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

QUARTERLY FINANCIAL REPORT

for the period ended

SEPTEMBER 30, 2020

QUARTER ENDED SEPTEMBER 30, 2020

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

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Operating Revenues				
Electric	$ 149,732	$ 145,844	$ 414,374	$ 403,735
Natural gas	19,040	16,446	111,297	116,001
Total Operating Revenues	168,772	162,290	525,671	519,736
Operating Expenses				
Operation:				
Purchased electricity	38,801	39,178	107,096	113,159
Purchased natural gas	2,045	1,342	28,570	39,843
Other expenses of operation - regulated activities	73,814	70,280	228,571	206,783
Other expenses of operation - non-regulated	46	76	175	113
Depreciation and amortization	16,926	15,059	50,324	44,524
Taxes, other than income tax	16,037	15,368	50,848	47,658
Total Operating Expenses	147,669	141,303	465,584	452,080
Operating Income	21,103	20,987	60,087	67,656
Other Income and Deductions				
Income from unconsolidated affiliates	379	312	1,078	830
Interest on regulatory assets and other interest income	402	523	1,740	1,885
Regulatory adjustments for interest costs	(144)	216	(31)	766
Non-service cost components of pension and other post-employment benefits ("OPEB")	4,437	1,675	13,309	5,023
Other - net	174	53	1,657	600
Total Other Income	5,248	2,779	17,753	9,104
Interest Charges				
Interest on long-term debt	8,304	7,578	24,511	22,867
Interest on regulatory liabilities and other interest	550	986	1,760	2,821
Total Interest Charges	8,854	8,564	26,271	25,688
Income Before Income Taxes	17,497	15,202	51,569	51,072
Income Tax Expense	3,055	2,914	9,328	9,579
Net Income	$ 14,442	$ 12,288	$ 42,241	$ 41,493

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

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Net Income	$ 14,442	$ 12,288	$ 42,241	$ 41,493
Other Comprehensive Income:				
Employee future benefits - net of tax expense	35	34	106	91
Comprehensive Income	$ 14,477	$ 12,322	$ 42,347	$ 41,584

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

CH ENERGY GROUP

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

(In Thousands)

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Operating Activities:		
Net income	$ 42,241	$ 41,493
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation	41,168	38,431
Amortization	9,156	6,093
Deferred income taxes - net	8,368	8,126
Credit loss expense	5,734	4,329
Undistributed equity in earnings of unconsolidated affiliates	(806)	(105)
Pension expense	1,836	6,375
OPEB credit	(4,985)	(5,751)
Regulatory liability - rate moderation	(10,452)	(6,546)
Regulatory asset - revenue decoupling mechanism ("RDM") recorded	17,367	11,325
Changes in operating assets and liabilities - net:		
Accounts receivable, unbilled revenues and other receivables	4,597	22,779
Fuel, materials and supplies	1,399	(15)
Special deposits and prepayments	3,534	2,153
Income and other taxes	1,191	(3,958)
Accounts payable	919	(1,944)
Accrued interest	4,105	2,264
Customer advances	(1,298)	2,146
Other advances	3,199	(1,572)
CARES Act - deferred payroll tax payments	3,706	-
Pension plan contribution	(845)	(787)
OPEB contribution	(1,081)	(1,001)
Regulatory asset - RDM refunded	(10,471)	(13,662)
Regulatory asset - RY 3 - delayed electric and natural gas delivery rate increase	(6,729)	-
Regulatory asset - major storm	(12,687)	(2,111)
Regulatory asset - site investigation and remediation ("SIR")	3,625	1,727
Regulatory liability - energy efficiency programs including clean energy fund	(9,004)	(4,279)
Regulatory asset - rate adjustment mechanisms ("RAM")	7,187	2,415
Regulatory asset - deferred natural gas and electric costs	9,446	(982)
Other - net	8,464	15,116
Net cash provided from operating activities	118,884	122,059
Investing Activities:		
Additions to utility plant	(187,612)	(171,206)
Other - net	(4,635)	551
Net cash used in investing activities	(192,247)	(170,655)
Financing Activities:		
Repayment of long-term debt	(40,844)	(790)
Proceeds from issuance of long-term debt	100,000	-
Net change in short-term borrowings	-	15,000
Capital contribution	15,000	21,870
Dividends paid on Common Stock	-	(16,500)
Other - net	(574)	(14)
Net cash provided from financing activities	73,582	19,566
Net Change in Cash, Cash Equivalents and Restricted Cash	219	(29,030)
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	21,075	43,801
Cash, Cash Equivalents and Restricted Cash at End of Period	$ 21,294	$ 14,771
Supplemental Disclosure of Cash Flow Information:		
Interest paid, net of amounts capitalized	$ 19,503	$ 20,047
Federal and state income taxes (refunded) paid, net	$ (26)	$ 5,707
Non-Cash Operating Activities:		
Right-of-Use Assets Obtained in Exchange for New Operating Lease Liabilities	$ -	$ 1,984
Non-Cash Investing Activities:		
Accrued capital expenditures	$ 20,659	$ 14,248

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

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

		September 30, 2020		December 31, 2019		September 30, 2019
ASSETS						
Utility Plant (Note 3)						
Electric	$	1,590,922	$	1,533,547	$	1,500,413
Natural gas		660,263		615,857		595,470
Common		331,276		305,073		292,232
Gross Utility Plant		2,582,461		2,454,477		2,388,115
Less: Accumulated depreciation		612,887		580,633		578,120
Net		1,969,574		1,873,844		1,809,995
Construction work in progress		139,666		105,057		108,667
Net Utility Plant		2,109,240		1,978,901		1,918,662
Non-utility property & plant		524		524		524
Net Non-Utility Property & Plant		524		524		524
Current Assets						
Cash and cash equivalents		19,967		19,999		13,696
Accounts receivable from customers - net of allowance for credit losses of $6.9 million, $4.5 million and $3.1 million, respectively		69,165		69,171		58,232
Accounts receivable - affiliates (Note 17)		1,032		982		979
Accrued unbilled utility revenues - net of allowance of credit losses of $0.6 million in 2020 (Note 2)		17,731		24,202		18,086
Other receivables		14,055		19,159		17,954
Fuel, materials and supplies (Note 1)		24,812		26,211		25,995
Regulatory assets (Note 4)		42,479		55,535		37,583
Income tax receivable		-		787		-
Fair value of derivative instruments (Note 15)		1,390		-		669
Special deposits and prepayments		23,276		26,810		21,796
Total Current Assets		213,907		242,856		194,990
Deferred Charges and Other Assets						
Regulatory assets - deferred pension costs (Note 4)		-		-		25,749
Regulatory assets - other (Note 4)		154,067		123,385		117,537
Prefunded OPEB costs (Note 11)		15,314		12,514		2,159
Investments in unconsolidated affiliates (Note 6)		9,975		9,169		8,654
Other investments (Note 16)		47,515		40,127		39,558
Other		10,714		10,363		6,865
Total Deferred Charges and Other Assets		237,585		195,558		200,522
Total Assets	$	2,561,256	$	2,417,839	$	2,314,698

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)

	September 30, 2020	December 31, 2019	September 30, 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	424,406	409,406	401,906
Retained earnings	404,486	363,445	340,372
Accumulated other comprehensive loss	(293)	(399)	(339)
Total Equity	828,759	772,612	742,099
Long-term debt (Note 10)			
Principal amount	772,443	717,497	618,370
Unamortized debt issuance costs	(4,719)	(4,446)	(4,004)
Net long-term debt	767,724	713,051	614,366
Total Capitalization	1,596,483	1,485,663	1,356,465
Current Liabilities			
Current maturities of long-term debt (Note 10)	45,927	41,718	68,662
Short-term borrowings (Note 8)	-	-	15,000
Accounts payable	50,383	50,063	45,974
Accounts payable - affiliates (Note 17)	158	-	-
Accrued interest	11,138	7,033	9,095
Accrued vacation and payroll	11,019	10,754	9,593
Customer advances	13,606	14,904	12,289
Customer deposits	7,633	7,655	7,566
Regulatory liabilities (Note 4)	96,791	94,730	92,849
Fair value of derivative instruments (Note 15)	311	6,262	1,795
Accrued environmental remediation costs (Note 13)	17,254	20,396	28,422
Accrued income and other taxes	401	-	1,605
Other current liabilities	41,022	40,572	39,014
Total Current Liabilities	295,643	294,087	331,864
Deferred Credits and Other Liabilities			
Regulatory liabilities - deferred pension costs (Note 4)	5,354	1,780	-
Regulatory liabilities - deferred OPEB costs (Note 4)	23,615	26,643	17,962
Regulatory liabilities - other (Note 4)	277,346	288,508	289,735
Operating reserves	4,660	4,544	4,992
Accrued environmental remediation costs (Note 13)	66,436	36,585	32,566
Accrued pension costs (Note 11)	11,643	11,228	37,427
Tax reserve (Note 5)	4,237	3,126	7,029
Other liabilities	38,740	34,592	25,814
Total Deferred Credits and Other Liabilities	432,031	407,006	415,525
Accumulated Deferred Income Tax (Note 5)	237,099	231,083	210,844
Commitments and Contingencies			
Total Capitalization and Liabilities	$ 2,561,256	$ 2,417,839	$ 2,314,698

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)

	Nine Months Ended September 30, 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
Net income				1,650		1,650
Employee future benefits, net of tax					36	36
Balance at June 30, 2020	15,961,400	$ 160	$ 409,406	$ 390,044	$ (328)	$ 799,282
Net income				14,442		14,442
Capital contribution			15,000			15,000
Employee future benefits, net of tax					35	35
Balance at September 30, 2020	15,961,400	$ 160	$ 424,406	$ 404,486	$ (293)	$ 828,759

	Nine Months Ended September 30, 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
Net income				4,856		4,856
Capital contribution			7,870			7,870
Dividends declared on common stock				(5,500)		(5,500)
Employee future benefits, net of tax					34	34
Balance at June 30, 2019	15,961,400	$ 160	$ 393,906	$ 333,584	$ (373)	$ 727,277
Net income				12,288		12,288
Capital contribution			8,000			8,000
Dividends declared on common stock				(5,500)		(5,500)
Employee future benefits, net of tax					34	34
Balance at September 30, 2019	15,961,400	$ 160	$ 401,906	$ 340,372	$ (339)	$ 742,099

*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 September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Operating Revenues				
Electric	$ 149,732	$ 145,844	$ 414,374	$ 403,735
Natural gas	19,040	16,446	111,297	116,001
Total Operating Revenues	168,772	162,290	525,671	519,736
Operating Expenses				
Operation:				
Purchased electricity	38,801	39,178	107,096	113,159
Purchased natural gas	2,045	1,342	28,570	39,843
Other expenses of operation	73,814	70,280	228,571	206,783
Depreciation and amortization	16,926	15,059	50,324	44,524
Taxes, other than income tax	16,033	15,364	50,832	47,613
Total Operating Expenses	147,619	141,223	465,393	451,922
Operating Income	21,153	21,067	60,278	67,814
Other Income and Deductions				
Interest on regulatory assets and other interest income	401	543	1,735	1,855
Regulatory adjustments for interest costs	(144)	216	(31)	766
Non-service cost components of pension and OPEB	4,442	1,675	13,326	5,024
Other - net	258	51	1,720	650
Total Other Income	4,957	2,485	16,750	8,295
Interest Charges				
Interest on long-term debt	8,110	7,356	23,902	22,176
Interest on regulatory liabilities and other interest	550	979	1,760	2,813
Total Interest Charges	8,660	8,335	25,662	24,989
Income Before Income Taxes	17,450	15,217	51,366	51,120
Income Tax Expense	3,036	2,904	9,221	9,166
Net Income	$ 14,414	$ 12,313	$ 42,145	$ 41,954

CENTRAL HUDSON
CONDENSED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)
(In Thousands)

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Net Income	$ 14,414	$ 12,313	$ 42,145	$ 41,954
Other Comprehensive Income:				
Employee future benefits - net of tax expense	35	34	106	91
Comprehensive Income	$ 14,449	$ 12,347	$ 42,251	$ 42,045

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

CENTRAL HUDSON
CONDENSED STATEMENT OF CASH FLOWS (Unaudited)
(In Thousands)

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Operating Activities:		
Net income	$ 42,145	$ 41,954
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation	41,168	38,431
Amortization	9,156	6,093
Deferred income taxes - net	8,334	7,884
Credit loss expense	5,734	4,329
Pension expense	1,836	6,375
OPEB credit	(4,985)	(5,751)
Regulatory liability - rate moderation	(10,452)	(6,546)
Regulatory asset - RDM recorded	17,367	11,325
Changes in operating assets and liabilities - net:		
Accounts receivable, unbilled revenues and other receivables	4,644	22,879
Fuel, materials and supplies	1,399	(15)
Special deposits and prepayments	3,511	2,147
Income and other taxes	805	(6,256)
Accounts payable	1,126	(1,726)
Accrued interest	3,913	2,045
Customer advances	(1,298)	2,146
Other advances	3,199	(1,572)
CARES Act - deferred payroll tax payments	3,706	-
Pension plan contribution	(845)	(787)
OPEB contribution	(1,081)	(1,001)
Regulatory asset - RDM refunded	(10,471)	(13,662)
Regulatory asset - RY 3 - delayed electric and natural gas delivery rate increase	(6,729)	-
Regulatory asset - major storm	(12,687)	(2,111)
Regulatory asset - SIR	3,625	1,727
Regulatory liability - energy efficiency programs including clean energy fund	(9,004)	(4,279)
Regulatory asset - RAM	7,187	2,415
Regulatory asset - deferred natural gas and electric costs	9,446	(982)
Other - net	8,859	14,524
Net cash provided from operating activities	119,608	119,586
Investing Activities:		
Additions to utility plant	(187,612)	(171,206)
Other - net	(4,598)	1,411
Net cash used in investing activities	(192,210)	(169,795)
Financing Activities:		
Repayment of long-term debt	(40,000)	-
Proceeds from issuance of long-term debt	100,000	-
Proceeds from short-term borrowings	-	15,000
Capital contribution	12,000	2,000
Other - net	(574)	(14)
Net cash provided from financing activities	71,426	16,986
Net Change in Cash, Cash Equivalents and Restricted Cash	(1,176)	(33,223)
Cash, Cash Equivalents and Restricted Cash - Beginning of Period	15,086	40,346
Cash, Cash Equivalents and Restricted Cash - End of Period	$ 13,910	$ 7,123
Supplemental Disclosure of Cash Flow Information:		
Interest paid, net of amounts capitalized	$ 19,086	$ 19,575
Federal and state income taxes (refunded) paid, net	$ 263	$ 7,682
Non-Cash Operating Activities:		
Right-of-Use Assets Obtained in Exchange for New Operating Lease Liabilities	$ -	$ 1,984
Non-Cash Investing Activities:		
Accrued capital expenditures	$ 20,659	$ 14,248

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

CENTRAL HUDSON
CONDENSED BALANCE SHEET (Unaudited)
(In Thousands)

	September 30, 2020	December 31, 2019	September 30, 2019
ASSETS			
Utility Plant (Note 3)			
Electric	$ 1,590,922	$ 1,533,547	$ 1,500,413
Natural gas	660,263	615,857	595,470
Common	331,276	305,073	292,232
Gross Utility Plant	2,582,461	2,454,477	2,388,115
Less: Accumulated depreciation	612,887	580,633	578,120
Net	1,969,574	1,873,844	1,809,995
Construction work in progress	139,666	105,057	108,667
Net Utility Plant	2,109,240	1,978,901	1,918,662
Non-Utility Property and Plant	524	524	524
Net Non-Utility Property and Plant	524	524	524
Current Assets			
Cash and cash equivalents	12,583	14,010	6,048
Accounts receivable from customers - net of allowance for credit losses of $6.9 million, $4.5 million and $3.1 million, respectively	69,165	69,171	58,232
Accrued unbilled utility revenues - net of allowance for credit losses of $0.6 million in 2020 (Note 2)	17,731	24,202	18,086
Other receivables	14,193	19,295	18,075
Fuel, materials and supplies (Note 1)	24,812	26,211	25,995
Regulatory assets (Note 4)	42,479	55,535	37,583
Fair value of derivative instruments (Note 15)	1,390	-	669
Special deposits and prepayments	23,276	26,787	21,764
Total Current Assets	205,629	235,211	186,452
Deferred Charges and Other Assets			
Regulatory assets - deferred pension costs (Note 4)	-	-	25,749
Regulatory assets - other (Note 4)	154,067	123,385	117,537
Prefunded OPEB costs (Note 11)	15,314	12,514	2,159
Other investments (Note 16)	46,652	39,301	38,759
Other	10,714	10,363	6,865
Total Deferred Charges and Other Assets	226,747	185,563	191,069
Total Assets	$ 2,542,140	$ 2,400,199	$ 2,296,707

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)

	September 30, 2020	December 31, 2019	September 30, 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	274,452	262,452	253,452
Accumulated other comprehensive loss	(293)	(399)	(339)
Retained earnings	471,402	430,457	407,549
Capital stock expense	(4,633)	(4,633)	(4,633)
Total Equity	825,239	772,188	740,340
Long-term debt (Note 10)			
Principal amount	762,800	706,950	606,950
Unamortized debt issuance costs	(4,670)	(4,390)	(3,945)
Net long-term debt	758,130	702,560	603,005
Total Capitalization	1,583,369	1,474,748	1,343,345
Current Liabilities			
Current maturities of long-term debt (Note 10)	44,150	40,000	67,000
Short-term borrowings (Note 8)	-	-	15,000
Accounts payable	51,109	50,423	46,653
Accrued interest	10,911	6,998	8,836
Accrued vacation and payroll	11,019	10,754	9,593
Customer advances	13,606	14,904	12,289
Customer deposits	7,633	7,655	7,566
Regulatory liabilities (Note 4)	96,791	94,730	92,849
Fair value of derivative instruments (Note 15)	311	6,262	1,795
Accrued environmental remediation costs (Note 13)	17,254	20,396	28,422
Accrued income and other taxes	1,078	273	2,591
Other current liabilities	39,064	38,006	37,110
Total Current Liabilities	292,926	290,401	329,704
Deferred Credits and Other Liabilities			
Regulatory liabilities - deferred pension costs (Note 4)	5,354	1,780	-
Regulatory liabilities - deferred OPEB costs (Note 4)	23,615	26,643	17,962
Regulatory liabilities - other (Note 4)	277,346	288,508	289,735
Operating reserves	4,660	4,544	4,992
Accrued environmental remediation costs (Note 13)	66,436	36,585	32,566
Accrued pension costs (Note 11)	11,411	10,996	37,195
Tax reserve (Note 5)	3,924	2,910	7,029
Other liabilities	36,285	32,347	23,782
Total Deferred Credits and Other Liabilities	429,031	404,313	413,261
Accumulated Deferred Income Tax (Note 5)	236,814	230,737	210,397
Commitments and Contingencies			
Total Capitalization and Liabilities	$ 2,542,140	$ 2,400,199	$ 2,296,707

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

CENTRAL HUDSON
CONDENSED STATEMENT OF EQUITY (Unaudited)

(In Thousands, except share amounts)

	Nine Months Ended September 30, 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
Net income					1,675		1,675
Capital contribution							-
Employee future benefits, net of tax						36	36
Balance at June 30, 2020	16,862,087	$ 84,311	$ 262,452	$ (4,633)	$ 456,988	$ (328)	$ 798,790
Net income					14,414		14,414
Capital contribution			12,000				12,000
Employee future benefits, net of tax						35	35
Balance at September 30, 2020	16,862,087	$ 84,311	$ 274,452	$ (4,633)	$ 471,402	$ (293)	$ 825,239

	Nine Months Ended September 30, 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
Net income					5,304		5,304
Capital contribution			2,000				2,000
Employee future benefits, net of tax						34	34
Balance at June 30, 2019	16,862,087	$ 84,311	$ 253,452	$ (4,633)	$ 395,236	$ (373)	$ 727,993
Net income					12,313		12,313
Employee future benefits, net of tax						34	34
Balance at September 30, 2019	16,862,087	$ 84,311	$ 253,452	$ (4,633)	$ 407,549	$ (339)	$ 740,340

*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 September 30, 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 September 30, 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 September 30, 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 uncertainties, including the continued evolution of the novel Coronavirus pandemic ("COVID-19"), which could affect the allowance for credit losses, as well as the total impact and potential recovery of incremental costs associated with COVID-19.

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 utilities, 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 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)

	September 30, 2020	September 30, 2019
Cash and cash equivalents	$ 19,967	$ 13,696
Restricted cash included in other long-term assets	1,327	1,075
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	$ 21,294	$ 14,771

Central Hudson

(In Thousands)

	September 30, 2020	September 30, 2019
Cash and cash equivalents	$ 12,583	$ 6,048
Restricted cash included in other long-term assets	1,327	1,075
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	$ 13,910	$ 7,123

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 September 30, 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):

	September 30, 2020	December 31, 2019	September 30, 2019
Natural gas (1)	$ -	$ 4,823	$ 5,623
Fuel used in electric generation	387	413	416
Materials and supplies	24,426	20,975	19,956
Total	$ 24,812	$ 26,211	$ 25,995

(1) Effective August 1, 2020 Central Hudson has entered into an Asset Management Agreement with a third party related to its natural gas transport and storage capacity. Central Hudson continues to make purchases of natural gas in advance of the peak winter season to hedge against price volatility for its customers. However, based on the terms of the agreement, the third party will maintain control and title over the physical gas in storage until the end of the contract term. As such, these balances were transferred from natural gas within the Fuel, materials and supplies financial statement line item to Special deposits and prepayments in CH Energy Group's and Central Hudson's Balance Sheets as of September 30, 2020.

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 ("FASB") 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 and was recorded as 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 FASB (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 do not expect the adoption of this standard to have a material impact on their earnings, financial position, cash flows or 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, the postponement of the electric and natural gas delivery rate increase, Gas Merchant Function Charge lost revenue, revenue requirement effect for incremental Leak Prone Pipe ("LPP") miles replaced above the PSC targets and capital demonstration projects placed in service as authorized under Reforming the Energy Vision 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 September 30,		Nine Months Ended September 30,	
Electric	2020	2019	2020	2019
Revenues from Contracts with Customers (ASC 606)	$ 153,538	$ 143,364	$ 407,268	$ 388,117
Alternative Revenues (Non ASC 606)	(7,224)	(5,618)	(10,486)	(8,816)
Other Revenue Adjustments (Non ASC 606)	3,418	8,098	17,592	24,434
Total Operating Revenues Electric	$ 149,732	$ 145,844	$ 414,374	$ 403,735
Natural Gas				
Revenues from Contracts with Customers (ASC 606)	$ 17,663	$ 16,321	$ 111,219	$ 119,158
Alternative Revenues (Non ASC 606)	1,919	1,215	4,765	1,116
Other Revenue Adjustments (Non ASC 606)	(542)	(1,090)	(4,687)	(4,273)
Total Operating Revenues Natural Gas	$ 19,040	$ 16,446	$ 111,297	$ 116,001

The increase in electric revenues from contracts with customers for the quarter is primarily due to an increase in sales partially offset by a decrease in commodity costs. The year to date increase in electric revenues also includes the increase in customer delivery rates and billed RAM surcharges. For natural gas, the increase in the quarter is due to an increase in interruptible sales. On a year-to-date basis, interruptible natural gas sales coupled with the increase in delivery rates and billed RAM surcharges more than offset lower recovery of commodity costs.

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

The decrease in electric alternative revenue programs for the quarter and year to date is due to an increase in the deferral of actual billed revenues in excess of the 2018 Rate Order prescribed targets, partially offset by the deferral of the delivery rate increase which was delayed from July 1, 2020 to October 1, 2020 and will be billed to and recovered from customers over the remaining nine months of the rate year ended June 30, 2021. The increase in natural gas alternative revenue programs for the quarter and year to date is due to the delayed delivery rate increase.

For electric, the decrease in other revenues compared to the prior period resulted from the discontinuation of finance charges on customers' past due balances during the COVID-19 pandemic and the regulatory deferral for electric service interruptions which are expected to be above the PSC prescribed target for 2020.

Natural gas other revenues increased for the quarter due to lower deferrals related to net plant and depreciation targets based on progress made in the completion of capital projects under the current rate plan, a reduction in estimated accrued gas compliance penalties and additional revenues earned on incremental LPP miles replaced. These increases were partially offset on the quarter and more than offset on a year-to-date basis by the discontinuation of finance charges on customers' past due balances. Other revenues for natural gas also include the deferral of Danskammer revenues.

Allowance for Credit Losses

Accounts receivable are recorded net of an allowance for credit losses. Upon adoption of the new accounting standard, the Company recorded the cumulative effect adjustment increasing its allowance for credit losses on accounts receivable by $0.7 million and established 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 September 30, 2020	Nine Months Ended September 30, 2020
Balance at Beginning of Period	$ (6,700)	$ (4,500)
Accounting Standard Adoption – cumulative effect adjustment	-	(1,200)
Credit loss expense	(2,028)	(5,734)
Bad debt write-offs (recoveries) - net	1,228	3,934
Balance at End of Period	$ (7,500)	$ (7,500)

During the nine months ended September 30, 2020, management recorded an additional increase to the allowance for credit losses based on a quantitative and 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 unemployment rate, and a forecast of scenarios reflecting write-offs as a percentage of forecasted arrears balances. 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.

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 September 30, 2020	Utility Plant December 31, 2019	Utility Plant September 30, 2019
Electric:				
Production	25-85	$ 42,964	$ 42,961	$ 41,854
Transmission	30-90	417,990	403,242	398,153
Distribution	7-80	1,123,141	1,080,869	1,054,074
Other	40	6,827	6,475	6,332
Total		$ 1,590,922	$ 1,533,547	$ 1,500,413
Natural Gas:				
Transmission	19-85	$ 60,499	$ 59,608	$ 59,285
Distribution	28-95	599,322	555,807	535,742
Other	N/A	442	442	443
Total		$ 660,263	$ 615,857	$ 595,470
Common:				
Land and Structures	50	$ 86,862	$ 86,278	$ 81,778
Office and Other Equipment, Radios and Tools	8-35	81,226	72,911	71,069
Transportation Equipment	10-12	75,902	73,017	70,886
Other	3-10	87,286	72,867	68,499
Total		$ 331,276	$ 305,073	$ 292,232
Gross Utility Plant		$ 2,582,461	$ 2,454,477	$ 2,388,115

For the three months ended September 30, 2020 and 2019, the borrowed component of funds used during construction and recorded as a reduction of interest expense was $0.5 million and $0.3 million and the equity component reported as other income was $0.8 million and $0.7 million, respectively. For the nine months ended September 30, 2020 and 2019, the borrowed component of funds used during construction and recorded as a reduction of interest expense was $1.2 million and $0.8 million and the equity component reported as other income was $2.2 million and $1.6 million, respectively.

Included in the Net Utility Plant balances of $2.1 billion at September 30, 2020, $2.0 billion at December 31, 2019, and $1.9 billion at September 30, 2019 was $133.1 million, $115.0 million and $102.3 million of intangible utility plant assets, comprised primarily of computer software costs, land, transmission and water rights and the related accumulated amortization of $61.6 million, $52.4 million and $50.2 million, respectively.

As of September 30, 2020, December 31, 2019 and September 30, 2019, Central Hudson has reclassified from utility plant assets $40.9 million, $43.0 million and $43.7 million, respectively, of cost of removal recovered through the rate-making process in excess of amounts incurred to date as a regulatory liability.

As of September 30, 2020, December 31, 2019 and September 30, 2019, Asset Retirement Obligations ("ARO's") for Central Hudson were approximately $0.6 million. These amounts have been classified in the above chart under "Electric - Other" and "Common - Other" based on the nature of the ARO and are reflected as "Other - long-term liabilities" in the CH Energy Group and Central Hudson Balance Sheets.

NOTE 4 – Regulatory Matters

Summary of Regulatory Assets and Liabilities

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

	September 30, 2020	December 31, 2019	September 30, 2019
Regulatory Assets:			
Deferred purchased electric costs (Note 1)	$ 2,214	$ 8,013	$ 6,074
Deferred purchased natural gas costs (Note 1)	435	4,082	-
Deferred unrealized losses on derivatives - electric and natural gas (Note 15)	311	6,262	1,795
RAM - electric and carrying charges	6,222	13,518	6,443
RAM - natural gas and carrying charges	430	3,201	419 (1)
Earnings Adjustment Mechanisms (“EAMs”) - electric	1,731	2,118	1,386 (1)
SC 8 Street Lighting and carrying charges	1,515	913 (1)	725 (1)
Delayed electric and natural gas delivery rate increase	6,730	-	-
Deferred variable rate note and carrying charges (Note 10)	1,412	1,373 (1)	1,257 (1)
RDM and carrying charges - natural gas	1,385	2,518	-
Deferred debt expense on re-acquired debt	1,986	2,377 (1)	2,507 (1)
Revenue requirement of LPP replacement	1,727	- (1)	710 (1)
Deferred pension costs (Note 11)	-	-	25,749
Demand management programs and carrying charges	11,365	10,747	10,214
Deferred and accrued costs - SIR (Note 13) and carrying charges	87,259	62,694	66,053
Deferred storm costs and carrying charges	25,542	11,420	20,239
Deferred vacation pay accrual	9,958	8,384	7,645
Income taxes recoverable through future rates	15,777	22,253	11,566
Tax reform - unprotected impacts (Note 5)	13,464	13,464	13,464
Other	7,083 (2)	5,583 (1)(2)	4,623 (1)(2)
Total Regulatory Assets	$ 196,546	$ 178,920	$ 180,869
Less: Current Portion of Regulatory Assets	$ 42,479	$ 55,535	$ 37,583
Total Long-term Regulatory Assets	$ 154,067	$ 123,385	$ 143,286
Regulatory Liabilities:			
Rate moderator - electric and carrying charges	$ 19,572	$ 26,583	$ 30,245
Rate moderator - natural gas and carrying charges	7,073	7,959	8,731
RDM and carrying charges - electric	16,370	10,735	8,550
Deferred unrealized gains on derivatives - electric and natural gas (Note 15)	1,390	-	669
Clean Energy Fund and carrying charges	63,019	68,277	66,750
Tax reform - protected deferred tax liability (Note 5)	185,353	189,447	189,675
Deferred cost of removal (Note 3)	40,934	43,039	43,718
Deferred pension costs (Note 11)	5,354	1,780	-
Income taxes refundable through future rates	7,209	7,896	5,752
Deferred OPEB costs (Note 11)	23,615	26,643	17,962
Low income program and carrying charges	4,052	1,967 (1)	1,220 (1)
Net plant and depreciation targets	8,956	6,082	5,271
Fast charging infrastructure program and carrying charges	5,029	4,584	4,519
Energy efficiency programs and carrying charges	2,119	4,999	4,775
Deferred unbilled revenue	5,082	5,082	5,082
Service interruption negative revenue adjustment	2,255	-	-
Other	5,724 (2)	6,588 (1)(2)	7,627 (1)(2)
Total Regulatory Liabilities	$ 403,106	$ 411,661	$ 400,546
Less: Current Portion of Regulatory Liabilities	$ 96,791	$ 94,730	$ 92,849
Total Long-term Regulatory Liabilities	$ 306,315	$ 316,931	$ 307,697
Net Regulatory Liabilities	$ (206,560)	$ (232,741)	$ (219,677)

(1) Balances reported in the Other regulatory assets and liabilities lines as of December 31, 2019 and September 30, 2019 have been reclassified to conform to the September 30, 2020 presentation.

(2) Other includes estimated netting on the balance sheet of certain regulatory asset carrying charges to be offset against regulatory liabilities and collected through Rate Case offset.

Certain regulatory assets and liabilities have been reclassified to conform to the 2020 presentation and are described below.

SC8 Street Lighting and carrying charges: This regulatory asset represents the deferral to reassign the collection of revenues amongst certain service classes with no impact on Central Hudson's results of operations.

Revenue requirement of LPP replacement: This regulatory asset represents the deferral of the revenue requirement impact related to the replacement of leak prone pipe as prescribed in the 2018 Rate Order.

Delayed electric and natural gas delivery rate increase: This regulatory asset represents the deferral of the electric and natural gas delivery rate increases as prescribed in the June 11, 2020 Order as further discussed below.

Deferred debt expense on re-acquired debt: This regulatory asset represents deferral of unamortized debt expense and reacquisition costs on redeemed debt which are amortized over the original life of the issue retired.

Low Income Program and carrying charges: This regulatory liability represents deferred balances for amounts collected in excess of credits provided for low income programs and associated carrying charges.

Service interruption negative revenue adjustment: This regulatory liability represents deferred balances resulting from electric service interruptions measured by the System Average interruption Frequency Index above the PSC prescribed target.

PSC Proceedings

2018 Rate Case

On June 11, 2020, the Commission issued Order Postponing Approved Electric and Gas Delivery Rate Increases, which approved Central Hudson's petition to ease the financial impact on customers during the critical months of the COVID-19 pandemic. The Order postpones for three months Central Hudson's approved Rate Year 3 electric and natural gas delivery rate increase scheduled to take effect on July 1 to October 1, 2020, with the forgone revenues recovered over the remaining nine months of the rate year ended June 30, 2021. The Order also states that no carrying charges will be applied to the delayed recovery of these revenues and that Central Hudson will adjust the RDM Targets to be consistent with the delayed electric and natural gas delivery rate increase implementation.

August 2020 Rate Filing

Central Hudson filed an electric and natural gas rate case (Cases 20-E-0428 and 20-G-0429) on August 27, 2020 with the PSC seeking electric and natural gas delivery revenue increases of $32.8 million and $14.4 million, respectively, to become effective July 1, 2021. The filing includes projected net regulatory liability balances proposed for rate moderation of $20 million for electric and $8 million for natural gas. The rate filing was made in order to align electric and natural gas delivery rates with the projected costs of providing service to our customers and reflects a return on equity of 9.1% and a 50.0% equity ratio to maintain financial integrity. Additionally, due to the severe economic impact of COVID-19 within its service territory, Central Hudson included specific actions within the filing to reduce the customer bill impact, which included delaying a meaningful portion of the capital plan, resulting in a $48.5 million reduction in capital expenditures during the rate year ending June 30, 2022, and inclusion of a COVID-19 Adjustment Customer Bill Moderation credit that reduces Central Hudson's revenue requirements by $1.8 million for electric and $0.5 million for natural gas.

The primary drivers for the increase in projected costs include: 1) capital investments to modernize Central Hudson's electric, gas infrastructure and information technology ("IT") systems resulting in increases in depreciation expense, return on rate base, and property taxes; 2) increasing expenses associated with vegetation management or trimming; 3) increasing employee levels and labor costs; and 4) initiation of a new Heat Pump program. Modernization of electric transmission and distribution infrastructure addresses the underlying age and condition of the assets and the need to enable the Distributed System Platform in order to better monitor and control the distribution system while facilitating increasing levels of Distributed Energy Resources penetration. This is directly tied to the goals of Climate Leadership and Community Protection Act. Central Hudson's filing also proposes the continued acceleration of replacing gas LPP, replacing 15 miles per year resulting in an elimination of LPP from the Company's gas system in approximately eight years. Central Hudson also proposes to invest in IT systems to transform and modernize customer interactions, complete the replacement of its 40-year old Enterprise Resource Planning mainframe solution and sustain the security and maintenance of our IT systems. Central Hudson is also proposing additional funding to maintain a four-year cycle for distribution line clearance and a five-year cycle for its transmission right-of way trimming maintenance while implementing a targeted tree removal program aimed at reducing the impact of the increasing number of severe weather events brought about by climate change and the proliferation of invasive insect infestations and tree diseases. Central Hudson is also seeking recovery of costs associated with the New York State Clean Heat program, which seeks to replace high carbon intensive heating sources with heat pumps and related measures.

The filing also proposes to:

1) modify and expand the current EAMs that were approved in the 2018 Rate Plan;
2) introduce new Positive Revenue Adjustments while eliminating or modifying the structure of certain Negative Revenue Adjustments;
3) expansion of Central Hudson's RDMs to include additional service classes;
4) institute new deferral mechanisms to defer incremental COVID-19 related costs and lost revenues; and
5) expand the eligibility criteria for the Low Income Bill Discount Program to include customers who receive other forms of public assistance.

August 2020 Tropical Storm Isaias

On August 5, 2020, the New York State Governor instituted proceeding 20-01633 directing the Commission to initiate an investigation of the New York State utilities' responses to Tropical Storm Isaias. The Company is cooperating with Staff in the investigation of storm preparation, system restoration and post-storm analysis. On August 19, 2020, the Office of Investigations and Enforcement of the New York State Department of Public Service issued a Notice of Apparent Violations Related to Tropical Storm Isaias to the Company. The Notice cited two violations in Central Hudson's storm response to Tropical Storm Isaias. While the Company is committed to continuous improvement, it disagrees with the citations noting compliance with the Electric Emergency Plan, previously approved by the PSC, which serves as the standard against which Central Hudson should be evaluated. As such, no accrual has been made related to this investigation or the Notice of Violations. Management does not believe any resulting outcome of this matter will be material to Central Hudson's earnings, financial position or cash flows.

<u>Central Hudson Reverse Sales Tax Refund</u>

On March 16, 2020, Central Hudson filed a petition for the disposition of a sales tax refund, pursuant to PSL Section 113(2) under Case 20-M-0134. The tax refund is the result of a reverse sales tax audit that Central Hudson initiated with the New York State Department of Taxation & Finance for the claim period of June 1, 2017 through December 31, 2018. Central Hudson proposes that the refund received from the New York State Department of Tax and Finance in October 2019 of approximately $3.4 million be allocated (1) for the benefit of ratepayers; and (2) to reimburse the costs incurred by Central Hudson in securing the refund. The Company proposes to retain approximately $0.6 million, or 24% of the refund, net of costs to achieve. Most of the refund has been credited to plant as the majority of the refund related to sales taxes that were capitalized as part of plant costs. The petition requests the PSC approve Central Hudson retaining the portion of the net refund that was credited to sales tax expense when received in recognition of Central Hudson’s considerable time, effort and analysis employed, along with its consultant, to achieve the refund. The Commission may adopt, reject or modify, in whole or in part, the action proposed. Although the outcome is unknown, any potential adjustments that may result from a PSC ruling differing from how the refund has been recorded to date, is not expected to be material to Central Hudson’s financial statements.

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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Tax reserve balance at the beginning of the period	$ 4,850	$ 7,248	$ 3,126	$ 7,675
Change in natural gas transmission and distribution repair deduction	176	239	528	716
Change in tax benefit offset [(1)]	(789)	(458)	583	(1,362)
Tax reserve balance at the end of the period	$ 4,237	$ 7,029	$ 4,237	$ 7,029

(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.*

	Central Hudson			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Tax reserve balance at the beginning of the period	$ 4,709	$ 7,248	$ 2,910	$ 7,675
Change in natural gas transmission and distribution repair deduction	176	239	528	716
Change in tax benefit offset (1)	(961)	(458)	486	(1,362)
Tax reserve balance at the end of the period	$ 3,924	$ 7,029	$ 3,924	$ 7,029

(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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Effective tax rate - federal	11.4%	12.5%	11.8%	12.7%
Effective tax rate - state	6.1%	6.7%	6.3%	6.1%
Effective tax rate - combined	17.5%	19.2%	18.1%	18.8%

Central Hudson

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Effective tax rate - federal	11.5%	12.5%	11.9%	11.8%
Effective tax rate - state	5.9%	6.6%	6.1%	6.1%
Effective tax rate - combined	17.4%	19.1%	18.0%	17.9%

For the three months ended September 30, 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 timing of flow through tax items related to capital expenditures. For the nine months ended September 30, 2020, the combined effective tax rate for CH Energy Group and Central Hudson is lower than the statutory rate due to tax normalization rules.

The Coronavirus Aid, Relief, and Economic Security (“CARES”) Act was signed into law on March 27, 2020. As permitted under the CARES Act, Central Hudson is currently deferring payment of the employer share of the Social Security tax on its payroll during 2020. The deferred payroll tax can be paid over the next two years—with half of the required amount paid by December 31, 2021 and the other half by December 31, 2022. No other provisions of the CARES Act currently apply to Central Hudson. There is no impact on earnings or on the effective tax rate resulting from the delayed payment of employer payroll tax under the CARES Act as the expense, liability and associated deferred taxes have been reflected in the current period. As of September 30, 2020, the liability for the deferred payment of the employer’s portion of Social Security tax on payroll is $3.7 million and is reflected in Other long-term liabilities in the CH Energy Group and Central Hudson Balance Sheets.

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 ("AC Project"). 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 September 30, 2020, December 31, 2019 and September 30, 2019, CHET's investment in Transco was approximately $8.7 million, $7.9 million and $7.7 million.

At December 31, 2019, CHEC had equity investments in various limited partnerships. During the quarter ended June 30, 2020, the partnership holding investments in energy sector start-up companies was terminated. The value of CHEC's equity investments at September 30, 2020 and December 31, 2019 was $1.3 million, respectively and at September 30, 2019 was $1.0 million. The remaining investment at September 30, 2020 is not considered to be a part of the core business.

NOTE 7 – Research and Development

Central Hudson's research and development ("R&D") expenditures for the three months ended September 30, 2020 and 2019 were $0.7 million and $1.0 million, respectively. For the nine months ended September 30, 2020 and 2019, Central Hudson's R&D expenditures were $2.6 million and $2.7 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 was $50 million with a maturity date of July 10, 2020. Due to low demand for cash and the ability to receive funding from either dividends or equity capital contributions, CH Energy Group did not replace this credit agreement upon its maturity.

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 Central Hudson credit agreement includes a covenant that the total funded debt to total capital shall not exceed 0.65 to 1.00. The credit agreement is also subject to certain restrictions and conditions, including there will be no event of default, and subject to certain exceptions, Central Hudson will not sell, lien, or otherwise encumber its assets and enter into certain transactions including those with affiliates. Central Hudson is 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 September 30, 2020, Central Hudson is in compliance with all financial debt covenants.

At September 30, 2020, December 31, 2019 and September 30, 2019 there were no amounts outstanding under the various credit arrangements for CH Energy Group or Central Hudson.

Uncommitted Credit

At September 30, 2020, Central Hudson had uncommitted short-term credit arrangements with two commercial banks totaling $30 million. At December 31, 2019 and September 30, 2019, Central Hudson had uncommitted short-term credit arrangements with three commercial banks totaling $40 million. 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 September 30, 2020 and December 31, 2019. At September 30, 2019, CH Energy Group and Central Hudson had $15 million in borrowings outstanding under Central Hudson’s uncommitted credit agreements with an effective weighted average interest rate of 2.75%.

NOTE 9 – Capitalization – Common and Preferred Stock

Capitalization

During the nine months ended September 30, 2020 and September 30, 2019, CH Energy Group received capital contributions of $15.0 million and $22.0 million, respectively, from its parent FortisUS Inc. (“Fortis US”).

During the nine months ended September 30, 2020 and September 30, 2019, Central Hudson received a capital contribution of $12.0 million and $2.0 million, respectively, from its parent company CH Energy Group.

For the nine months ended September 30, 2019, CHET received a $1.1 million capital contribution during the second quarter from its parent CH Energy Group. There were no capital contributions made during 2020.

The contributions were 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 $62.9 million and $59.0 million in dividends to CH Energy Group for the periods ended September 30, 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 50%). CH Energy Group’s other subsidiaries do not have express restrictions on their ability to pay dividends.

There were no dividends paid during the nine months ended 2020. During the three and nine months ended September 30, 2019, the Board of Directors of CH Energy Group declared and paid dividends of $5.5 million and $16.5 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 September 30, 2020, December 31, 2019, and September 30, 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.

On September 28, 2020, Central Hudson issued $40 million of Series S Senior Notes, with an interest rate of 2.03% per annum and a maturity date of September 28, 2030. On July 14, 2020, Central Hudson issued $30 million of Series R Senior Notes, with an interest rate of 3.62% per annum and a maturity date of July 14, 2060. On May 14, 2020, Central Hudson issued $30 million of Series Q Senior Notes, with an interest rate of 3.42% per annum and a maturity date of May 14, 2050. Central Hudson used the proceeds from the sale of the Senior Notes to repay $40 million of maturing debt and for general corporate purposes, including the funding of capital investments and the repayment of short-term borrowings.

As of September 30, 2020, CH Energy Group and Central Hudson were in compliance with all financial debt covenants.

At September 30, 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 and nine months ended September 30, 2020 and 2019.

The principal amount of Central Hudson's outstanding 1999 Series B NYSERDA Bonds totaled $33.7 million at September 30, 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 nine months ended September 30, 2020, there was no payout during the third quarter of 2020. There were no payouts on these interest rate caps during the three and nine months ended September 30, 2019.

See Note 15 – "Accounting for Derivative Instruments and Hedging Activities" for fair value disclosures related to these interest rate cap agreements.

NOTE 11 – Post-Employment Benefits

Central Hudson has a non-contributory Retirement Income Plan ("Retirement Plan") covering substantially all 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 September 30,		Three Months Ended September 30,	
	2020	2019	2020	2019
Service cost	$ 3,363	$ 2,810	$ 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	167	(114)	(672)
Amortization of recognized actuarial net (gain)/loss	401	1,099	(979)	(784)
Net Periodic (Benefit) Cost	$ 1,012	$ 3,081	$ (1,613)	$ (1,503)

	Pension Benefits		OPEB	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Service cost	$ 10,089	$ 8,431	$ 1,251	$ 1,146
Interest cost	17,766	20,340	3,144	3,795
Expected return on plan assets	(26,508)	(23,325)	(5,955)	(5,082)
Amortization of prior service cost (credit)	486	500	(342)	(2,017)
Amortization of recognized actuarial net (gain)/loss	1,203	3,296	(2,937)	(2,352)
Net Periodic (Benefit) Cost	$ 3,036	$ 9,242	$ (4,839)	$ (4,510)

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

	September 30, 2020(1)(2)	December 31, 2019(1)(2)	September 30, 2019(1)(2)
Accrued pension costs	$ (12,805)	$ (12,304)	$ (38,476)

(1) Includes approximately $0.2 million at September 30, 2020, December 31, 2019 and September 30, 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 $1.2 million at September 30, 2020 and December 31, 2019 and $1.0 million at September 30, 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 projected benefit obligation for the Retirement Plan and the market value of the pension assets and any liability for the non-qualified SERP. The funded status does not reflect approximately $33.1 million, $26.5 million and $26.5 million of SERP trust assets at September 30, 2020, December 31, 2019 and September 30, 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):

	September 30, 2020(1)(2)	December 31, 2019(1)(2)	September 30, 2019(1)(2)
Accrued pension costs prior to funding status adjustment	$ (25,025)	$ (22,836)	$ (20,018)
Funding status adjustment required	12,220	10,532	(18,458)
Accrued pension costs	$ (12,805)	$ (12,304)	$ (38,476)
Offset to funding status adjustment - regulatory (liability) assets - pension plan	$ (12,610)	$ (11,061)	$ 18,009
Offset to funded status adjustment - accumulated OCI, net of tax of $102, $138 and $121, respectively	$ 288	$ 391	$ 340

(1) Includes approximately $0.2 million at September 30, 2020, December 31, 2019 and September 30, 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 $1.2 million at September 30, 2020 and December 31, 2019 and $1.0 million at September 30, 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, investment returns, inflation, the discount rate, changes in mortality and interest rate assumptions. 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, OPEB and SERP Plans are as follows (In Thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Retirement Plan	$ -	$ -	$ -	$ -
OPEB	$ -	$ -	$ 1,081	$ 1,001
SERP	$ -	$ -	$ 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 September 30, 2020 and 2019 were $1.5 million and $1.4 million, respectively. For the nine months ended September 30, 2020 and 2019, matching contributions were $4.3 million and $4.0 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. The additional non-discretionary contribution was approximately $0.7 million and $2.0 million for the three and nine months ended September 30, 2020, respectively.

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		Grant Date Fair Value	Time Based Granted	Time Based Outstanding[6]	Performance Based Granted	Performance Based Outstanding[6]
2020 RSUP[5]	January 1, 2020	$	41.55	7,257	7,452	-	-
2020 PSUP[5]	January 1, 2020	$	41.55	-	-	21,770	22,355
2019 PSUP	January 1, 2019	$	33.10	8,838	9,404	26,514	28,213
2018 PSUP	January 1, 2018	$	36.59	-	-	29,514	32,685
2017 PSUP[1]	January 1, 2017	$	30.85	-	-	30,085	-

Central Hudson:	Grant Date		Grant Date Fair Value	Time Based Granted	Time Based Outstanding[2][6]	Performance Based Granted	Performance Based Outstanding[2][6]
2020 RSUP[5]	January 1, 2020	$	41.55	12,655	12,996	-	-
2020 SUP[5]	January 1, 2020	$	41.55	-	-	25,311	25,991
2019 SUP[4]	January 1, 2019	$	33.10	15,691	13,277	31,383	31,233
2018 SUP[3]	January 1, 2018	$	36.59	16,337	14,601	32,675	33,308
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]In the third quarter of 2020, per the 2018 SUP agreement, time based units were paid out related to Officer retirements at 859 shares at $42.93 per unit and 1,140 shares at $44.91 per unit.
[4]In the third quarter of 2020, per the 2019 SUP agreement, time based units were paid out related to Officer retirements at 942 shares at $39.57 per unit and 1,336 shares at $41.39 per unit.
[5]Grant date fair value share price was corrected from the previously disclosed Canadian dollar share price of CAD$53.97 to the US dollar share price. There was no financial statement impact resulting from the change to the disclosure.
[6]Includes notional dividends accrued as of September 30, 2020.

Compensation Expense

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

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
CH Energy Group	$ 547	$ 962	$ 1,891	$ 3,112
Central Hudson	$ 547	$ 954	$ 1,891	$ 3,099

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 is 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, Load Serving Entities ("LSEs"), which include Central Hudson, are required to obtain RECs and ZECs in amounts determined by the PSC. LSEs may satisfy their REC obligation by either purchasing RECs acquired through central procurement by NYSERDA, by self-supply through direct purchase of tradable RECs, 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 is 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 September 30, 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 $4.8 million. Currently, the requirement to procure ZECs will continue based upon Central Hudson's future load served to its customers through 2029. The current obligation to procure RECs is defined as a percentage of load served in the state through December 31, 2022 and is estimated for Central Hudson to be approximately $8.0 million. NYSERDA will be introducing indexed RECs beginning January 1, 2021. REC pricing will change each quarter (weighted average of vintage fixed and new indexed RECs) and the Alternative Compliance Payment will be set in advance of the compliance year. 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. Central Hudson has monitored the Retirement Plan's asset returns and estimated funded status change for the nine months ended September 30, 2020 as a result of recent market volatility during the COVID-19 pandemic and does not currently expect a contribution to be required related to the current year. See Note 11 – "Post-Employment Benefits" for additional information regarding contributions.

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. See Note 11 – “Post-Employment Benefits” for additional information regarding contributions.

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, of the cost of and a return on five high voltage transmission projects totaling $1.7 billion. CH Energy Group guaranteed to Transco the payment of CHET’s maximum commitment of $182 million for these five projects, which is the maximum budgeted amount for these projects at 100% equity. On July 16, 2020, CH Energy Group’s parental guarantee to Transco was adjusted from $182 million to $73.7 million. The Transco Board of Directors approved the reduction based on CHET’s maximum commitment associated with the AC Project, the only project remaining under Transco’s original FERC application and the initial guarantee. As of September 30, 2020, CHET’s investment in Transco was approximately $8.7 million and CH Energy Group is currently 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 September 30, 2020, Central Hudson has accrued $83.7 million with respect to all SIR activities, including operation, maintenance and monitoring costs (“OM&M”), of which $17.3 million is anticipated to be spent in the next twelve months.

Central Hudson currently has nine 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 September 30, 2020	Estimated spend in the next twelve months
Investigation	# 9 - Little Britain Road [1]	$ 2.2	$ 0.2
Remedial Alternatives Analysis		-	-
Remedial Design		-	-
Remediation	#5 - North Water Street [2]	76.8	16.8
Post-Remediation Monitoring	#2 - Newburgh Areas A, B & C #3 - Laurel Street #4 - Catskill #6 - Kingston #8 - Eltings Corners	4.7	0.3
No Action Required	#1 - Beacon #7 - Bayeaux Street	-	-
Total		$ 83.7	$ 17.3

There were no significant updates during the nine months ended September 30, 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.
  - A Sub-slab Depressurization System ("SSDS") Evaluation Work Plan to evaluate the existing system and mitigate the potential for vapor intrusion into the building located at this site was approved by the DEC in May 2019. Sampling of the SSDS commenced and was completed in mid-2020 and results were submitted to the DEC and New York State Department of Health ("NYSDOH"). An operation and maintenance ("O&M") plan for the SSDS that includes routine inspections and air testing was approved by the DEC and NYSDOH in August 2020. Quarterly O&M events will commence on the SSDS in October 2020.
  - The results from the most recent groundwater monitoring event were submitted to the DEC in July 2020 and were consistent with historic trends.
  - A summary report of investigation activities to further delineate impacts to the soil and groundwater at the site with the installation of several groundwater monitoring wells was approved in March 2019. Based on the results of this investigation, higher concentrations of contaminants were encountered with a distribution more widespread horizontally and vertically than previously observed. On July 22, 2019, the DEC requested additional investigation to be performed. A Remedial Investigation Work Plan ("RIWP") was approved in September 2020 and preliminary costs to complete the investigation have been accrued for. A request for a proposal to complete the RIWP activities will be disseminated to environmental firms in the fourth quarter of 2020 and work is anticipated to commence in the spring of 2021. The results of the additional investigative procedures and any potential additional remedial activities required, if any, cannot be predicted at this time.

- **(2) Remediation in Progress - Site #5 – North Water Street**
  - As a result of several issues relating to fabrication, installation and the inability to operate the moon pool as designed, 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 failures that developed with the moon pool and a recommendation that the moon pool containment and mechanical dredging approach is no longer technically feasible.
  - 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 the DEC, Central Hudson communicated several options for additional protections for Poughkeepsie's 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.
  - On May 20, 2020, the DEC requested that Central Hudson proceed to develop a design and work plan for piloting hydraulic dredging including providing enhanced water quality monitoring. In September 2020, the DEC approved the Hydraulic Dredging Pilot Test ("HDPT") Water Supply Protection and Contingency Plan and HDPT Work Plan that was submitted for review in July 2020 after revisions for several comments received from the DEC, NYSDOH, Dutchess County DOH and PWTF were addressed. Preliminary site

monitoring and mobilization activities commenced in October 2020 and pilot test activities are presently anticipated to be completed by the end of 2020.

- Based on an assessment of a high-solids hydraulic dredging remedial alternative including predictive cost modeling for a pilot test and full-scale remediation, Central Hudson believes the total costs could range from $71 million to $114 million.
- Based on the above discussions and analyses performed, Central Hudson revised its estimate of the total remediation costs associated with this site during 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. Estimated costs were further adjusted in the third quarter of 2020 to include additional cost estimates related to pilot testing. The estimated costs will continue to be updated as further testing is performed and assumptions are refined.
- The estimated spending as of September 30, 2020 for the next 12 months of approximately $16.8 million is based primarily on performing the hydraulic pilot test.

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 Manufactured Gas Plant (“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 $19.0 million recovered through September 30, 2020.
- There was no spending related to site investigation and remediation for the three months ended September 30, 2020 and approximately $3.6 million for the three months ended September 30, 2019. For the nine months ended September 30, 2020 and 2019 spending was approximately $2.9 million and $4.8 million, respectively.
- The regulatory asset balance including carrying charges as of September 30, 2020, December 31, 2019 and September 30, 2019 was $87.3 million, $62.7 million and $66.1 million, respectively, which represents the cumulative difference between amounts spent or currently accrued as a liability and the amounts recovered to date through rates or insurance recoveries, plus carrying charges accrued on deferred balances.

Central Hudson has put its insurers on notice and intends to seek reimbursement from its insurers for its costs. Certain of these insurers have denied coverage. There were no insurance recoveries during the nine months ended September 30, 2020. There were no insurance recoveries during the three months ended September 30, 2019 and $0.2 million of insurance recoveries for the nine months ended September 30, 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 September 30, 2020, of the 3,380 asbestos cases brought against Central Hudson, 1,166 remain pending. Of the cases no longer pending against Central Hudson, 2,052 have been dismissed or discontinued without payment by Central Hudson and Central Hudson has settled 162 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 limited partnerships, 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 September 30, 2020				
	Segments				
	Central Hudson		Other Businesses and Investments	Eliminations	Total
	Electric	Natural Gas			
Revenues from external customers	$ 149,732	$ 19,040	$ -	$ -	$ 168,772
Intersegment revenues	14	18	-	(32)	-
Total operating revenues	149,746	19,058	-	(32)	168,772
Income (loss) before income taxes	20,412	(2,962)	47	-	17,497
Net Income (Loss) Attributable to CH Energy Group	$ 16,199	$ (1,785)	$ 28	$ -	$ 14,442
Segment Assets at September 30, 2020	$ 1,832,882	$ 709,258	$ 20,044	$ (928)	$ 2,561,256

CH Energy Group Segment Disclosure
(In Thousands)

	Three Months Ended September 30, 2019				
	Segments		Other Businesses and Investments	Eliminations	Total
	Central Hudson				
	Electric	Natural Gas			
Revenues from external customers	$ 145,844	$ 16,446	$ -	$ -	$ 162,290
Intersegment revenues	13	70	-	(83)	-
Total operating revenues	145,857	16,516	-	(83)	162,290
Income (loss) before income taxes	19,702	(4,485)	(15)	-	15,202
Net Income (Loss) Attributable to CH Energy Group	$ 15,422	$ (3,109)	$ (25)	$ -	$ 12,288
Segment Assets at September 30, 2019	$ 1,697,955	$ 598,752	$ 19,005	$ (1,014)	$ 2,314,698

CH Energy Group Segment Disclosure
(In Thousands)

	Nine Months Ended September 30, 2020				
	Segments		Other Businesses and Investments	Eliminations	Total
	Central Hudson				
	Electric	Natural Gas			
Revenues from external customers	$ 414,374	$ 111,297	$ -	$ -	$ 525,671
Intersegment revenues	38	165	-	(203)	-
Total operating revenues	414,412	111,462	-	(203)	525,671
Income before income taxes	36,866	14,500	203	-	51,569
Net Income Attributable to CH Energy Group	$ 30,286	$ 11,859	$ 96	$ -	$ 42,241
Segment Assets at September 30, 2020	$ 1,832,882	$ 709,258	$ 20,044	$ (928)	$ 2,561,256

CH Energy Group Segment Disclosure
(In Thousands)

	Nine Months Ended September 30, 2019				
	Segments		Other Businesses and Investments	Eliminations	Total
	Central Hudson				
	Electric	Natural Gas			
Revenues from external customers	$ 403,735	$ 116,001	$ -	$ -	$ 519,736
Intersegment revenues	34	252	-	(286)	-
Total operating revenues	403,769	116,253	-	(286)	519,736
Income (loss) before income taxes	40,187	10,933	(48)	-	51,072
Net Income (Loss) Attributable to CH Energy Group	$ 31,959	$ 9,995	$ (461)	$ -	$ 41,493
Segment Assets at September 30, 2019	$ 1,697,955	$ 598,752	$ 19,005	$ (1,014)	$ 2,314,698

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 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 September 30, 2020 are as follows:

Central Hudson	% of Requirement Hedged (1)
Electric Derivative Contracts:	0.5 million MWh
November 2020 – December 2020	35.1%
January 2021 – August 2021	21.5%
Natural Gas Derivative Contracts:	0.8 million Dth
November 2020 – December 2020	15.3%
January 2021 – March 2021	11.6%

(1) Projected coverage as of September 30, 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 September 30, 2020, one open contract with credit risk contingent features was in a liability position and, if the contingent features were triggered, $0.2 million would be required to settle this instrument.

Derivative Contracts

CH Energy Group and Central Hudson have elected gross presentation for their derivative contracts under master netting agreements and collateral positions. On September 30, 2020, December 31, 2019 and September 30, 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	Gross Amounts Not Offset in the Statement of Financial Position: Cash Collateral Received	Net Amount
As of September 30, 2020[(1)]						
Derivative Contracts:						
Central Hudson - electric	$ 1,091	$ -	$ 1,091	$ 112	$ -	$ 979
Central Hudson - natural gas	299	-	299	-	-	299
Total CH Energy Group and Central Hudson Assets	$ 1,390	$ -	$ 1,390	$ 112	$ -	$ 1,278
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 September 30, 2019[(1)]						
Derivative Contracts:						
Central Hudson - electric	$ 669	$ -	$ 669	$ 355	$ -	$ 314
Central Hudson - natural gas	-	-	-	-	-	-
Total CH Energy Group and Central Hudson Assets	$ 669	$ -	$ 669	$ 355	$ -	$ 314

(1) Interest rate cap agreements are not shown in the above chart. As of September 30, 2020, December 31, 2019 and September 30, 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	Cash Collateral Received	Net Amount
As of September 30, 2020[(1)]						
Derivative Contracts:						
Central Hudson - electric	$ 311	$	$ 311	$ 112	$ -	$ 199
Central Hudson - natural gas	-		-	-	-	-
Total CH Energy Group and Central Hudson Liabilities	$ 311	$ -	$ 311	$ 112	$ -	$ 199
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 September 30, 2019[(1)]						
Derivative Contracts:						
Central Hudson - electric	$ 1,236	$ -	$ 1,236	$ 355	$ -	$ 881
Central Hudson - natural gas	559	-	559	-	-	559
Total CH Energy Group and Central Hudson Liabilities	$ 1,795	$ -	$ 1,795	$ 355	$ -	$ 1,440

(1) Interest rate cap agreements are not shown in the above chart. As of September 30, 2020, December 31, 2019 and September 30, 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 September 30, 2020, December 31, 2019 and September 30, 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 September 30, 2020(1)				
Assets:				
Derivative Contracts:				
Central Hudson - electric	$ 1,091	$ -	$ 1,091	$ -
Central Hudson - natural gas	299	299	-	-
Total CH Energy Group and Central Hudson Assets	$ 1,390	$ 299	$ 1,091	$ -
Liabilities:				
Derivative Contracts:				
Central Hudson - electric	$ 311	$ -	$ 311	$ -
Central Hudson - natural gas	-	-	-	-
Total CH Energy Group and Central Hudson Liabilities	$ 311	$ -	$ 311	$ -
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 September 30, 2019(1)				
Assets:				
Derivative Contracts:				
Central Hudson - electric	$ 669	$ -	$ 669	$ -
Central Hudson - natural gas	-	-	-	-
Total CH Energy Group and Central Hudson Assets	$ 669	$ -	$ 669	$ -
Liabilities:				
Derivative Contracts:				
Central Hudson - electric	$ 1,236	$ -	$ 1,236	$ -
Central Hudson - natural gas	559	559	-	-
Total CH Energy Group and Central Hudson Liabilities	$ 1,795	$ 559	$ 1,236	$ -

(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 September 30, 2020, December 31, 2019 and September 30, 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 and nine months ended September 30, 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 Statement of Income				
	Three Months Ended September 30,		Nine Months Ended September 30,		
	2020	2019	2020	2019	Location of Gain (Loss)
Central Hudson:					
Electricity swap contracts	$ (2,635)	$ (4,936)	$ (13,192)	$ (10,995)	Deferred purchased electric costs(1)
Natural gas swap contracts	-	-	(941)	175	Deferred purchased natural gas costs(1)
Total CH Energy Group and Central Hudson	$ (2,635)	$ (4,936)	$ (14,133)	$ (10,820)	

(1) Realized gains and losses on Central Hudson's derivative instruments are conveyed to or recovered from customers through PSC authorized deferral accounting mechanisms with 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 September 30, 2020:				
Other Investments	$ 15,103	$ 15,103	$ -	$ -
As of December 31, 2019:				
Other Investments	$ 8,865	$ 8,865	$ -	$ -
As of September 30, 2019:				
Other Investments	$ 7,606	$ 7,606	$ -	$ -

As of September 30, 2020, December 31, 2019, and September 30, 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 September 30, 2020, December 31, 2019, and September 30, 2019, the total cash surrender value of trust-owned life insurance held by these trusts was approximately $32.4 million, $31.6 and $32.1 million, respectively. 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

	September 30, 2020		December 31, 2019		September 30, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed rate debt	$ 754,670	$ 909,616	$ 695,515	$ 790,711	$ 623,332	$ 730,309
Variable rate debt	63,700	63,700	63,700	63,700	63,700	63,700
Total	$ 818,370	$ 973,316	$ 759,215	$ 854,411	$ 687,032	$ 794,009
Estimated effective interest rate		4.05%		4.31%		4.43%

Central Hudson

	September 30, 2020		December 31, 2019		September 30, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed rate debt	$ 743,250	$ 896,924	$ 683,250	$ 777,318	$ 610,250	$ 716,002
Variable rate debt	63,700	63,700	63,700	63,700	63,700	63,700
Total	$ 806,950	$ 960,624	$ 746,950	$ 841,018	$ 673,950	$ 779,702
Estimated effective interest rate		4.01%		4.27%		4.38%

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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
CH Energy Group (Thompson Hine LLP)	$ 505	$ 511	$ 1,651	$ 1,593
Central Hudson (Thompson Hine LLP)	$ 502	$ 501	$ 1,627	$ 1,555
Central Hudson (The Chazen Companies)	$ 258	$ 243	$ 575	$ 635

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):

	September 30, 2020	December 31, 2019	September 30, 2019
CH Energy Group[1]	Fortis	Fortis	Fortis
Accounts Receivable	$ 1,032	$ 982	$ 979
Accounts Payable	$ 158	$ -	$ -

	September 30, 2020			December 31, 2019			September 30, 2019		
Central Hudson[1]	CHEG	Fortis	Other Affiliates	CHEG	Fortis	Other Affiliates	CHEG	Fortis	Other Affiliates
Accounts Receivable	$ 106	$ 24	$ 8	$ 109	$ 23	$ 4	$ 93	$ 21	$ 7
Accounts Payable	$ 945	$ -	$ -	$ 574	$ -	$ -	$ 879	$ -	$ -

[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 September 30, 2020		Three Months Ended September 30, 2019	
	CHEG	Fortis[1]	CHEG	Fortis[1]
CH Energy Group	$ -	$ 955	$ -	$ 868
Central Hudson	$ 1,075	$ -	$ 977	$ -

	Nine Months Ended September 30, 2020		Nine Months Ended September 30, 2019	
	CHEG	Fortis[1]	CHEG	Fortis[1]
CH Energy Group	$ -	$ 2,897	$ -	$ 2,673
Central Hudson	$ 3,263	$ -	$ 2,988	$ -

[1] Fortis amounts include Fortis and all Fortis subsidiaries.

NOTE 18 – Subsequent Events

An evaluation of subsequent events through October 26, 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 September 30, 2020.

On October 13, 2020, Moody's affirmed the rating of Central Hudson's senior unsecured debt and changed their rating outlook from stable to negative. Moody's indicated that the outlook reflects their view that the growing capital expenditure program, compounding the on-going impacts of federal tax reform on operating cash flow generation, could continue to have a negative impact on the Company's financial ratios. In addition, Moody's cited an increasingly challenging regulatory environment in New York State that could have an impact on the outcome of the Company's pending rate case.

MANAGEMENT'S DISCUSSION and ANALYSIS of FINANCIAL CONDITION and RESULTS of OPERATIONS
For the Nine Months Ended September 30, 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$56 billion as of June 30, 2020. 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

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 $270 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 is expected to 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 September 30, 2020, CHET's investment in Transco was approximately $8.7 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 our 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, like 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 nine 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 outbreak of the novel Coronavirus pandemic ("COVID-19") is an ongoing situation that has adversely impacted economic activity and business conditions on a global scale and specifically within Central Hudson's service territory. 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. Central Hudson has not experienced any significant issues with our supply chain, contractor availability or access to capital; however, we have increased our inventory levels to meet anticipated operational needs. The Company is continuing with electric and natural gas capital investments, although non-essential construction was paused for a period as mandated in the second quarter. As of July 7, 2020, our service territory currently remains in phase four of re-opening under New York State guidance, however, there is still uncertainty regarding the continued progression of re-opening, potential setbacks if increases in cases are identified, and the full economic impact this will have on our customers and business.

Central Hudson has incurred approximately $3.7 million of pre-tax incremental operating expenses through September 30, 2020 related to costs for the sequestration of key employees to ensure the continued reliability of system operations, additional personal protective equipment and cleaning services and supplies. Central Hudson has identified approximately $2.3 million in cost reductions during the pandemic through September 30, 2020 primarily due to reduced labor, contractor, training and travel expenses. Central Hudson has also increased its reserve for credit losses by $2.0 million based on a quantitative and qualitative assessment including an estimate of forecasted economic conditions related to COVID-19. Additionally, Central Hudson has experienced lost revenues associated with the discontinuation of finance charges on customers' past due balances of approximately $2.2 million to date, bringing the total net impact on Central Hudson to $5.6 million on a pretax basis, or $4.6 million impact on net income to date in 2020. Barring any additional setbacks in the reopening progression, Management does not expect to incur continued incremental costs associated with sequestration of key employees. Incremental operating expenses associated with personal protective equipment and cleaning services and supplies are expected to continue for the foreseeable future, but Management expects to be able to manage these incremental costs with identified cost reduction efforts.

Central Hudson is actively communicating with New York State Department of Public Service ("DPS") with regard to COVID incremental costs and lost revenues and cost reductions identified through the Generic Proceeding (Case 20-M-0266). Central Hudson has also taken measures to support our customers, employees and communities impacted by the COVID-19 pandemic and to support the economic recovery in our service territory. For all its customers, Central Hudson suspended certain collection activities including terminating service for non-payment, waived finance charges, doubled its contribution to its last resort grant program and postponed scheduled rate increases. For small businesses, the Company accelerated certain energy efficiency programs and committed up to $1 million of Economic Development funding through our Back to Business program.

Central Hudson has also begun to reach out to customers regarding past due balances to ensure the customers are aware of certain financial assistance programs available to them and to proactively engage with them in managing these balances with deferred payment arrangements. Due to current legislation, Central Hudson cannot resume residential terminations until March 31, 2021. Management is monitoring the New York State, State of Emergency and will determine the appropriate time to begin additional collection efforts, including re-instating finance charges on past due balances and termination activities.

Additionally, Central Hudson's rate filing in August 2020, requesting an increase in electric and natural gas delivery rates to be effective July 1, 2021, incorporated reductions from the initial planned rate increase request to mitigate the bill impact on customers. These reductions included delays in certain planned investments and reductions to operations and maintenance which Management believes could be accomplished without impacting safety and reliability. The rate filing also included a requested deferral for COVID-19 related costs.

The total extent of COVID-19 related impacts on our results of operations is unknown at this time and is contingent upon the continued progression of the re-opening of the economy in our service territory, the ability of our customers to recover from the economic slowdown and related Federal and New York State mandates and regulatory proceedings. An extended delay or potential setback in the economic recovery of our service territory and/or material changes in governmental policy could impact the ability of our customers, contractors, suppliers and other business partners to fulfill their obligations to us, which could have a material adverse effect on our results of operations and financial condition. COVID-19 and its related impacts continues to be an evolving situation, and we will continue to monitor any developments, including regulatory or legislative mandates, affecting our workforce, our customers, contractors and suppliers, as well as our access to capital markets and the potential to recover all or a portion of these incremental costs.

CH Energy Group - Regulated Operations - Central Hudson

Financial Highlights

Period Ended September 30

	Quarter			Year to Date		
	2020	**2019**	**Change**	**2020**	**2019**	**Change**
Electricity Sales (GWh)	1,421	1,374	47	3,769	3,775	(6)
Natural Gas Sales (PJ)	3.8	3.0	0.8	15.8	15.5	0.3
(In millions)						
Revenues	$ 168.8	$ 162.3	$ 6.5	$ 525.7	$ 519.7	$ 6.0
Energy Supply Costs - Matched to Revenues	40.8	40.5	0.3	135.7	153.0	(17.3)
Operating Expenses - Matched to Revenues	24.9	20.0	4.9	70.9	57.6	13.3
Operating Expenses - Other	65.0	65.6	(0.6)	208.5	196.8	11.7
Depreciation and Amortization	16.9	15.1	1.8	50.3	44.5	5.8
Other Income, net	5.0	2.5	2.5	16.8	8.3	8.5
Interest Charges	8.7	8.3	0.4	25.7	25.0	0.7
Income Taxes	3.0	2.9	0.1	9.2	9.2	-
Net income	$ 14.4	$ 12.3	$ 2.1	$ 42.1	$ 42.0	$ 0.1

Earnings: Despite challenges in the current year associated with the impacts of the COVID-19 pandemic, Central Hudson was able to achieve earnings growth compared to the prior year. The PSC-approved increase in delivery rates effective July 1, 2019 and July 1, 2020 provided return on additional capital invested in the business and recovery of higher operating and financing expenses. Although the delivery rate increase billed to customers was delayed, management recorded the associated revenue in the current period which will be billed to and recovered from customers over the remaining nine months of the rate year ended June 30, 2021. Partially offsetting the increase in earnings is the impact of the regulatory deferral recorded in the third quarter of 2020 as a result of electric service interruptions measured by the System Average interruption Frequency Index ("SAIFI") above the PSC prescribed target coupled with the impact of the COVID-19 pandemic.

The impacts of the COVID-19 pandemic on earnings included both reduced revenues and incremental costs incurred. The reduction to revenues resulted from the discontinuation of finance charges applied to customers' past due balances beginning April 1, 2020 in recognition of the impacts of governmental mandates on Central Hudson's customers during the pandemic. Central Hudson's current rates include a Revenue Decoupling Mechanism ("RDM") which provides a recovery of variations in sales for 97% of its business and those customers not covered by the RDM did not experience a change in sales volume as a result of the COVID-19 pandemic. As such, there was no earnings impact associated with variations in residential and small commercial revenues during the pandemic. Incremental COVID-19 related operating costs included costs associated with providing safe and reliable service during the second quarter, including the sequestration of key employees to ensure the continued reliability of system operations, and the purchase of additional personal protective equipment ("PPE") and cleaning services and supplies. During the third quarter, the impacts of the on-going incremental operating expenses associated with PPE and cleaning were offset in part by cost reductions as a result of the pandemic, including labor and contractor expense, as well as employee training and travel costs. Increases in the allowance for credit losses were also recorded in the first and third quarters of 2020 based on a quantitative and qualitative assessment, including an estimated forecast of economic conditions.

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 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. Both the quarter-over-quarter and year-over-year variations in revenues billed through these volumetric factors were not material.

Electricity Sales

Electricity sales for the quarter increased 3.4% primarily as a result of an increase in sales to residential customers of 13.8% due to changes in consumption patterns and warmer than normal weather. This increase in residential sales was partially offset by a decrease in sales to commercial and industrial customers of 4.3%, resulting from the government mandate to temporarily close businesses to mitigate the spread of COVID-19.

On a year to date basis, sales were essentially flat compared to 2019 with the decrease in sales to commercial and industrial customers related to COVID-19 mandates slightly outweighing the increase in residential sales.

Natural Gas Sales

Natural gas sales for the quarter and year to date were 26.6% and 1.9% higher than that of the comparable periods in 2019. The increases reflect higher sales to interruptible customers. Year to date sales also reflect lower sales in the first quarter attributable to a warmer than normal 2019-2020 heating season.

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 in other income 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 rates for the quarter and year to date are lower than the statutory rate due to tax normalization rules. The decrease in the third quarter effective tax rate compared to the prior year was also impacted by the timing of flow through tax items related to capital expenditures.

Central Hudson Revenues - Electric

Period Ended September 30

(In millions)	Quarter			Year to Date		
	2020	**2019**	**Change**	**2020**	**2019**	**Change**
Revenues with Matching Expense Offsets:[1]						
Recovery of commodity purchases	$ 38.3	$ 37.5	$ 0.8	$ 103.9	$ 106.6	$ (2.7)
Sales to others for resale	0.5	1.7	(1.2)	3.2	6.6	(3.4)
Other revenues with matching offsets	19.4	17.5	1.9	52.2	47.0	5.2
Subtotal	58.2	56.7	1.5	159.3	160.2	(0.9)
Revenues Impacting Earnings:						
Customer sales	99.3	91.9	7.4	262.6	244.6	18.0
RDM and other regulatory mechanisms	(7.1)	(5.3)	(1.8)	(10.3)	(8.6)	(1.7)
Finance Charges	-	0.9 (2)	(0.9)	0.9	2.5 (2)	(1.6)
Incentives earned	0.4	0.5 (2)	(0.1)	1.3	1.6 (2)	(0.3)
SAIFI deferral	(2.3)	-	(2.3)	(2.3)	-	(2.3)
Net plant & depreciation targets	(0.4)	(0.4)	-	(2.1)	(1.9)	(0.2)
Other revenues	1.6	1.5 (2)	0.1	5.0	5.3 (2)	(0.3)
Subtotal	91.5	89.1	2.4	255.1	243.5	11.6
Total Electric Revenues	$ 149.7	$ 145.8	$ 3.9	$ 414.4	$ 403.7	$ 10.7

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

(2) Other revenues reported for the three and nine months ended September 30, 2019 have been reclassified to conform with current period presentation.

Central Hudson Revenues - Natural Gas

Period Ended September 30

(In millions)	Quarter			Year to Date		
	2020	**2019**	**Change**	**2020**	**2019**	**Change**
Revenues with Matching Expense Offsets:[1]						
Recovery of commodity purchases	$ 1.8	$ 1.3	$ 0.5	$ 22.7	$ 34.2	$ (11.5)
Sales to others for resale	0.2	0.1	0.1	5.9	5.6	0.3
Other revenues with matching offsets	1.0	0.9	0.1	5.1	5.6	(0.5)
Subtotal	3.0	2.3	0.7	33.7	45.4	(11.7)
Revenues Impacting Earnings:						
Customer sales	12.8	12.1	0.7	70.2	68.1	2.1
RDM and other regulatory mechanisms	1.3	1.2	0.1	2.3	(1.5)	3.8
Finance Charges	-	0.2 (2)	(0.2)	0.3	0.8 (2)	(0.5)
Incentives earned	-	- (2)	-	0.3	0.1 (2)	0.2
Net plant & depreciation targets	0.2	(0.2)	0.4	(0.9)	(0.9)	-
Other revenues	1.7	0.8 (2)	0.9	5.4	4.0 (2)	1.4
Subtotal	16.0	14.1	1.9	77.6	70.6	7.0
Total Natural Gas Revenues	$ 19.0	$ 16.4	$ 2.6	$ 111.3	$ 116.0	$ (4.7)

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

(2) Other revenues reported for the three and nine months ended September 30, 2019 have been reclassified to conform with current period presentation.

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 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 for the quarter and year to date is primarily due to the increase in customer delivery rates as prescribed in the 2018 Rate Order. Although the delivery rate increase billed to customers was delayed, management recorded the associated revenue in the current period which will be billed to and recovered from customers over the remaining nine months of the rate year ended June 30, 2021. Partially offsetting the increases, are the discontinuation of finance charges applied on customers' past due balances in order to alleviate additional financial hardship on customers during the current economic conditions as a result of the COVID-19 pandemic, as well as the regulatory deferral related to electric service interruptions which were above the PSC prescribed target. Year to date revenues also reflect lower revenues billed for the recovery of electric commodity costs due to a decrease in electric prices and sales volumes compared to the prior year.

Natural Gas Revenues:

Natural gas revenues increased quarter over quarter as a result of higher revenues billed for the recovery of commodity costs due to an increase in sales volumes, as well as the increase in customer delivery rates effective July 1, 2020. Although the delivery rate increase billed to customers was delayed, management recorded the associated revenue in the current period which will be billed to and recovered from customers over the remaining nine months of the rate year ended June 30, 2021. Revenues for the quarter were further impacted by the reversal of previously recorded deferrals related to net plant and depreciation targets based on progress made in the completion of capital projects under the current rate plan, as well as a reduction in estimated accrued gas compliance penalties.

Year to date natural gas revenues decreased as a result of lower natural gas commodity costs driven by decreases in price and sales volume and the discontinuation of finance charges applied on customers' past due balances in order to alleviate additional financial hardship during the current economic conditions as a result of the COVID-19 pandemic. These decreases were partially offset by the increase in customer delivery rates effective July 1, 2019 and July 1, 2020.

Central Hudson Operating Expenses

Period Ended September 30

(In millions)	Quarter			Year to Date		
	2020	**2019**	**Change**	**2020**	**2019**	**Change**
Expenses Currently Matched to Revenues:[1]						
Purchased electricity	$ 38.8	$ 39.2	$ (0.4)	$ 107.1	$ 113.2	$ (6.1)
Purchased natural gas	2.1	1.4	0.7	28.8	39.9	(11.1)
Pension & OPEB	3.5	0.6	2.9	10.0	5.5	4.5
New York States energy efficiency programs	11.2	10.0	1.2	30.1	28.9	1.2
Major storm reserve	3.2	3.2	-	9.0	4.0	5.0
Low income programs	2.6	2.4	0.2	8.6	7.1	1.5
Other matched expenses	4.3	3.7	0.6	13.0	12.0	1.0
Subtotal	65.7	60.5	5.2	206.6	210.6	(4.0)
Other Operating Expense Variations:						
COVID-19 incremental operating expenses	0.4	-	0.4	3.7	-	3.7
COVID-19 related uncollectible reserve	0.8	-	0.8	2.0	-	2.0
Tree trimming	4.9	5.8	(0.9)	16.8	17.7	(0.9)
Property and school taxes[2]	13.6	12.7	0.9	42.9	39.9	3.0
Weather related service restoration	3.0	1.6	1.4	5.2	3.2	2.0
Distribution and transmission maintenance	1.7	1.7	-	4.9	4.3	0.6
Information technology	2.1	1.8	0.3	7.6	6.9	0.7
Labor and related benefits	20.9	22.9[3]	(2.0)	69.9	68.3[3]	1.6
Depreciation and amortization	16.9	15.1	1.8	50.3	44.5	5.8
Other expenses	17.6	19.1[3]	(1.5)	55.5	56.5[3]	(1.0)
Subtotal	81.9	80.7	1.2	258.8	241.3	17.5
Total Operating Expenses	$ 147.6	$ 141.2	$ 6.4	$ 465.4	$ 451.9	$ 13.5

(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 basis points, with a maximum of approximately $0.5 million, pre-tax per Rate Year.
(3) Other expenses reported for the periods ended September 30, 2019 have been reclassified to conform to the current period presentation.

Operating Expenses:

The 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. Weather related restoration costs increased due to several storm events that occurred during the third quarter of 2020. Due to the seasonality of the business, the timing of expenditures is not always aligned with the revenues collected on a quarter-to-quarter basis. Decreases in operating expenses associated with tree trimming and labor and related benefits were impacted by this timing and seasonality of the work performed but are aligned with amounts recovered on a rate-year basis.

Additionally, Central Hudson has incurred incremental costs in 2020 associated with the COVID-19 pandemic. Specifically, incremental operating expenses included costs for the sequestration of key employees to ensure the continued reliability of system operations during the second quarter of 2020, additional PPE, and cleaning services and supplies. During the third quarter, the impacts of the on-going incremental operating expenses associated with PPE and cleaning were offset in part by cost reductions as a result of the pandemic, including labor and contractor expense, as well as employee training and travel costs. Additionally, increases in the allowance for credit losses were recorded in the first and third quarter of 2020 based on a quantitative and qualitative assessment, including an estimated forecast of economic conditions.

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 September 30, 2020

(In millions)

Balance Sheet Account	Increase (Decrease)	Explanation
Accrued unbilled utility revenues, net of allowance for credit losses	(6.5)	Decrease reflects the seasonality of the business as well as the increase in the allowance for credit losses.
Other Receivables	(5.1)	Decrease is primarily due to the collection of costs previously billed for contributions in aid of construction to developers for their share of a capital project and for mutual aid related to hurricane restoration efforts in Puerto Rico.
Regulatory assets - current	(13.1)	Decrease is primarily driven by lower recoverable commodity costs as a result of lower sales volumes due to seasonality of the business coupled with a decrease in commodity prices, the impact of unrealized gains on electric and natural gas derivatives and collections of eligible deferrals related to the rate adjustment mechanisms, partially offset by delayed delivery rate increases related to COVID-19.
Fair value of derivative instruments, net	7.3	Increase due to higher unrealized mark-to-market gains related to open electric and natural gas derivative contracts primarily as a result of the seasonality of the business.
Regulatory assets - long term	30.7	Increase primarily reflects an increase in amounts accrued for future environmental remediation costs at North Water Street manufactured gas plant ("MGP") site coupled with three major storm events in the first nine months of 2020. This increase was partially offset by collections through the rate adjustment mechanism.
Other investments	7.4	Increase primarily due to funding of the non-qualified Supplemental Executive Retirement Plan.
Long term debt, including current maturities	60.0	The increase is due to the issuance of $100 million in long-term debt during 2020, partially offset by the repayment of $40 million of maturing debt in September 2020.
Accrued environmental remediation costs, net	26.7	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.
Regulatory liabilities - long term	(11.2)	Decrease is primarily due to bill credits recorded in accordance with the rate moderator, the amortization of plant related deferred tax liabilities as a result of the Tax Cuts and Jobs Act and higher energy efficiency program expenses above amounts included in rates. Partially offsetting these decreases were negative revenue adjustments as a result of net plant targets and electric service reliability performance mechanisms above the PSC prescribed targets.

Liquidity And Capital Resources

CH Energy Group - Regulated, Non-regulated and Holding Company Summary of Cash Flow
Period Ended September 30,

(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	91.4	91.7
Working capital	27.5	30.4
Operating Activities	118.9	122.1
Investing Activities	(192.3)	(170.7)
Financing Activities	73.6	19.6
Cash, cash equivalents and restricted cash - end of period	$ 21.3	$ 14.8
Dividends paid on Common Stock - CH Energy Group	$ -	$ (16.5)

Operating Activities: Cash from operations pre-working capital was nearly unchanged in 2020 as compared to 2019. The impact of higher expenditures for major storm restoration, incremental costs incurred related to the COVID-19 pandemic, the impact of delayed delivery rate increases and an increase in bill credits provided to customers under the terms of the 2018 Rate Order were largely offset by the delivery rate increase and the recovery of eligible deferrals through the rate adjustment mechanisms both effective beginning July 1, 2019. The decrease in working capital in 2020 was primarily due to lower collections from customer's accounts receivable balances primarily due to delayed payments from customers experiencing financial distress as a result of COVID-19 , increased remittances of Clean Energy Fund collections to New York State Energy Research and Development Authority ("NYSERDA") and an acceleration of certain energy efficiency programs and incentives to assist customers in reducing their energy consumption and costs during these difficult times. Partially offsetting the working capital decreases are amounts billed to customers in excess of revenue targets and actual commodity costs in the current year, delayed remittances of payroll taxes as part of the Coronavirus Aid, Relief, and Economic Security Act, mutual aid recoveries related to hurricane restoration efforts in Puerto Rico, lower income taxes paid due to the utilization of net operating losses in 2020 and an increase in advances paid by solar project developers for future engineering studies or interconnection work to be performed.

Investing Activities: Cash used in investing activities during 2020 increased $21.6 million compared to 2019 due to increased investment in Central Hudson's utility plant. Central Hudson's approved capital spend is estimated to be approximately $255 million for the year ended December 31, 2020, compared to approximately $240 million in 2019, and includes continued investments in electric transmission and distribution infrastructure replacement programs, electric new business, leak prone pipe replacements, facility upgrades, IT and communications systems.

Financing Activities: Included in financing activities for 2020 is $60 million of net proceeds from long-term borrowings and $15 million of equity capital contributions received which were used for general corporate purposes, including the repayment of short-term borrowings incurred in the first quarter and the funding of capital investments. The Company did not pay dividends in 2020 compared with the payment of $16.5 million in common stock dividends in 2019.

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.

Central Hudson's secondary sources of funds is its cash reserves and credit facilities. Central Hudson's ability to use its credit facilities is contingent upon maintaining compliance with certain financial covenants. Central Hudson does not anticipate that those covenants will restrict its 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 expected to be partially mitigated by reductions in other planned expenditures. Central Hudson has not experienced any issues with accessing capital markets during the pandemic, having successfully secured new financing in the third quarter at favorable interest rates. Central Hudson has also filed a request for a delivery rate increase to be effective July 1, 2021. While Management took initiatives to mitigate the impact of the rate increase on customers during this difficult economic environment, the requested increase would continue to provide the necessary cost recovery to ensure safe and reliable service, as well as a reasonable rate of return on its investments. 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

The PSC issued a Financing Order, effective September 13, 2018, 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 was $50 million with a maturity date of July 10, 2020. Due to low demand for cash and the ability to receive funding from either dividends or equity capital contributions, CH Energy Group did not replace this credit agreement upon its maturity.

On a consolidated basis, CH Energy Group's committed credit as of September 30, 2020 and December 31, 2019 was $200 million and $250 million, respectively. There were no borrowings outstanding under the various credit arrangements as of September 30, 2020 and December 31, 2019.

Uncommitted Credit

At September 30, 2020, Central Hudson had uncommitted short-term credit arrangements with two commercial banks totaling $30 million. At 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 September 30, 2020 and December 31, 2019.

Central Hudson's Bond Ratings

	September 30, 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 October 13, 2020, Moody's affirmed the rating of Central Hudson's senior unsecured debt and changed their rating outlook from stable to negative. Moody's indicated that the outlook reflects their view that the growing capital expenditure program, compounding the on-going impacts of federal tax reform on operating cash flow generation, could continue to have a negative impact on the Company's financial ratios. In addition, Moody's cited an increasingly challenging regulatory environment in New York State that could have an impact on the outcome of the Company's pending rate case.

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.

On September 28, 2020, Central Hudson issued $40 million of Series S Senior Notes, with an interest rate of 2.03% per annum and a maturity date of September 28, 2030. On July 14, 2020, Central Hudson issued $30 million of Series R Senior Notes, with an interest rate of 3.62% per annum and a maturity date of July 14, 2060. Central Hudson used the proceeds from the sale of the Senior Notes to repay $40 million of maturing debt and for general corporate purposes, including the funding of capital expansion and improvement projects.

On May 14, 2020, Central Hudson issued $30 million of Series Q Senior Notes, with an interest rate of 3.42% per annum and a maturity date of May 14, 2050. Central Hudson used the proceeds from the sale of the Senior Notes for general corporate purposes, including the repayment of short-term borrowings.

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

	September 30, 2020		December 31, 2019	
		%		%
Long-term Debt(1)	$ 818.4	49.7	$ 759.2	49.6
Common Equity	828.8	50.3	772.6	50.4
Total	$ 1,647.2	100.0	$ 1,531.8	100.0

(1) Includes current maturities of long term debt.

Central Hudson

	September 30, 2020		December 31, 2019	
		%		%
Long-term Debt(1)	$ 807.0	49.4	$ 747.0	49.2
Common Equity	825.2	50.6	772.2	50.8
Total	$ 1,632.2	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 increased to 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 nine months ended September 30, 2020.

Critical Accounting Estimates: There were no material changes to CH Energy Group's or Central Hudson's critical accounting estimates during the nine months ended September 30, 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 Accounting Policies: There were no changes to CH Energy Group's or Central Hudson's accounting policies during the nine months ended September 30, 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 nine months ended September 30, 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 through the third quarter 2020 are 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.

2018 Rate Order

On June 11, 2020, the Commission issued Order Postponing Approved Electric and Natural Gas Delivery Rate Increases, which approved Central Hudson's petition to ease the financial impact on customers during the critical months of the COVID-19 pandemic. The Order postponed for three months Central Hudson's approved Rate Year 3 electric and natural gas delivery rate increase scheduled to take effect on July 1 to October 1, 2020, without carrying charges and provided recovery of the forgone revenues over the period from October 1, 2020 through June 30, 2021. Central Hudson's RDM Targets were adjusted to be consistent with the delayed electric and natural gas delivery rate increase implementation. In compliance with the Order, Central Hudson notified customers the impacts of this Order and provided a reminder to customers prior to Rate Year 3 rates being implemented on October 1, 2020. In compliance with the Order, Central Hudson filed tariffs amendments on June 26, 2020 to reflect the impact of the delayed electric and gas delivery rate increases for Rate Year 3. On August 25, 2020, the Company filed electric and natural gas tariff amendments with Rate Year 3 rates effective October 1, 2020.

On June 18, 2020, Central Hudson filed its Assessment of Natural Gas Demand Side Load Management Programs with the Commission in compliance with the 2018 Rate Order and Case 18-M-0084. The Order required the Company to issue a Request for Proposal to solicit technology and fuel neutral market responses to a defined level of peak reduction. In accordance with the Order, the Company conducted a Benefit Cost Analysis to determine the potential value of various levels of peak reduction provided by the demand response program.

August 2020 Rate Filing

Central Hudson filed an electric and natural gas rate case (Cases 20-E-0428 and 20-G-0429) on August 27, 2020 with the PSC seeking electric and natural gas delivery revenue increases of $32.8 million and $14.4 million, respectively, to become effective July 1, 2021. The filing includes projected net regulatory liability balances proposed for rate moderation of $20 million for electric and $8 million for natural gas. The rate filing was made in order to align electric and natural gas delivery rates with the projected costs of providing service to our customers and reflects a return on equity of 9.1% and a 50.0% equity ratio to maintain financial integrity. Additionally, due to the severe economic impact of COVID-19 within its service territory, Central Hudson included specific actions within the filing to reduce the customer bill impact, which included delaying a meaningful portion of the capital plan, resulting in a $48.5 million reduction in capital expenditures during the rate year ending June 30, 2022, and inclusion of a COVID-19 Adjustment Customer Bill Moderation credit that reduces Central Hudson's revenue requirements by $1.8 million for electric and $0.5 million for natural gas.

The primary drivers for the increase in projected costs include: 1) capital investments to modernize Central Hudson's electric, gas infrastructure and information technology ("IT") systems resulting in increases in depreciation expense, return on rate base, and property taxes; 2) increasing expenses associated with vegetation management or trimming; 3) increasing employee levels and labor costs; and 4) initiation of a new Heat Pump program. Modernization of electric transmission and distribution infrastructure addresses the underlying age and condition of the assets and the need to enable the Distributed System Platform in order to better monitor and control the distribution system while facilitating increasing levels of Distributed Energy Resources penetration. This is directly tied to the goals of Climate Leadership and Community Protection Act ("CLCPA"). Central Hudson's filing also proposes the continued acceleration of replacing gas Leak Prone Pipe ("LPP"), replacing 15 miles per year resulting in an elimination of LPP from the Company's gas system in approximately eight years. Central Hudson also proposes to invest in IT systems to transform and modernize customer interactions, complete the replacement of its 40-year old Enterprise Resource Planning mainframe solution and sustain the security and maintenance of our IT systems. Central Hudson is also proposing additional funding to maintain a four-year cycle for distribution line clearance and a five-year cycle for its transmission right-of way trimming maintenance while implementing a targeted tree removal program aimed at reducing the impact of the increasing number of severe weather events brought about by climate change and the proliferation of invasive insect infestations and tree diseases. Central Hudson is also seeking recovery of costs associated with the New York State Clean Heat program, which seeks to replace high carbon intensive heating sources with heat pumps and related measures.

The filing also proposes to:

1) modify and expand the current Earnings Adjustment Mechanisms that were approved in the 2018 Rate Plan;
2) introduce new Positive Revenue Adjustments while eliminating or modifying the structure of certain Negative Revenue Adjustments;
3) expansion of Central Hudson's RDMs to include additional service classes;
4) institute new deferral mechanisms to defer incremental COVID-19 related costs and lost revenues; and
5) expand the eligibility criteria for the Low Income Bill Discount Program to include customers who receive other forms of public assistance.

Procedural and technical conferences were held on October 6, 2020, and public statement hearings are scheduled for October 28, 2020. The remainder of the rate case schedule has been established by the Administrative Law Judge(s) with the following dates: PSC Staff and intervenor testimony due December 22, 2020; rebuttal testimony due on January 22, 2021 and evidentiary hearings beginning on February 16, 2021. A PSC Order in response to the filing is anticipated in June 2021 with new rates to become effective July 1, 2021.

August 2020 Tropical Storm Isaias

On August 5, 2020, the New York State Governor instituted proceeding 20-01633 directing the Commission to initiate an investigation of the New York State utilities' responses to Tropical Storm Isaias. The Company is cooperating with Staff in the investigation of storm preparation, system restoration and post-storm analysis. On August 19, 2020, the Office of Investigations and Enforcement of the New York State DPS issued a Notice of Apparent Violations Related to Tropical Storm Isaias to the Company. The Notice cited two violations in Central Hudson's storm response to Tropical Storm Isaias. While the Company is committed to continuous improvement, it disagrees with the citations noting compliance with the Electric Emergency Plan, previously approved by the PSC, which serves as the standard against which Central Hudson should be evaluated. As such, no accrual has been made related to this investigation or the Notice of Violations. Management does not believe any resulting outcome of this matter will be material to Central Hudson's earnings, financial position or cash flows.

Central Hudson Reverse Sales Tax Refund

On March 16, 2020, Central Hudson filed a petition for the disposition of a sales tax refund, pursuant to PSL Section 113(2) under Case 20-M-0134. The tax refund is the result of a reverse sales tax audit that Central Hudson initiated with the New York State Department of Taxation & Finance for the claim period of June 1, 2017 through December 31, 2018. The Commission solicited comments on the filing via notice published in the April 22, 2020 edition of the New York State Register. Central Hudson asked the Commission to take notice of a tax refund received from the New York State Department of Tax and Finance, in the amount of approximately $3.4 million on October 16, 2019 and waive the rule requiring the Company to give the Commission notice of the refund within 60 days. Central Hudson proposed that the refund received be allocated (1) for the benefit of ratepayers; and (2) to reimburse the costs incurred by Central Hudson in securing the refund. The Company proposed to retain approximately $0.6 million, or 24% of the refund, net of costs to achieve. Most of the refund has been credited to plant as the majority of the refund related to sales taxes that were capitalized as part of plant costs. The petition requested the PSC approve Central Hudson retaining the portion of the net refund that was credited to sales tax expense when received in recognition of Central Hudson's considerable time, effort and analysis employed, along with its consultant, to achieve the refund.

On June 18, 2020, Multiple Intervenors ("MI") filed comments in response to Central Hudson's petition that advocates for an alternate disposition of customers' share of the tax refund. MI noted the filing was made on March 16, 2020, just as the pandemic was reaching New York and since that time, the State's economy essentially was shut-down for an extended period in an effort to control the spread of the COVID-19 virus. The MI filing stated that, customers – both residential and non-residential – have suffered tremendous economic harm and need immediate financial relief. MI recommends that the Commission direct Central Hudson to distribute customers' share of the tax refund directly to customers in the form of bill credits as expeditiously as practicable and proposes this alternate approach would provide immediate financial assistance to customers when it is most needed and better preserve temporal equity. Finally, in order to maintain interclass equity, MI proposed the customers' share of the refund should be returned to customers utilizing the same allocation methodology as was employed by Central Hudson to collect the taxes in the first place. The Commission may adopt, reject or modify, in whole or in part, the action proposed and may resolve related matters. Although the outcome is unknown, any potential adjustments that may result from a PSC ruling differing from how the refund has been recorded to date, is not expected to be material to Central Hudson's financial statements.

Climate Change Risk Reporting

On October 15, 2020, the Commission issued Case 20-M-0499, an Order Instituting Proceeding to consider adoption of the Financial Stability Board's Task Force on Climate-related Financial Disclosure recommendations for a uniform approach and set of corporate-related financial disclosures at the utility operating company level. The Commission's Order states that for public utilities, with significant assets and changing physical infrastructure needs, increased transparency of climate related financial risks would allow for better planning and investment consistent with New York State's climate goal of a carbon neutral economy by 2050. The Order seeks to gather information from utility operating companies and other interested parties, including regarding pros/cons and costs/benefits of climate risk disclosure and the use of a uniform framework. Responses are requested by November 14, 2020.

Strategic Use of Energy Data Proceeding

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. As directed in the Order, Staff filed two whitepapers which 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 resource that provides a platform for access to customer and system data. The Staff Whitepaper Regarding Data Access Framework creates a statewide certification process to grant

Energy Service Entity ("ESE") access to energy-related customer data. Staff recommends the Commission direct individual utilities to submit a compliance filing that details how each utility has updated all existing policies to comply with the Data Access Framework. The whitepaper also recommends the Commission direct the Joint Utilities ("JU") to file for Commission review and approval an implementation plan for ESE risk management program and implementation plan for an interim centralized certification model. The purpose of the Staff Whitepaper Recommendation to Implement an Integrated Energy Data Resource ("IEDR") is to provide useful access to energy data and enable achievement of CLCPA. Staff recommends the Commission adopt a statewide NYSERDA sponsored IEDR, funding framework and governance, for which the utility would have a small role. Technical Conferences for Data Access and Data Framework were held July 21 and 22, 2020, respectively. The JU filed initial comments on August 24, 2020 and reply comments on September 11, 2020.

Gas Planning Procedure

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.

Central Hudson and the Joint Local Distribution Companies ("LDCs") filed the following items in compliance with the Order:

- Supply/demand analysis for locations identified as "vulnerable" within each utility service territory on July 17, 2020 (as amended);
- Supply/demand analysis for the entire utility service territory on July 31, 2020 (as amended);
- Peaking Services and Moratorium Management Proposal on July 17, 2020;
- 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) on August 17, 2020; and
- Staff has sought and been granted four extensions from the Commission for the delivery of their Proposal to Modernize Gas System Planning Process. Staff's proposed plan is due on November 16, 2020.

COVID-19 related Orders and Proceedings

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 is currently in effect until November 3, 2020. Utilities are considered essential; however, certain programs such as energy efficiency were determined to be non-essential. Central Hudson has suspended terminations or shut-offs for customers and has aided 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 directed 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.

On April 15, 2020, the Commission issued an Order Granting Extension of Time to Complete Gas Service Line Inspections and Leakage Surveys. These extensions were necessary to protect the health and safety of LDCs' employees, customers, and the general public during the COVID-19 pandemic because completing these inspections would require LDC employees to enter buildings for non-emergency reasons, which would risk community contact transmission of the COVID-19 virus. On

September 2, 2020, the National Gas Association, on behalf of the NYS LDCs, submitted a report with a progress summary and proposed next steps to complete the Gas Service Line Inspection and Leakage Surveys with Staff and proposed to work collaboratively with Staff to further advance completion of baseline inspections hindered by access issues.

On April 10, 2020, MI filed a petition with the Commission requesting an expeditious ruling and recommendation that, at a minimum, surcharges and collections devoted towards funding programs and projects be either reduced or delayed providing 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 cited NYSERDA's "Clean Energy Fund Quarterly Performance Report through December 31, 2019" (dated March 2020) that indicates (1) As of December 31, 2019 $1.2 billion of the amount approved for collection across all New York State utilities remained unspent and uncommitted and could be utilized to provide much-needed rate relief to customers during these very-challenging times and (2) Central Hudson has a regulatory liability of approximately $59.3 million as of June 30, 2020 associated with Clean Energy Fund collections from customers in excess of amounts drawn by NYSERDA for program spending. Of the over 150 organizations that filed comments in response to MI's petition, comments in support were limited to Consumer Power Advocates, the Business Council of New York State, Inc. and Council of Industry of Southeastern New York. The Commission incorporated this filing into the new proceeding, Case 20-M-0266 further discussed below

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 Governor Cuomo's Executive Order 202 on the rates and provisions of utility services. The petition urged 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 stated 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 identified 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. The Commission incorporated this filing into the new proceeding, Case 20-M-0266 further discussed below.

On June 17, 2020, Governor Cuomo approved bill S8113A, which amended Public Service Law 66, Section-32 to prohibit utilities from terminating or disconnecting services to residential customers for the duration of the State of Emergency and a period of 180 days afterwards. The law prohibits any utility corporation or municipality from terminating or disconnecting services to any residential customer for the non-payment of an overdue charge for the duration of the COVID-19 state disaster emergency declared pursuant to Executive Order 202. Further, the law imposed a duty on utility corporations and municipalities to restore service, to the extent not already required under the law, to any residential customer within forty-eight hours if such service was terminated during the pendency of the COVID-19 State of Emergency.

On June 11, 2020, the Commission established a new proceeding, Case 20-M-0266 to identify and address the effects of the COVID-19 pandemic on utility service in New York State, including all entities subject to Commission jurisdiction or permitting authority. The proceeding included, but is not limited to, impacts on rate-setting, rate design, utility financial strength, low income programs, collections and termination of service ensuring the provision of safe and adequate service at just and reasonable rates in recognition of the ramifications from the COVID-19 pandemic and, the extent to which the Commission's clean energy programs should be maintained or accelerated. Public comments on the following topics: collection and termination of service, commission principles in serving the public interest and rate and financial aspects, as provided in an Appendix to the Order, were filed by parties on July 13, 2020 and reply comments were filed August 28, 2020. In an effort to further understand the impacts of COVID-19 and the operational changes that utilities have executed or plan to execute in response to the pandemic, Staff has requested that utilities provide on a monthly basis, financial information to enable an assessment of the COVID-19 impacts on utility earnings and cash flow to the extent they have been identified and quantified. Central Hudson is providing the monthly requested information to Staff with regards to COVID lost finance charge revenues and incremental costs, including the increase in past due balances and the uncollectible reserve and cost reductions.

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 New 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. NYSERDA will serve as the procurement agent for OSW.

The standard calls for Phase 1 Offshore Renewable Energy Credits ("ORECs") associated with approximately 800 MW of OSW to be procured over a two-year period. On July 18, 2019 Governor Cuomo announced the selection of two offshore wind construction projects that include an 880 MW project and 816 MW project. Load Serving Entities ("LSEs") were obligated to acquire, 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.

On April 23, 2020, the Commission issued an Order Authorizing Offshore Wind Solicitation, allowing NYSERDA to issue an additional offshore wind solicitation in 2020 for 1,000 MW or more in response to a petition filed by NYSERDA. The petition is based on NYSERDA's goal of maintaining its trajectory toward meeting its Clean Energy Goals as detailed in the CLCPA, which requires 9,000 MWs of OSW to be operational by 2035, 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. The Order directed NYSERDA to conform its solicitation with the Index REC Order where developers have the option to bid either a Fixed-Price OREC bid or an Index OREC bid, but not both. NYSERDA will use a Reference Energy Price that reflects the average Locational Based Marginal Pricing from a project's zone of delivery and a Reference Capacity Price that is calculated using a project's specific NYISO-designated locality. Developers have the option to select an Uninstalled Capacity production factor that will be utilized for the life of the contract and a ceiling on the index price payable for all hours was set at the strike price.

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 September 30, 2019, Central Hudson posted its Request for Proposal ("RFP") and Energy Storage Service Agreement Terms and Conditions for prospective bidders and stakeholders to prequalified bidders. Central Hudson received proposals for six projects. On July 1, 2020, Central Hudson notified the Commission that the Company had received proposals to its RFP and reviewed those proposals with Staff. The proposals were not economically viable, and none were accepted. Central Hudson continues to work with Staff and the other New York electric utilities to develop lessons learned.

On May 29, 2020, a technical conference was held concerning the proposals filed by New York's investor owned electric utilities regarding the procurement process for Term- and Auto-Dynamic Load Management ("DLM") resources that were filed on January 29, 2020, in compliance with the Public Service Commission's directive to provide longer-term rule and price certainty in the DLM programs. Following the technical conference, the Commission issued a notice seeking comments on the utilities' proposals. The JU filed comments on July 13, 2020.

On September 17, 2020, the Commission issued an Order Establishing Term –Dynamic Load Management and Auto-Dynamic Load Management Procurements and Associated Cost Recovery. The Order implements two new DLM program options (Term-DLM and Auto-DLM) which will provide incentive payment certainty for participants for a period of three years or longer. The Order was established to incentivize customers on the use of energy storage technologies and encourage further deployment of these solutions. The Order directs the following:

- Resources to be operational and provide load relief by May 1, 2021.
- Resources for both programs be procured through a sealed-bid, pay-as-bid auction method.
- Require utilities to develop bid ceiling prices, consulting with Staff that bid ceilings are proper and consistently designed prior to determining the bids to award.
- Payment structure with contract value equally spread over the contract term subject to performance requirements.
- Term-DLM Day Ahead Peak Shaving Program whereby participants will provide load relief on not less than 21 hours advance notice during a specified four-hour period and available throughout the utility service territory (called only Mon-Fri and may participate in DLRP during the same period).
- Auto-DLM Reliability and Peak Shaving Program whereby participants will provide load relief on not less than 10 minutes advance notice at any time, except for specified off-peak charging hours, for a period of four hours. This program is available in specified areas of each utility's service territory. Customers cannot participate in any other distribution DR program

The Order requires utilities to make tariff filings describing cost allocation and cost recovery by November 16, 2020. The Order is temporarily effective December 1, 2020, with the report on the effectiveness of Term DLM and Auto-DLM to be included in the utility's annual DLM report due November 15, 2020.

<u>Electric Vehicle Direct Current Fast Charging ("DCFC") Infrastructure Program</u>

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. On January 13, 2020, Staff issued its Whitepaper Regarding Electric Vehicle Supply Equipment and Infrastructure Deployment.

On March 2, 2020, Central Hudson filed its 2019 Annual Report 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 which adopted the following clarifications/modifications to the previous EV DCFC orders, including:

- Tesla's method of payment will qualify under the DCFC incentive program;
- DCFC per-plug incentive program data collection will only be used publicly in fully anonymized aggregated annual reports;
- A two-year extension of the 2019 incentive level to December 31, 2021 was approved;

- DCFC per-plug incentive program rules were modified so that, at co-located stations, any plug type capable of simultaneously charging two vehicles at 75 kW or greater will receive a full per-plug incentive, and standardized plug equipment at the site capable of simultaneously charging two vehicles at 62.5 kW to 74 kW will receive 60% of full incentive. Mixed tier incentives will 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.

On April 28, 2020, in response to the Commission's February 5, 2020 Notice Soliciting Comments regarding the Staff Whitepaper Regarding Electric Vehicle Supply Equipment and Infrastructure Deployment and additionally soliciting responses to seventeen specific questions, the JU filed comments supporting higher incentives, more program flexibility and a less prescriptive approach.

On July 16, 2020, the PSC issued Order Establishing Electric Vehicle Infrastructure Make Ready Program and Other Programs. The Order establishes a statewide EV Make Ready Program ("MRP") with a total budget capped at $701 million through 2025 including $206 million for the benefit of low/moderate income and environmental justice communities. The MRP is targeted at public/workplace chargers and Direct Current Fast Chargers and includes a Medium Duty and Heavy Duty MRP Pilot Program. The Order requires utilities offer a Fleet Assessment Service and creates three new NYSERDA Environmental Justice prize competitions totaling $85 million. The JU filed an MRP Participant Guide and Central Hudson filed its MRP Implementation Plan on August 17, 2020 and September 14, 2020, respectively. Utilities are required to develop an on-line EV supply application portal in a phased approach with Phase 1 completed by October 16, 2020 and Phase 2 completed by January 16, 2021. Other requirements set forth in the Order include utilities' publication of load serving capacity maps tailored to support EV charging station siting by December 31, 2020 and working with developers to determine the feasibility of future proofing plans from a grid and site perspective at each participating station.

<u>Value of Distributed Energy Resources Proceeding ("DER")</u>
In December 2015, the Commission instituted Case 15-E-0751, "In the Matter of the Value of Distributed Energy Resources ("VDER")" to propose valuation methods for DER. These compensation reforms are being considered as a reform to net metering.

On May 15, 2020, the JU filed a petition requesting the Commission amend the Energy Storage System ("ESS") tariff to require standby and buyback services tariff provisions to customer-generators with certain ESS in combination with eligible generation technologies defined in Public Service Law Sections 66-j and 66-l, and compensated under each utility's Value Stack Hybrid Facilities Tariff. The JU believe this proposal would allow the most common and beneficial Hybrid Facilities continued eligibility for their otherwise applicable service classifications and rates, promote economic and beneficial deployment of Hybrid Facilities through prevention of gaming opportunities, reduce cost shifts to non-participating customers, apply rates that more accurately reflect utility system costs, and promote economic dispatch of resources.

On June 12, 2020, the Commission issued Order Granting Reconsideration Regarding Compensation of Community Generation Compensation in response to a petition filed April 19, 2020 by the Coalition for Community Solar Access and New York Solar Energy Industries Association. The Petition requests that the Commission grant rehearing or reconsideration of the rejection of the Proposed Community Credit ("CC") in the VDER Compensation Order that non-mass-market participants in Community Distributed Generation ("CDG") projects in Tranches 1-4 in all utility service territories receive a $0.01/kWh CC. The Order directs the CC will be part of the compensation for large customers of each eligible CDG project starting with the first billing cycle for that project for which the entire billing period falls after July 31, 2020. The CC authorized in this Order will not be provided for generation for which CDG members have already received compensation.

On July 16, 2020, the Commission issued Order Establishing Net Metering Successor Tariff setting forth directives that allow certain Distributed Generation projects utilizing Net Energy Metering-eligible technologies, to be eligible for a range of delivery rate options presently offered in utility tariffs, including standard, time-of-use and standby rates, while beginning to address cost shifts and improve incentives. The Order also establishes a Customer Benefit Contribution which is a monthly $/kW charge to recover public benefit program costs applicable to customers that install solar photovoltaic technology and interconnect on or after January 1, 2022.

Energy Efficiency Proceeding

On April 1, 2019, the JU filed the New Efficiency New York filing. 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. Additionally, the utilities and NYSERDA were directed to begin implementation of a statewide ratepayer Low Income Plan in 2020, which is further discussed below. Finally, utilities were instructed to continue to file a System Energy Efficiency Plan, including quarterly progress reports**.**

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. Unspent funds from prior periods will be leveraged to the extent possible to cover incremental expenditures. Central Hudson filed a letter indicating our 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. The JU and NYSERDA jointly filed a Heat Pump Implementation Plan and Program Manual on March 16, 2020 in compliance with the Order.

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. On July 24, 2020, the JU filed a Statewide Low and Moderate Income Portfolio Implementation Plan and 2020 Stakeholder Input Companion Document with the Commission. On September 14, 2020, Senior Staff issued a letter of approval to the JU confirming compliance of the Implementation Plan with the provisions of the Order contingent on Program Administrators following supplemental filings that address details of the operation of the Joint Management Committee, development of a single applications across Program Administrators, a timeline detailing progress on milestones, updates to the CEF/LMI Investment Plan and continuation of stakeholder engagement.

The Accelerated Renewable Energy Growth and Community Benefit Act (the "ARECB Act") and related Proceedings and Orders

On April 3, 2020, Governor Cuomo signed the ARECB Act into law in recognition that achieving the CLCPA climate protection targets requires restructuring and repurposing the State's electric transmission and distribution infrastructure. The ARECB Act has resulted in activities as discussed further below under the Renewable Energy Facility Host Community Benefit Program, Transmission Planning, and the Clean Energy Standard Proceedings subheadings.

Renewable Energy Facility Host Community Benefit Program

On May 29, 2020, the Commission opened a new proceeding, Case 20-E-0249, to consider the establishment of a Host Community Benefit Program for municipalities within which major renewable energy facilities are constructed. Section eight of the ARECB Act provides that the PSC will establish a program through which the owners of major renewable energy facilities will fund a benefit for customers located in the municipalities that host the facilities in the form of a bill discount or credit, or a compensatory or environmental benefit for the impacted electric utility customers. The JU filed comments on how the Host Community Benefit should be structured on July 2, 2020, recommending additional collaboration to evaluate the various methods of implementing the Act and the merits of the various types of benefits that can be provided to communities.

Transmission Planning – Accelerated Renewable Energy Growth and Community Benefit

On May 14, 2020, the Commission instituted a proceeding on Transmission Planning pursuant to the ARECB Act to develop and consider proposals for implementing the distribution and transmission upgrades, capital expenditures and planning. The ARECB Act directs the Commission to develop and implement plans for future investments in the electric grid to ensure it will support the State's aggressive climate goals. This Order reviews the legislative directives under the ARECB Act, immediately implements certain mandates, and outlines the additional actions the Commission plans to pursue to fulfill the objectives of the ARECB Act over the next several months.

Clean Energy Standard Proceedings

Governor Cuomo announced New York State's 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 Renewable Energy Standards ("RES") solicitations, beginning in 2020 ("January Order"). NYSERDA filed its RES Program evaluation and Clean Energy Standard ("CES") Triennial Review report on June 1, 2020 in compliance with the CES reporting requirements.

On June 5, 2020, NYSERDA filed a petition regarding Clean Energy Resources Development and Incentive Program submitted in fulfillment of the ARECB Act requesting approval and funding to initiate and advance the "build ready" program through 2025. The program is expected to sustain six large scale renewable projects through 2025 with focus on utility scale solar and wind projects that may be paired with energy storage. The program focuses on reuse of previously developed and otherwise underutilized sites offered to renewable energy developers with bundled long-term REC contracts. The petition has been published for public comment.

On June 18, 2020, NYSERDA and DPS Staff submitted a whitepaper for public notice and comment, as well as Commission consideration on Clean Energy Procurements to Implement New York's CLCPA. The whitepaper identifies a proposed regulatory structure to address the CLCPA requirements for a renewable energy program and proposes to use the existing regulatory and procurement structure established under the Commission's CES to meet the 70 by 30 Target and adopts policy changes and other modifications to the CES to align with the CLCPA. A technical conference was held July 14, 2020 by NYSERDA and DPS Staff to discuss the regulatory framework proposed in the whitepaper. The JU submitted comments in response to the whitepaper and parties' preliminary comments on August 31, 2020.

On August 10, 2020, NYSERDA filed a petition with the Commission for the ability to convert generators currently under fixed-price REC contracts that have not yet achieved commercial operation to index-REC contracts; comments are due October 13, 2020.

On August 13, 2020, the Commission approved the CES Phase 4 Implementation Plan Proposal submitted jointly by NYSERDA and Staff on April 16, 2020. The plan addressed the following implementation steps:

- NYSERDA was authorized to employ an index pricing structure in its future Tier 1 solicitations,
- the establishment of the process of setting market prices, performance criteria of auctions and the managing of REC vintages of the Tier 1 RECs that NYSERDA procures under this new structure,
- addressing unintentional impacts on the market for RECs imported to or exported from New York, and
- determining the impacts to the Value Stack Environmental Value tariffs.

NYSERDA filed the final Phase 4 Implementation plan that conformed changes required by the Phase 4 order on September 12, 2020.

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 addressed the Overland Final Audit Report released October 24, 2017 that included 55 recommendations. Central Hudson rejected eight recommendations in its implementation plan. The Order directed 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 July 17, 2020 and reported that it considered 45 of the 47 audit recommendations complete and continues to work on implementation of the remaining two recommendations. To date, 44 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.

On June 15, 2020, Staff submitted its Report on the Uniform Statewide Customer Satisfaction Pilot Survey and recommended the Commission modify the Pilot Survey to make it more standardized and consistent across utilities and to continue emailing surveys on a permanent basis in order to collect sufficient data for benchmarking purposes in each utility's next rate case. In response to a July 8, 2020 notice for public comment on Staff's report, the JU submitted comments in support of the report recommendations on September 9, 2020.

Retail Access

On September 18, 2020, the Commission issued an Order on Rehearing, Reconsideration and Providing Clarification in Case 98-M-1343. The Order establishes new enrollment guidelines for products offered to mass-market customers (guaranteed savings reconciled on an annual basis, "no more than" pricing relative to utility supply service and renewably sourced electric commodity product). The Order is effective February 15, 2021 for ESCOs enrolling customers. Utilities are required to update their Uniform Business Practices Manuals to conform to these changes and file revised tariffs, as necessary. ESCOs planning to participate in this program are required to file applications with the Commission by November 17, 2020.

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.