 6	$ 109	$ 23	$ 4	$ 1,644	$ 63	$ 7
Accounts Payable	$ 1,203	$ -	$ -	$ 574	$ -	$ -	$ 1,104	$ -	$ -

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

Related party transactions in operating expenses for CH Energy Group and Central Hudson are as follows (In Thousands):

	Three Months Ended March 31, 2020		Three Months Ended March 31, 2019	
	CHEG	Fortis[1]	CHEG	Fortis[1]
CH Energy Group	$ -	$ 1,092	$ -	$ 970
Central Hudson	$ 1,220	$ -	$ 1,082	$ -

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

NOTE 18 – Subsequent Events

An evaluation of subsequent events through April 30, 2020, the date these Condensed Consolidated Financial Statements were approved by the Audit and Risk Committee of the Board of Directors, was completed to determine whether circumstances warranted recognition and disclosure of events or transactions in the Condensed Consolidated Financial Statements as of March 31, 2020.

MANAGEMENT'S DISCUSSION and ANALYSIS of FINANCIAL CONDITION and RESULTS of OPERATIONS
For the Three Months Ended March 31, 2020

This information should be read in conjunction with the Quarterly Condensed Financial Statements and the notes contained herein, and the audited 2019 Annual Financial Report's financial statements and notes, and Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

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 ("CHEC"), Central Hudson Electric Transmission LLC ("CHET") and Central Hudson Gas Transmission LLC ("CHGT"). Central Hudson is a regulated electric and natural gas transmission and distribution utility. CH Energy Group formed CHET to hold its 6.1% ownership interest in New York Transco LLC ("Transco"). Transco is a partnership with affiliates of other investor owned utilities in New York State which was created to develop, own and operate electric transmission projects in New York State. 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 industry, with 2019 revenue of CAD$8.8 billion and total assets of approximately CAD$53 billion. Fortis and its subsidiaries' 9,000 employees serve 3.3 million 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 electric and 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 $260 million of capital expenditures per year. The long-term capital program provides for continued strengthening of existing electric and gas infrastructure, resiliency and automation of distribution systems, new common facilities, and investments in information and distribution system technologies that will improve reliability and customer satisfaction.

As part of CH Energy Group's overall strategy to invest in electric transmission and distribution, CHET made an investment in Transco. In March 2016, the Federal Energy Regulatory Commission approved rates for Transco and three projects were placed in service during the second quarter of 2016. In April

2016, National Grid and Transco filed joint proposals related to the AC Transmission Order with the New York Independent System Operator ("NYISO"). In April 2019, National Grid and Transco were awarded the Segment B portion of one of its proposals for a transmission project that will improve the flow of power from upstate renewable resources to meet downstate demand and enhance the reliability and resilience of the grid. Transco will be authorized to earn a return on equity invested in the project (up to 53% of the project cost) of 9.65%, with up to an additional 1% available for incentives. The project has an estimated cost of $600 million plus interconnection costs and CHET's equity funding requirement of this cost as a 6.1% owner of Transco is expected to be $19.4 million. At March 31, 2020, CHET's investment in Transco was approximately $8.1 million.

In November 2018, Transco's limited liability company agreement was amended ("Transco Amendment") to allow Transco to pursue additional projects that might come out of future NYISO Public Policy Transmission Planning Processes ("PPTP Processes"). Under the Transco Amendment, CHET would have a 10% ownership stake in transmission solutions related to future projects that result from future PPTP Processes. CHET would also be allocated 10% of future development costs for any new transmission projects as part of future PPTP Processes.

Central Hudson
Business Description and Strategy

Central Hudson is subject to regulation by the PSC. Central Hudson's earnings are derived predominately from the revenue it generates from delivering energy to approximately 300,000 electric and 80,000 natural gas customers, with earnings growth coming primarily from increases in net utility plant. Central Hudson's delivery rates are designed to recover the cost of providing safe and reliable service while affording the opportunity to earn a fair and reasonable return on its capital.

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

- Modernizing its business through electric and natural gas system investments and process improvements;
- Continuously improving its performance while maintaining cost effective, efficient and secure operations;
- Advocating on behalf of customers and other stakeholders; and
- Investing in programs and employee development to position the organization for continued success in the future.

Central Hudson is committed to a cleaner energy future by supporting New York State's energy policies and its Reforming Energy Vision goals and strongly believes that maintaining affordability must be part of the solution. Central Hudson is making investments in infrastructure, technologies and programs that cost-effectively reduce carbon emissions while continuing to provide reliable, resilient and affordable power by:

- Upgrading electric transmission and distribution lines, including support for statewide transmission upgrades to deliver renewable energy sources to areas of high electric demands including the Hudson Valley, and investments in the regional electric distribution system to facilitate greater levels of locally sited renewable generators;
- Pursuing the lowest cost approach to emission reduction, by examining current incentives to determine which offer the highest value in lowering emissions;
- Integrating natural gas benefits, utilized for fast-start electric generation to enable intermittent renewable resources, and as a low-carbon option for heating and manufacturing;
- Expanding energy efficiency programs, the most cost-effective method to reduce emissions; and
- Advancing environmentally beneficial electrification, for example promoting electric vehicles and heat pumps to lower emissions from the transportation and building heating sectors.

Risk Factors

There were no material changes to CH Energy Group's or Central Hudson's risk factors, as set forth in its 2019 Annual Financial Report, during the first three months of 2020, except as noted below:

COVID-19

We provide essential services to our customers and it is paramount that we keep our employees safe. The recent outbreak of the novel Coronavirus pandemic ("COVID-19") is a rapidly developing situation that has adversely impacted economic activity and business conditions. In particular, efforts to control the spread of COVID-19 have led to shutdowns of various businesses in our service territory and have required changes to our operations to mitigate potential risks and impacts to our customers and employees. Along with all major utilities in New York, we have temporarily suspended service disconnections and finance charges for non-payment to help mitigate the economic impact of COVID-19 on our customers. We have increased our inventory levels to meet anticipated operational needs and continued electric and natural gas capital investments. To date the Company has not yet experienced any significant issues with our supply chain or access to capital.

Incremental operating expenses incurred to date and impacts on revenues to date have not been material. We have increased our uncollectible reserve based on a qualitative assessment including an estimate of forecasted economic conditions related to COVID-19. However, the total extent of such impact on our results of operations is unknown at this time and is contingent upon the continuation of current state mandates and the COVID-19 related impacts on the economy. Depending on the length of COVID-19 suspension of certain work activities, our ability to fully execute our capital investment plan could be negatively impacted. An extended slowdown of the economic growth in our service territory and broadly throughout New York State, demand for commodities and/or material changes in governmental policy could result in lower economic growth and lower demand for electricity in our key markets as well as the ability of various customers, contractors, suppliers and other business partners to fulfill their obligations, which could have a material adverse effect on our results of operations and financial condition. COVID-19, including its related impacts, is a rapidly evolving situation, and we will continue to monitor developments affecting our workforce, our customers, contractors and suppliers and our access to capital markets.

CH Energy Group - Regulated Operations - Central Hudson

Financial Highlights

Period Ended March 31

	Year to Date		
	2020	**2019**	**Change**
Electricity Sales (GWh)	1,243	1,289	(46)
Natural Gas Sales (PJ)	8.4	9.5	(1.1)
(In millions)			
Revenues	$ 208.2	$ 208.8	$ (0.6)
Energy Supply Costs - Matched to Revenues	58.2	69.6	(11.4)
Operating Expenses - Matched to Revenues	25.2	21.0	4.2
Operating Expenses - Other	74.3	68.0	6.3
Depreciation and Amortization	16.5	14.7	1.8
Other Income, net	6.0	3.0	3.0
Interest Charges	8.4	8.3	0.1
Income Taxes	5.5	5.9	(0.4)
Net income	$ 26.1	$ 24.3	$ 1.8

Earnings: Central Hudson achieved earnings growth in the first quarter of 2020 compared to the prior year quarter of $1.8 million. The PSC-approved increase in delivery rates provided a return on the additional capital invested in the business and the recovery of higher operating and financing expenses. Partially offsetting the increase in revenue was an increase in the allowance for credit losses based on a qualitative assessment including an estimated forecast of economic conditions and impacts of the New York State response to address the COVID-19 pandemic.

Energy supply costs reflect overall lower electric and natural gas commodity prices coupled with lower purchased volumes due to milder weather in 2020 as compared to 2019. 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, and fluctuations in volume and price will impact the revenues collected through these factors. These year-over-year variations were not material.

Electricity Sales

Electric sales for 2020 were 3.6% lower than 2019 primarily due to milder than normal weather.

Natural Gas Sales

Natural gas sales were 11.6% lower due to a warmer than normal heating season in 2020.

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

Other Income, net: The increase is primarily due to a decrease in the non-service component of pension expense, which resulted from the expiration of investment losses incurred in 2009 on trust assets that were amortized over a 10-year period.

Income Taxes: The combined effective tax rate is lower than the statutory rate due to tax normalization rules, and the decrease year over year is due to a decrease in flow through tax items related to capital expenditures.

Central Hudson Revenues - Electric

Period Ended March 31

(In millions)

	Year to Date		
	2020	**2019**	**Change**
Revenues with Matching Expense Offsets:[1]			
Recovery of commodity purchases	$ 35.8	$ 37.1	$ (1.3)
Sales to others for resale	1.4	2.5	(1.1)
Other revenues with matching offsets	17.8	16.0	1.8
Subtotal	55.0	55.6	(0.6)
Revenues Impacting Earnings:			
Customer sales	85.1	81.7	3.4
RDM and other regulatory mechanisms	0.4	(2.8)	3.2
Incentives earned	0.4	0.4	-
Net plant & depreciation targets	(1.1)	(0.9)	(0.2)
Other revenues	2.5	2.8	(0.3)
Subtotal	87.3	81.2	6.1
Total Electric Revenues	$ 142.3	$ 136.8	$ 5.5

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

Central Hudson Revenues - Natural Gas

Period Ended March 31

(In millions)

	Year to Date		
	2020	**2019**	**Change**
Revenues with Matching Expense Offsets:[1]			
Recovery of commodity purchases	$ 15.5	$ 24.6	$ (9.1)
Sales to others for resale	5.4	5.4	-
Other revenues with matching offsets	2.9	3.2	(0.3)
Subtotal	23.8	33.2	(9.4)
Revenues Impacting Earnings:			
Customer sales	37.2	38.2	(1.0)
RDM and other regulatory mechanisms	3.1	(1.6)	4.7
Incentives earned	0.2	-	0.2
Net plant & depreciation targets	(0.9)	(0.4)	(0.5)
Other revenues	2.5	2.6	(0.1)
Subtotal	42.1	38.8	3.3
Total Natural Gas Revenues	$ 65.9	$ 72.0	$ (6.1)

(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 certain authorized business expenses recovered through rates and the cost of special programs authorized by the PSC and funded with certain available credits. For natural gas sales to other entities for resale, 85% of such profits are returned to customers.

Central Hudson's revenues consist of two major categories: those that offset specific expenses in the current period (matching revenues) and those that impact earnings. Matching revenues represent amounts billed in the current period to recover costs for particular expenses (most notably, purchased electricity and purchased natural gas, pensions and other post-employment benefits ("OPEBs") and New York State 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 Statements of Income.

Electric Revenues:

The increase in electric revenues is primarily due to the increase in customer delivery rates effective July 1, 2019, partially offset by lower recovery of electric commodity costs due to a decrease in electric prices and sales volumes resulting from warmer weather.

Natural Gas Revenues:

Natural gas revenues decreased primarily as a result of lower recovery of commodity costs due to a decrease in natural gas prices and sales volumes resulting from warmer weather, which more than offset the increase in customer delivery rates effective July 1, 2019.

Central Hudson Operating Expenses

Period Ended March 31

(In millions)	Year to Date		
	2020	**2019**	**Change**
Expenses Currently Matched to Revenues:[1]			
Purchased electricity	$ 37.2	$ 39.6	$ (2.4)
Purchased natural gas	21.1	30.1	(9.0)
Pension & OPEB	3.1	2.6	0.5
New York States energy efficiency programs	10.2	10.3	(0.1)
Major storm reserve	3.1	0.4	2.7
Low income programs	3.4	1.2[3]	2.2
Other matched expenses	5.3	6.4[3]	(1.1)
Subtotal	83.4	90.6	(7.2)
Other Operating Expense Variations:			
Tree trimming	6.4	7.0	(0.6)
Property and school taxes[2]	16.5	15.2	1.3
Weather related service restoration	0.9	1.2	(0.3)
Distribution maintenance	1.3	0.8	0.5
Uncollectible accounts and reserve	2.5	1.5	1.0
Information technology	3.5	3.3	0.2
Labor and related benefits	24.8	22.2[3]	2.6
Employee training and safety	0.5	0.3[3]	0.2
Depreciation and amortization	16.5	14.7	1.8
Other expenses	17.9	16.5[3]	1.4
Subtotal	90.8	82.7	8.1
Total Operating Expenses	$ 174.2	$ 173.3	$ 0.9

(1) Includes expenses that, in accordance with the 2018 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 2018 Rate Order, Central Hudson is authorized to continue 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) Other expenses reported for the period ended March 31, 2019 have been reclassified to conform to the current period presentation.

Operating Expenses:

The year over year increase in operating expenses is primarily attributed to increases in certain expenses as provided for in delivery rates including depreciation, property and school taxes, and labor and related benefits. Additionally, an increase in the allowance for credit losses was recorded in 2020 based on a qualitative assessment including an estimated forecast of economic conditions and impacts of the New York State response to address the COVID-19 pandemic. Partially offsetting these increases are lower purchased commodity costs for both electric and natural gas, driven by lower prices and sales volumes.

Variations in purchased natural 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

CH Energy Group – Regulated – Central Hudson
Significant Changes in the Balance Sheets
as of March 31, 2020

(In millions)

Balance Sheet Account	Increase (Decrease)	Explanation
Accounts receivable	5.4	Increase is primarily due to the seasonality of the business, partially offset by an increase in the allowance for credit losses and the impact of lower commodity prices and milder weather on customer bills in the first quarter of 2020.
Other Receivables	(7.6)	Decrease is primarily due to the collection of costs previously billed for contributions in aid of construction (CIACs") to developers for their share of a capital project and mutual aid related to hurricane restoration efforts in Puerto Rico.
Regulatory assets - long term	16.3	Increase primarily reflects a $24.1 million increase in amounts accrued for future environmental remediation costs at North Water Street manufactured gas plant ("MGP") site. This increase was partially offset by lower deferred taxes recoverable through future rates attributable to plant and collections through the rate adjustment mechanism which began July 1, 2019.
Other investments	6.9	Increase primarily due to funding of the non-qualified Supplemental Executive Retirement Plan.
Notes Payable	30.0	Increase is related to short-term borrowings to meet working capital needs and supplement liquidity during the current economic environment.
Accounts payable	(5.7)	Decrease is primarily due to decreases in purchased natural gas costs driven by both commodity price and seasonality coupled with the timing of capital expenditures related to network strategy and information technology ("IT") projects.
Accrued environmental remediation costs, net	23.4	Net increase is primarily due to higher estimated remediation costs related to the North Water Street MGP site as a result of a change in the expected method of remediation.

Liquidity And Capital Resources

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

(In millions)

	Year to Date	
	2020	2019
Cash, cash equivalents and restricted cash - beginning of period	$ 21.1	$ 43.8
Cash from operations pre-working capital	49.8	43.0
Working capital	(6.4)	(20.5)
Operating Activities	43.4	22.5
Investing Activities	(59.6)	(48.6)
Financing Activities	30.0	0.5
Cash, cash equivalents and restricted cash - end of period	$ 34.9	$ 18.2
Dividends paid on Common Stock - CH Energy Group	$ -	$ (5.5)

Operating Activities: The increase in cash from operations pre-working capital in the first quarter of 2020 as compared to 2019 was primarily due to higher revenues providing return on rate base growth, recovery of eligible deferrals through the rate adjustment mechanisms effective beginning July 1, 2019 and lower expenditures for major storm restoration in 2020. The increase in working capital in the first quarter of 2020 as compared to 2019 was primarily due to amounts billed to customers in excess of actual electric energy costs, collections of previously billed costs for CIACs to developers for their share of a capital project, mutual aid recoveries related to hurricane restoration efforts in Puerto Rico and a decrease in required remittances of Clean Energy Fund collections to New York State Energy Research and Development Authority ("NYSERDA").

Investing Activities: Cash used in investing activities during the first quarter of 2020 increased $11.0 million compared to 2019 due to increased investments in Central Hudson's long-term capital program. Central Hudson's approved capital spend is estimated to be approximately $260 million for the year ended December 31, 2020, compared to approximately $240 million in 2019, and includes continued investments in electric transmission, distribution and substation infrastructure replacement programs, facility upgrades, a new training academy, IT and communications system.

Financing Activities: Included in financing activities in the first quarter of 2020 is $30 million of proceeds received from short-term borrowings to bolster liquidity and meet working capital needs. The Company did not pay dividends in the first quarter of 2020.

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 distributes excess cash to CH Energy Group in the form of dividends or receives capital contributions from CH Energy Group to meet equity financing needs.

Central Hudson expects to fund capital expenditures with cash from operations, a combination of short-term and long-term borrowings and capital infusions. 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 approximately 50%, 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.

CH Energy Group's and Central Hudson's secondary sources of funds are their cash reserves and their credit facilities. CH Energy Group and Central Hudson's ability to use their credit facilities is contingent upon maintaining compliance with certain financial covenants. CH Energy Group and Central Hudson do not anticipate that those covenants will restrict their access to funds in 2020 or the foreseeable future.

CH Energy Group and Central Hudson are actively monitoring effects on cash flow related to the impact of COVID-19 on the economy of its utility service territory, customers, and operations. As a provider of essential electricity and natural gas services, Central Hudson continues to see uninterrupted demand. Cash expended by the Company in pandemic response activities is not expected to be material and may be largely offset by reductions in other planned expenditures. At this time, CH Energy Group believes cash generated from operations and funds obtained from its financing program will be sufficient in 2020 and the foreseeable future to meet working capital needs, pay dividends on its Common Stock, fund Central Hudson's capital program and fund CHET's investment obligations in Transco and Central Hudson's public service obligations and growth objectives.

Committed Credit Facilities

By Order issued and effective September 13, 2018, the PSC issued a 2018 Financing Order authorizing Central Hudson to enter into new credit agreements with maturities of no more than five years and in an aggregate amount not to exceed $200 million. On March 13, 2020, Central Hudson entered into a $200 million, five-year revolving credit agreement with five commercial banks to replace the agreement that was set to expire on October 15, 2020. Proceeds received from the new revolving credit agreement are to be used for working capital needs and for general corporate purposes. Letters of credit are available up to $15 million from three participating banks. The credit facility is subject to certain covenants and certain restrictions and conditions as well as Central Hudson is 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 facility.

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. Due to low demands for cash and the ability to receive funding from either dividends or capital contributions, CH Energy Group does not currently intend to replace this credit agreement upon its maturity.

On a consolidated basis, CH Energy Group's committed credit as of March 31, 2020 and December 31, 2019 was $250 million. At March 31, 2020, CH Energy Group and Central Hudson had $30 million in borrowings outstanding under Central Hudson's committed credit agreement. There were no amounts outstanding under either credit facility at December 31, 2019.

Uncommitted Credit

At March 31, 2020 and December 31, 2019, Central Hudson had uncommitted short-term credit arrangements with three commercial banks totaling $40 million. There were no outstanding borrowings under the uncommitted credit agreements at March 31, 2020 and December 31, 2019.

Central Hudson's Bond Ratings

	March 31, 2020		December 31, 2019	
	Rating(1)	Outlook	Rating(1)	Outlook
S&P	A-	Stable	A-	Stable
Moody's	A3	Stable	A3	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.

On July 12, 2019, Moody's lowered Central Hudson's senior unsecured debt rating from A2 to A3 and changed the outlook from negative to stable. The rationale for the downgrade was the impact on the Company's financial ratios of its large capital expenditure program combined with lower operating cash flow generation resulting from the passage of the Tax Cuts and Jobs Act.

Central Hudson meets its need for long-term debt financing 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.

In accordance with the approved 2018 Financing Order, Central Hudson is authorized to issue and sell long-term debt in an aggregate amount not to exceed $425 million through December 2021, including $360 million for traditional utility purposes and up to $65 million to refinance its variable interest debt.

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, 2020			December 31, 2019		
			%			%
Long-term Debt(1)	$	759.2	47.8	$	759.2	49.6
Short-term Debt		30.0	1.9		-	-
Common Equity		797.6	50.3		772.6	50.4
Total	$	1,586.8	100.0	$	1,531.8	100.0

(1) Includes current maturities of long term debt.

Central Hudson

	March 31, 2020			December 31, 2019		
			%			%
Long-term Debt(1)	$	747.0	47.5	$	747.0	49.2
Short-term Debt		30.0	1.9		-	-
Common Equity		797.1	50.6		772.2	50.8
Total	$	1,574.1	100.0	$	1,519.2	100.0

(1) Includes current maturities of long term debt.

In accordance with the 2018 Rate Order, Central Hudson's customer rates continued to be premised on a capital structure, excluding short-term debt of a common equity ratio of 49% for the rate year beginning July 1, 2019. Beginning July 1, 2020 the common equity ratio will further increase to a common equity ratio of 50%. Central Hudson is currently managing its financing to maintain its common equity ratio at approximately 50%.

CH Energy Group and Central Hudson believe they will be able to meet their short-term and long-term cash requirements, given the flexibility awarded under the 2018 Rate Order, including a return on equity of 8.8%.

Summary of Changes in Accounting Policies since December 31, 2019

Regulation: There were no material changes to Central Hudson’s regulatory accounting policies during the three months ended March 31, 2020.

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, 2020. Estimates may be subject to future uncertainty as the COVID-19 pandemic continues to evolve, particularly the allowance for credit losses and the achievement of regulatory net plant targets.

GAAP: There were no changes to CH Energy Group’s or Central Hudson’s accounting policies during the three months ended March 31, 2020, except as noted below:

Financial Instruments
Effective January 1, 2020, CH Energy Group and Central Hudson adopted Accounting Standards Update No. 2016-13 that requires an entity to recognize as an allowance its estimate of expected credit losses. See Note 1 – “Summary of Significant Accounting Policies” for additional information.

Business Outlook

There were no material changes to CH Energy Group's or Central Hudson's mission and strategy since its 2019 Annual Financial Report.

Changes in Internal Controls over Financial Reporting

There have been no material changes in CH Energy Group's or Central Hudson's internal control over financial reporting during the three months ended March 31, 2020.

Regulatory Proceedings

There were no material changes to regulatory proceedings disclosed in the 2019 Annual Financial Report, however activity related to on-going proceedings, new proceedings in the first quarter 2020 has been noted below. We cannot predict the ultimate outcome or whether on-going proceedings would potentially impact Central Hudson in the future. Should it become reasonably possible or probable in the future that a loss will be sustained from any of the below proceedings, disclosure that it is reasonably possible or an accrual of the probable amount of loss will be made consistent with our accounting policies.

<u>Strategic Use of Energy Data Proceeding</u>

On March 19, 2020, the Commission issued an Order Instituting Proceeding: Strategic Use of Energy Related Data in Case 20-M-0082. The Commission initiated this proceeding recognizing that there are multiple proceedings where data related topics have been addressed in recent years which is not optimal, requiring stakeholders to engage in multiple proceedings. The Order directs Staff to develop two whitepapers by May 18, 2020 that establish a Data Access Policy Framework that standardizes necessary privacy, cyber security and quality requirements for access to energy related data and the creation of an integrated energy data resources that provides a platform for access to customer and system data.

<u>Gas Planning Procedure</u>

The Commission issued an Order Instituting Proceeding on Gas Planning on March 19, 2020 in Case 20-G-0131. This proceeding was initiated to ensure more useful and comprehensive planning for natural gas usage and investments in New York State. The proceeding will focus on several major issues including examining constraints, gas planning, non-pipe solutions, gas moratoria standards and demand-side resources.

<u>The Order sets forth several reporting and compliance items:</u>

- File a Supply/demand analysis for locations identified as "vulnerable" within each utility service territory by June 17, 2020;
- File a Supply/demand analysis for the entire utility service territory by July 17, 2020;
- Develop and file a Peaking Services and Moratorium Management Proposal by July 17, 2020;
- File utility Status Report/Proposals on Plans for Utilizing Demand Reducing Measures (Energy Efficiency ("EE"), Demand Reduction Non-Pipe Alternatives, other) to aid in management of moratoria (including existing EE and electrification programs and targets) by August 17, 2020; and
- Staff is directed to file a Proposal to Modernize Gas System Planning Process by August 17, 2020.

<u>Executive Orders related to COVID-19:</u>

On March 7, 2020, New York State Governor Andrew Cuomo issued Executive Order 202 Declaring a Disaster Emergency in the State of New York which addresses the threat that COVID-19 poses to the health and welfare of New York's residents and visitors. The Executive Order remains in effect until September 7, 2020. Utilities are considered essential; however certain programs such as energy efficiency were determined to be non-essential. Working with the state, Central Hudson has suspended shut-offs for customers and offers assistance to customers impacted by COVID-19 who may be experiencing financial hardship. Beginning April 1, 2020, Central Hudson began waiving finance charges for late payments.

On April 6, 2020, the Commission issued an Order Suspending Certain Payment Obligations related to Standardized Interconnection Requirements. These payments relate to the final 75% of estimated interconnection costs paid to the utility by applicants and are suspended for the length of the Disaster Emergency plus thirty calendar days. This Order also directs electric utilities to continue all interconnection activities that can be conducted in accordance with the Governor's orders relating to the conduct of essential and non-essential work. Central Hudson is currently working along with the Joint Utilities ("JU") and Staff to identify impacts of COVID-19 across the business including regulatory obligations; and determining the necessary actions to protect customers, the utilities and shareholders.

On April 10, 2020, Multiple Interveners ("MI") filed a petition with the Commission requesting an expeditious ruling and recommending that, at a minimum, surcharges and collections devoted towards funding programs and projects be either reduced or delayed to provide relief to customers. The petition also proposed that prior collections from customers for such programs and projects that remain uncommitted be returned to customers and to the extent activity in such programs and projects has been paused due to the pandemic, current customer collections to fund such programs similarly should be paused. MI filed supplemental comments to support its April 10, 2020 petition that address the recommended funding sources for the requested rate relief, and addresses the impact of the pandemic on New York's manufacturers. MI sited NYSERDA's "Clean Energy Fund Quarterly Performance Report through December 31, 2019" (dated March 2020) that indicates that, as of December 31, 2019: $1.2 billion of the amount approved for collection remained unspent and uncommitted and could be utilized to provide much-needed rate relief to customers during these very-challenging times. MI's petition includes an attachment that reports that: "Manufacturing in the New York area fell by its biggest margin ever to a historic low far worse than anything seen during the Great Recession." Consumer Power Advocates filed a petition supporting MI's petition. The Commission assigned this filing a new proceeding number 20-M-0187.

On April 20, 2020, Public Utility Law Project of New York ("PULP") filed a petition with the PSC requesting the Commission to commence a proceeding to investigate and consider the effects of COVID-19 and the impacts of the "New York on PAUSE" Executive order on the rates and provisions of utility services. Specifically, PULP requests that the scope of the proceeding include four categories of issues:

- Current multi-year rate plans;
- Rate cases currently under litigation and/or negotiation;
- Rate cases that will be filed during this public health crisis and while the economic effects arising during and after the state of emergency continue to persist and
- The unplanned but likely synchronization of service termination letters and actual shutoffs due to the various moratoria on shutoffs and other collection activities.

The petition urges that utilities currently in litigation, settlement or with recently filed rates cases be required to file up-to-date rate case quality data, and that these utilities should be required to file potential austerity updates and adjust their requested return on equity and debt to equity ratios. PULP also states that rate increases included in approved multi-year rate plans currently in effect are based on inaccurate data and will devastate individuals already suffering in the aftermath of the COVID-19 crisis. PULP's petition identifies a need for the Commission and the Office of Temporary and Disability Assistance to determine a method that will ensure customers can still receive Emergency Home Energy Assistance during the moratorium on utility service shutoffs.

Offshore Wind Proceeding
On July 12, 2018, the Commission issued an Order Establishing an Offshore Wind ("OSW") Standard and Framework for Phase 1 Procurement under Case 18-E-0071, in order to comply with NYSERDA's N York State Offshore Wind Master Plan, a comprehensive roadmap that encourages the development of at least 2,400 MW of offshore wind capacity to be operational by 2030.

The standard calls for Phase 1 Offshore Renewable Energy Credits ("ORECs"). On July 18, 2019 Governor Cuomo announced the selection of two offshore wind building projects that include an 880 MW project and 816 MW project. Load Serving Entities ("LSEs") are obligated to obtain, on behalf of their retail customers, the ORECs procured in Phase 1 in an amount proportional to their load in relation to the energy load served by all LSEs in the New York Control Area. NYSERDA will be procuring ORECs for Phase 1. On November 27, 2019, the Commission granted an additional four month extension to April 30, 2020 for LSEs to provide executed contracts for the purchase of ORECs to NYSERDA. The additional time will allow NYSERDA to incorporate directives prescribed in the September 20, 2019 Order Approving the Zero-Emissions Credit Implementation Plan in a future OREC Plan as well as provide LSEs and NYSERDA the opportunity to more effectively develop LSEs' contracts.

On January 28, 2020 NYSERDA filed a petition to procure additional ORECs associated with up to 500 MW of OSW. The petition is based on NYSERDA's goal of maintaining its trajectory toward meeting its Clean Energy Goals as detailed in the Climate Leadership and Community Protection Act, which requires 9,000 MWs of offshore wind to be operational by 2035; building upon the success of the Phase 1 offshore wind solicitation, which resulted in NYSERDA executing contracts for two proposals with an aggregate nameplate rating of 1,696 MWs at an average OREC price of $25.15; and taking advantage of the extension of the federal Investment Tax Credit of 18% which applies to wind facilities that begin construction during 2020. Comments in response to a Notice of Proposed Rulemaking published in the February 19, 2020 edition of the New York State Register (I.D. No. PSC-07-20-00007-P) January 28, 2020 were filed on April 20, 2020.

Energy Storage System Proceeding
On December 13, 2018 the Commission issued its Order Establishing Energy Storage Goal and Deployment Policy. Each electric Investor Owned Utility was required to issue a Request for Proposal in 2019 to competitively procure dispatch rights for bulk-level energy storage systems sited within their service territory. On August 1, 2019, NYSERDA filed modified versions of its Energy Storage Market Acceleration Bridge Implementation Plan and Program Manual to Staff's comments, which revised customer, project and contractor eligibility, quality assurance, measurement and verification, and technical requirements. Additional revisions included payment terms, application requirements, project viability and reporting sections. NYSERDA filed its revised Energy Storage Retail Incentive Program Manual on August 13, 2019. On September 30, 2019, Central Hudson posted its Request for Proposal ("RFP") and Energy Storage Service Agreement Terms and Conditions for prospective bidders and stakeholders. Only prequalified bidders are eligible to submit offers for this RFP. Central Hudson received proposals for six projects. On March 30, 2020 the Company filed a notice with the PSC that the date for RFP reviews will be delayed until April 30, 2020, and notification to winning bidders will be delayed to May 15, 2020.

Electric Vehicle Direct Current Fast Charging ("DCFC") Infrastructure Program
On February 7, 2019, the Commission issued an Order Establishing Framework for a DCFC Infrastructure program. The Order adopted the multi-party DCFC per plug incentive proposal to support critical public infrastructure in furtherance of the State Energy Plan carbon reduction targets and zero emission vehicle deployment goals. In compliance with the Order, utilities were directed to add an EV charging station information page to their individual website. On January 13, 2020, Staff issued its Whitepaper Regarding Electric Vehicle Supply Equipment and Infrastructure Deployment and published a notice soliciting comments due by April 27, 2020 and a reply comment period to May 11, 2020.

Central Hudson filed its 2019 Annual Report on March 2, 2020 describing participation in the program, geographic plug location, installation costs, energy usage details and technologies used to manage demand.

On March 19, 2020 the Commission issued Order Providing Clarification and Modifying Direct Current Charging Incentive Program in response to the November 25, 2019 Tesla Petition for Rehearing of the Commission's February 7, 2019 and July 12, 2019 DCFC Orders. The Commission adopted the following clarification/modifications to the previous EV DCFC orders, including:

- Tesla's method of payment qualifies under the DCFC incentive program;
- DCFC per-plug incentive program data collection shall only be used to inform publicly, fully anonymized aggregated annual reports;
- Approval of a two year extension of the 2019 incentive level to December 31, 2021;
- Modified DCFC per-plug incentive program rules so that at co-located stations, any plug type capable for simultaneously charging two vehicles at 75 kW or greater receives a full per-plug incentive, and standardized plug equipment at the site capable of simultaneous charging two vehicles at 62.5 kW to 74 kW receives 60% of full incentive. Mixed tier incentives cease after three years on March 19, 2023; and
- No single station developer or operator may seek incentives for installations of greater than 50% of the plugs per utility service area.

Energy Efficiency Proceeding

On April 1, 2019, the New York State JU filed the New Efficiency New York filing ("NENY"). Central Hudson accepted the Commission's provisional electric and gas energy efficiency targets but proposed a higher incremental budget of $18 million and $1.1 million for electric and gas, respectively. The increase in incremental budget would align Central Hudson with the $/kWh and $/MMBtu average of other New York State utilities. The increase would be funded in part by unspent energy efficiency funds. In addition, in collaboration with other JU members and NYSERDA, Central Hudson proposed a $30.2 million heat pump program for the period 2020-2025. In 2020, the utilities and NYSERDA are directed to begin implementation of a statewide ratepayer Low Income Plan. Finally, utilities are instructed to continue to file a System Energy Efficiency Plan ("SEEP"), including quarterly progress reports**.** Central Hudson filed its SEEP and quarterly ETIP Scorecards for 2019.

As directed by the Commission, NYSERDA utilized its heat pump potential study to assist the utilities in developing budgets and targets for the statewide heat pump program. Central Hudson accepted the utility-specific budget of $30.2 million that was proposed within the study, but did not commit to NYSERDA's proposed target. Further analysis is needed to determine an achievable target. On May 21, 2019, the JU filed an updated report, which included a discussion of heat pump program budgets and targets. Within the report, Central Hudson proposed a target installation of 11,934 residential and small commercial heat pumps with a budget of $30.2 million for the period 2020 through 2025. The 11,934 installation target results in savings of 253 GBtu, which is 39% lower than the target proposed by NYSERDA. Central Hudson's target was derived through a robust service territory specific analysis conducted by a third party evaluation consultant. The Commission staff is reviewing its policy on this issue.

On January 16, 2020 the Commission issued Order Authorizing Utility Energy Efficiency and Building Electrification Portfolios Through 2025. The Commission's Order is intended to follow the principle of "all cost effective measures" proposed by various parties while implementing budget limits for cost containment. The Commission estimates bill impacts of the contained budgets to average 0.7% of electric bills and 0.4% of gas bills. No changes to the Benefit Cost Analysis calculation framework were made within the Order. The Order directed Staff to commence a performance management and improvement process related to all aspects of NENY within 90 days of the Order. Unspent funds from prior periods will be leveraged to the extent possible to cover incremental expenditures. The JU were directed to convene with NYSERDA and on a low-moderate income ("LMI") Management Committee to develop a statewide LMI framework, including a customer-facing hub, as well as conducting LMI stakeholder engagement. The Commission directs NYSERDA to be responsible for centralized income verification for LMI programs. A corresponding LMI implementation plan is due 120 days from the date of the Order. Utilities were directed to file a letter indicating their readiness to launch the heat pump program by April 1, 2020. Additionally, companies were directed to use the 2020 budgets to reimburse NYSERDA for heat pump incentives paid within our service territory in advance of that launch. Utilities and NYSERDA jointly filed a Heat Pump Implementation Plan and Program Manual on March 16, 2020 in compliance with the Order.

Clean Energy Standard Proceedings

Governor Cuomo announced New York States 2015 State Energy Plan as a comprehensive roadmap to build a clean, resilient and affordable energy system for New York State.

On January 16, 2020, in an Order issued Modifying Tier 1 Renewable Procurements, the Commission directed NYSERDA to offer bidders an Index Renewable Energy Credit ("REC") price option in future RES solicitations, beginning in 2020. In order to implement the Index REC option, NYSERDA and Staff were directed to file an implementation plan, for Commission action, within 90 days of the Order.

Utility Energy Registry Proceeding

On April 19, 2018, the PSC issued an Order Adopting Utility Energy Registry under Case 17-M-0315. The Order requires Central Hudson and the other New York utilities to provide customer data for the Utility Energy Registry ("UER") subject to the privacy standards set forth in the UER. The purpose of the UER is to make community-based energy consumption data more readily available for local planning, market research and CCA development with a goal of promoting actions to adopt more efficient and cleaner energy use patterns and strategies. On December 30, 2019, NYSERDA filed a UER Status Report prepared by Climate Action Associates, LLC to report on the progress of UER's implementation and operation, including the demands for, uses of, and benefits of UER data, as well as the need for refinements. The JU submitted comments on the UER report strongly urging that the most effective approach for managing the modifications to the UER suggested in the Report is through the recommended UER working group or and in the broader context of the Commission's newly instituted Strategic Use of Energy Related Data proceeding.

Central Hudson Management and Operations Audit

In a July 16, 2018 Order, the Commission approved Central Hudson's Revised Audit Implementation Plans filed on December 14, 2017 and June 26, 2018. The Company's implementation plans address the Overland Final Audit Report released October 24, 2017 that included 55 recommendations. Central Hudson rejected eight recommendations in its implementation plan. The Order directs the Company to file updates on its progress with the recommendations no less frequently than every four months. Central Hudson's most recent update was filed on March 16, 2020 and reported that it considers 45 of the 47 audit recommendations complete and continues to work on implementation of the remaining two recommendations. To date, 43 recommendations have been accepted by Staff.

Uniform Statewide Customer Satisfaction Survey

On October 18, 2018 in Case 15-M-0566 the Commission issued an Order Authorizing Implementation of a Pilot Statewide Customer Satisfaction Survey. The pilot survey was implemented on January 1, 2019; however, Central Hudson also continued its existing customer satisfaction survey. Staff led a Uniform Statewide Customer Satisfaction Measures Post-Pilot meeting on March 23, 2020. The Commission approved Staff's request to extend the deadline to review the results of the pilot program from April 1 to June 15, 2020 due to disruptions caused by COVID-19.

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, a cyber-attack, changes in interest rates, poor operating performance, legislative, tax and regulatory developments, the outcome of litigations, the COVID-19 pandemic, and the resolution of current and future environmental and economic 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.