



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

for the period ended

MARCH 31, 2021

QUARTER ENDED MARCH 31, 2021

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CH ENERGY GROUP
CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

(In Thousands)

	Three Months Ended March 31,	
	2021	2020
Operating Revenues		
Electric	\$ 152,793	\$ 142,334
Natural gas	71,981	65,912
Total Operating Revenues	<u>224,774</u>	<u>208,246</u>
Operating Expenses		
Operation:		
Purchased electricity	40,678	37,157
Purchased natural gas	23,445	21,070
Other expenses of operation - regulated activities	82,385	80,078
Other expenses of operation - non-regulated	46	55
Depreciation and amortization	17,731	16,504
Taxes, other than income tax	20,753	19,398
Total Operating Expenses	<u>185,038</u>	<u>174,262</u>
Operating Income	<u>39,736</u>	<u>33,984</u>
Other Income and Deductions		
Income from unconsolidated affiliates	477	370
Interest on regulatory assets and other interest income	1,035	891
Regulatory adjustments for interest costs	(178)	121
Non-service cost components of pension and other post-employment benefits ("OPEB")	5,226	4,437
Other - net	385	548
Total Other Income	<u>6,945</u>	<u>6,367</u>
Interest Charges		
Interest on long-term debt	8,456	8,103
Interest on regulatory liabilities and other interest	833	515
Total Interest Charges	<u>9,289</u>	<u>8,618</u>
Income Before Income Taxes	37,392	31,733
Income Tax Expense	6,299	5,584
Net Income	<u>\$ 31,093</u>	<u>\$ 26,149</u>

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

(In Thousands)

	Three Months Ended March 31,	
	2021	2020
Net Income	\$ 31,093	\$ 26,149
Other Comprehensive Income:		
Employee future benefits - net of tax expense	35	35
Comprehensive Income	<u>\$ 31,128</u>	<u>\$ 26,184</u>

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

CH ENERGY GROUP

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

(In Thousands)

	Three Months Ended March 31,	
	2021	2020
Operating Activities:		
Net income	\$ 31,093	\$ 26,149
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation	14,510	13,647
Amortization	3,221	2,857
Deferred income taxes - net	7,822	6,786
Uncollectible expense	2,992	2,453
Undistributed equity in earnings of unconsolidated affiliates	(458)	(352)
Pension expense	695	843
OPEB credit	(1,755)	(2,133)
Regulatory liability - rate moderation	(5,126)	(4,277)
Regulatory asset - revenue decoupling mechanism ("RDM") recorded	6,533	(933)
Changes in operating assets and liabilities - net:		
Accounts receivable, unbilled revenues and other receivables	(8,251)	2,528
Fuel, materials and supplies	(619)	269
Special deposits and prepayments	(1,157)	(2,876)
Income and other taxes	(1,773)	(1,420)
Accounts payable	(6,793)	(1,142)
Accrued interest	4,143	3,492
Customer advances	(4,122)	(4,373)
Other advances	9,575	1,228
Pension plan contribution	(285)	(262)
OPEB contribution	(812)	(1,081)
Regulatory asset - RDM refunded	(7,697)	(3,040)
Regulatory asset - RY 3 - delayed electric and natural gas delivery rate increase	2,590	-
Regulatory asset - major storm	(904)	416
Regulatory asset - site investigation and remediation ("SIR")	1,206	(22)
Regulatory liability - energy efficiency programs including clean energy fund	(7,543)	(196)
Regulatory asset - rate adjustment mechanisms ("RAM")	2,329	2,452
Regulatory asset - deferred natural gas and electric costs	(2,124)	3,758
Other - net	2,384	(1,405)
Net cash provided from operating activities	39,674	43,366
Investing Activities:		
Additions to utility plant	(48,311)	(53,925)
Other - net	(8,008)	(5,637)
Net cash used in investing activities	(56,319)	(59,562)
Financing Activities:		
Proceeds from issuance of long-term debt	75,000	-
Net change in short-term borrowings	(15,000)	30,000
Capital contribution	4,996	-
Other - net	(410)	-
Net cash provided from financing activities	64,586	30,000
Net Change in Cash, Cash Equivalents and Restricted Cash	47,941	13,804
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	12,807	21,075
Cash, Cash Equivalents and Restricted Cash at End of Period	\$ 60,748	\$ 34,879
Supplemental Disclosure of Cash Flow Information:		
Interest paid, net of amounts capitalized	\$ 4,008	\$ 4,322
Federal and state income taxes paid, net	\$ 288	\$ 281
Non-Cash Operating Activities:		
Right-of-Use Assets Obtained in Exchange for New Operating Lease Liabilities	\$ 387	\$ -
Non-Cash Investing Activities:		
Accrued capital expenditures	\$ 16,650	\$ 16,021

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

CH ENERGY GROUP
CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

(In Thousands)

	March 31, 2021	December 31, 2020	March 31, 2020
ASSETS			
Utility Plant (Note 3)			
Electric	\$ 1,639,802	\$ 1,625,696	\$ 1,545,372
Natural gas	689,407	677,646	625,480
Common	361,363	339,329	315,588
Gross Utility Plant	2,690,572	2,642,671	2,486,440
Less: Accumulated depreciation	623,840	611,471	590,996
Net	2,066,732	2,031,200	1,895,444
Construction work in progress	116,664	126,012	113,012
Net Utility Plant	2,183,396	2,157,212	2,008,456
Non-utility property & plant	524	524	524
Net Non-Utility Property & Plant	524	524	524
Current Assets			
Cash and cash equivalents (Note 1)	48,871	11,480	33,802
Accounts receivable from customers - net of allowance for uncollectible accounts of \$10.2 million, \$9.4 million and \$6.2 million, respectively (Note 2)	86,135	77,194	74,556
Accounts receivable - affiliates (Note 17)	505	1,350	641
Accrued unbilled utility revenues - net of allowance for uncollectible accounts of \$1.0 million, \$1.0 million and \$0.5 million, respectively (Note 2)	23,018	26,836	20,574
Other receivables	12,508	11,527	11,562
Fuel, materials and supplies (Note 1)	24,296	23,677	25,942
Regulatory assets (Note 4)	56,786	57,079	51,170
Income tax receivable	2,261	486	2,239
Fair value of derivative instruments (Note 15)	4	18	25
Special deposits and prepayments	33,368	32,211	29,686
Total Current Assets	287,752	241,858	250,197
Deferred Charges and Other Assets			
Regulatory assets - deferred pension costs (Note 4)	5,376	7,551	-
Regulatory assets - other (Note 4)	155,455	162,772	139,663
Prefunded OPEB costs	7,935	6,497	13,774
Investments in unconsolidated affiliates (Note 6)	10,503	9,434	9,521
Other investments (Note 16)	56,560	47,912	46,975
Other	21,026	10,364	9,860
Total Deferred Charges and Other Assets	256,855	244,530	219,793
Total Assets	\$ 2,728,527	\$ 2,644,124	\$ 2,478,970

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

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

(In Thousands, except share amounts)

	March 31, 2021	December 31, 2020	March 31, 2020
CAPITALIZATION AND LIABILITIES			
Capitalization (Note 10)			
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	429,402	424,406	409,406
Retained earnings	462,441	431,348	388,394
Accumulated other comprehensive loss	(126)	(161)	(364)
Total Equity	891,877	855,753	797,596
Long-term debt (Note 10)			
Principal amount	876,510	801,510	717,497
Unamortized debt issuance costs	(5,104)	(4,795)	(4,345)
Net long-term debt	871,406	796,715	713,152
Total Capitalization	1,763,283	1,652,468	1,510,748
Current Liabilities			
Current maturities of long-term debt (Note 10)	45,987	45,987	41,718
Short-term borrowings (Note 8)	-	15,000	30,000
Accounts payable	49,839	59,081	43,785
Accounts payable - affiliates (Note 17)	37	-	158
Accrued interest	11,757	7,614	10,525
Accrued vacation and payroll	13,016	11,681	11,972
Customer advances	11,171	15,293	10,531
Customer deposits	7,523	7,564	7,617
Regulatory liabilities (Note 4)	77,691	89,006	90,528
Fair value of derivative instruments (Note 15)	362	2,153	3,836
Accrued environmental remediation costs (Note 13)	5,856	21,020	7,718
Other current liabilities	37,787	43,433	34,466
Total Current Liabilities	261,026	317,832	292,854
Deferred Credits and Other Liabilities			
Regulatory liabilities - deferred pension costs (Note 4)	-	-	3,224
Regulatory liabilities - deferred OPEB costs (Note 4)	12,559	13,540	25,166
Regulatory liabilities - other (Note 4)	279,082	276,600	288,124
Operating reserves	4,901	4,970	4,660
Accrued environmental remediation costs (Note 13)	67,896	53,883	72,638
Accrued pension costs (Note 11)	24,738	25,340	11,414
Tax reserve (Note 5)	946	-	6,789
Other liabilities	48,678	40,566	32,644
Total Deferred Credits and Other Liabilities	438,800	414,899	444,659
Accumulated Deferred Income Tax	265,418	258,925	230,709
Commitments and Contingencies			
Total Capitalization and Liabilities	\$ 2,728,527	\$ 2,644,124	\$ 2,478,970

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

CH ENERGY GROUP
CONDENSED CONSOLIDATED STATEMENT OF EQUITY (UNAUDITED)

(In Thousands, except share amounts)

Three Months Ended March 31, 2021						
<u>Common Stock</u>						
	Shares Issued	Amount	Paid-In Capital	Retained Earnings	AOCI*	Total Equity
Balance at December 31, 2020	15,961,400	\$ 160	\$ 424,406	\$ 431,348	\$ (161)	\$ 855,753
Net income				31,093		31,093
Contribution from Parent			4,996			4,996
Employee future benefits, net of tax					35	35
Balance at March 31, 2021	<u>15,961,400</u>	<u>\$ 160</u>	<u>\$ 429,402</u>	<u>\$ 462,441</u>	<u>\$ (126)</u>	<u>\$ 891,877</u>

Three Months Ended March 31, 2020						
<u>Common Stock</u>						
	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	<u>15,961,400</u>	<u>\$ 160</u>	<u>\$ 409,406</u>	<u>\$ 388,394</u>	<u>\$ (364)</u>	<u>\$ 797,596</u>

*Accumulated other comprehensive income (loss)

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

CENTRAL HUDSON
CONDENSED STATEMENT OF INCOME (UNAUDITED)

(In Thousands)

	Three Months Ended March 31,	
	2021	2020
Operating Revenues		
Electric	\$ 152,793	\$ 142,334
Natural gas	71,981	65,912
Total Operating Revenues	<u>224,774</u>	<u>208,246</u>
Operating Expenses		
Operation:		
Purchased electricity	40,678	37,157
Purchased natural gas	23,445	21,070
Other expenses of operation	82,385	80,078
Depreciation and amortization	17,731	16,504
Taxes, other than income tax	20,746	19,395
Total Operating Expenses	<u>184,985</u>	<u>174,204</u>
Operating Income	<u>39,789</u>	<u>34,042</u>
Other Income and Deductions		
Interest on regulatory assets and other interest income	1,035	889
Regulatory adjustments for interest costs	(178)	121
Non-service cost components of pension and OPEB	5,233	4,442
Other - net	379	537
Total Other Income	<u>6,469</u>	<u>5,989</u>
Interest Charges		
Interest on long-term debt	8,276	7,895
Interest on regulatory liabilities and other interest	833	515
Total Interest Charges	<u>9,109</u>	<u>8,410</u>
Income Before Income Taxes	37,149	31,621
Income Tax Expense	6,134	5,565
Net Income	<u>\$ 31,015</u>	<u>\$ 26,056</u>

CENTRAL HUDSON
CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

(In Thousands)

	Three Months Ended March 31,	
	2021	2020
Net Income	\$ 31,015	\$ 26,056
Other Comprehensive Income:		
Employee future benefits - net of tax expense	35	35
Comprehensive Income	<u>\$ 31,050</u>	<u>\$ 26,091</u>

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

CENTRAL HUDSON
CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)

(In Thousands)

	Three Months Ended March 31,	
	2021	2020
Operating Activities:		
Net income	\$ 31,015	\$ 26,056
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation	14,510	13,647
Amortization	3,221	2,857
Deferred income taxes - net	7,696	6,668
Uncollectible expense	2,992	2,453
Pension expense	695	843
OPEB credit	(1,755)	(2,133)
Regulatory liability - rate moderation	(5,126)	(4,277)
Regulatory asset - RDM recorded	6,533	(933)
Changes in operating assets and liabilities - net:		
Accounts receivable, unbilled revenues and other receivables	(8,934)	2,174
Fuel, materials and supplies	(619)	269
Special deposits and prepayments	(1,157)	(2,886)
Income and other taxes	(1,532)	(1,316)
Accounts payable	(5,348)	(677)
Accrued interest	3,963	3,283
Customer advances	(4,122)	(4,373)
Other advances	9,575	1,228
Pension plan contribution	(285)	(262)
OPEB contribution	(812)	(1,081)
Regulatory asset - RDM refunded	(7,697)	(3,040)
Regulatory asset - RY 3 - delayed electric and natural gas delivery rate increase	2,590	-
Regulatory asset - major storm	(904)	416
Regulatory asset - SIR	1,206	(22)
Regulatory liability - energy efficiency programs including clean energy fund	(7,543)	(196)
Regulatory asset - RAM	2,329	2,452
Regulatory asset - deferred natural gas and electric costs	(2,124)	3,758
Other - net	4,007	741
Net cash provided from operating activities	42,374	45,649
Investing Activities:		
Additions to utility plant	(48,311)	(53,925)
Other - net	(7,362)	(5,652)
Net cash used in investing activities	(55,673)	(59,577)
Financing Activities:		
Proceeds from issuance of long-term debt	75,000	-
Net change in short-term borrowings	(15,000)	30,000
Other - net	(410)	-
Net cash provided from financing activities	59,590	30,000
Net Change in Cash, Cash Equivalents and Restricted Cash	46,291	16,072
Cash, Cash Equivalents and Restricted Cash - Beginning of Period	5,194	15,086
Cash, Cash Equivalents and Restricted Cash - End of Period	\$ 51,485	\$ 31,158
Supplemental Disclosure of Cash Flow Information:		
Interest paid, net of amounts capitalized	\$ 4,008	\$ 4,322
Federal and state income taxes paid, net	\$ -	\$ 273
Non-Cash Operating Activities:		
Right-of-Use Assets Obtained in Exchange for New Operating Lease Liabilities	\$ 387	\$ -
Non-Cash Investing Activities:		
Accrued capital expenditures	\$ 16,650	\$ 16,021

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

CENTRAL HUDSON
CONDENSED BALANCE SHEET (UNAUDITED)

(In Thousands)

	March 31, 2021	December 31, 2020	March 31, 2020
ASSETS			
Utility Plant (Note 3)			
Electric	\$ 1,639,802	\$ 1,625,696	\$ 1,545,372
Natural gas	689,407	677,646	625,480
Common	361,363	339,329	315,588
Gross Utility Plant	2,690,572	2,642,671	2,486,440
Less: Accumulated depreciation	623,840	611,471	590,996
Net	2,066,732	2,031,200	1,895,444
Construction work in progress	116,664	126,012	113,012
Net Utility Plant	2,183,396	2,157,212	2,008,456
Non-Utility Property and Plant	524	524	524
Net Non-Utility Property and Plant	524	524	524
Current Assets			
Cash and cash equivalents (Note 1)	39,608	3,867	30,081
Accounts receivable from customers - net of allowance for uncollectible accounts of \$10.2 million, \$9.4 million and \$6.2 million, respectively (Note 2)	86,135	77,194	74,556
Accrued unbilled utility revenues - net of allowance for uncollectible accounts of \$1.0 million, \$1.0 million and \$0.5 million, respectively (Note 2)	23,018	26,836	20,574
Other receivables	12,535	11,715	11,711
Fuel, materials and supplies (Note 1)	24,296	23,677	25,942
Regulatory assets (Note 4)	56,786	57,079	51,170
Income tax receivable	1,532	-	1,043
Fair value of derivative instruments (Note 15)	4	18	25
Special deposits and prepayments	33,368	32,211	29,673
Total Current Assets	277,282	232,597	244,775
Deferred Charges and Other Assets			
Regulatory assets - deferred pension costs (Note 4)	5,376	7,551	-
Regulatory assets - other (Note 4)	155,455	162,772	139,663
Prefunded OPEB costs	7,935	6,497	13,774
Other investments	55,633	47,020	46,165
Other	21,025	10,364	9,859
Total Deferred Charges and Other Assets	245,424	234,204	209,461
Total Assets	\$ 2,706,626	\$ 2,624,537	\$ 2,463,216

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

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

(In Thousands, except share amounts)

	March 31, 2021	December 31, 2020	March 31, 2020
CAPITALIZATION AND LIABILITIES			
Capitalization (Note 10)			
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	274,452	262,452
Accumulated other comprehensive loss	(126)	(161)	(364)
Retained earnings	529,413	498,398	455,313
Capital stock expense	(4,633)	(4,633)	(4,633)
Total Equity	<u>883,417</u>	<u>852,367</u>	<u>797,079</u>
Long-term debt (Note 10)			
Principal amount	867,800	792,800	706,950
Unamortized debt issuance costs	(5,060)	(4,748)	(4,291)
Net long-term debt	<u>862,740</u>	<u>788,052</u>	<u>702,659</u>
Total Capitalization	<u>1,746,157</u>	<u>1,640,419</u>	<u>1,499,738</u>
Current Liabilities			
Current maturities of long-term debt (Note 10)	44,150	44,150	40,000
Short-term borrowings (Note 8)	-	15,000	30,000
Accounts payable	51,148	58,906	44,767
Accrued interest	11,548	7,585	10,281
Accrued vacation and payroll	13,016	11,681	11,972
Customer advances	11,171	15,293	10,531
Customer deposits	7,523	7,564	7,617
Regulatory liabilities (Note 4)	77,691	89,006	90,528
Fair value of derivative instruments (Note 15)	362	2,153	3,836
Accrued environmental remediation costs (Note 13)	5,856	21,020	7,718
Other current liabilities	<u>36,442</u>	<u>41,384</u>	<u>33,462</u>
Total Current Liabilities	<u>258,907</u>	<u>313,742</u>	<u>290,712</u>
Deferred Credits and Other Liabilities			
Regulatory liabilities - deferred pension costs (Note 4)	-	-	3,224
Regulatory liabilities - deferred OPEB costs (Note 4)	12,559	13,540	25,166
Regulatory liabilities - other (Note 4)	279,082	276,600	288,124
Operating reserves	4,901	4,970	4,660
Accrued environmental remediation costs (Note 13)	67,896	53,883	72,638
Accrued pension costs	24,505	25,107	11,182
Tax reserve (Note 5)	932	-	6,732
Other liabilities	<u>46,977</u>	<u>37,946</u>	<u>30,985</u>
Total Deferred Credits and Other Liabilities	<u>436,852</u>	<u>412,046</u>	<u>442,711</u>
Accumulated Deferred Income Tax	<u>264,710</u>	<u>258,330</u>	<u>230,055</u>
Commitments and Contingencies			
Total Capitalization and Liabilities	<u>\$ 2,706,626</u>	<u>\$ 2,624,537</u>	<u>\$ 2,463,216</u>

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

CENTRAL HUDSON
CONDENSED STATEMENT OF EQUITY (UNAUDITED)

(In Thousands, except share amounts)

Three Months Ended March 31, 2021							
Common Stock							
	Shares Issued	Amount	Paid-In Capital	Capital Stock Expense	Retained Earnings	AOCI*	Total Equity
Balance at December 31, 2020	16,862,087	\$ 84,311	\$ 274,452	\$ (4,633)	\$ 498,398	\$ (161)	\$ 852,367
Net income					31,015		31,015
Employee future benefits, net of tax						35	35
Balance at March 31, 2021	<u>16,862,087</u>	<u>\$ 84,311</u>	<u>\$ 274,452</u>	<u>\$ (4,633)</u>	<u>\$ 529,413</u>	<u>\$ (126)</u>	<u>\$ 883,417</u>

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

*Accumulated other comprehensive income (loss)

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

NOTE 1 – Summary of Significant Accounting Policies

Corporate Structure

CH Energy Group is the holding company parent corporation of four principal, wholly owned subsidiaries, Central Hudson Gas & Electric Corporation (“Central Hudson” or the “Company”), Central Hudson Electric Transmission LLC (“CHET”), Central Hudson Enterprises Corporation (“CHEC”) and Central Hudson Gas Transmission LLC (“CHGT”). CH Energy Group’s common stock is indirectly owned by Fortis Inc. (“Fortis”), which is a leader in the North American regulated electric and gas utility industry. Central Hudson is a regulated electric and natural gas transmission and distribution utility. CH Energy Group formed CHET to hold its 6.1% ownership interest in New York Transco LLC (“Transco”). CHGT was formed to hold CH Energy Group’s ownership stake in possible gas transmission pipeline opportunities in New York State. As of March 31, 2021, 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, 2020 audited Financial Statements and, accordingly, should be read in conjunction with the Notes thereto. The balance sheets of CH Energy Group and Central Hudson as of March 31, 2020 are included for supplemental information.

The Quarterly Condensed Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”), which for regulated utilities, includes specific accounting guidance for regulated operations. The same accounting policies are used to prepare both the quarterly and the annual financial statements.

Preparation of the financial statements in accordance with GAAP includes the use of estimates and assumptions by management that affect the reported amounts of assets, liabilities and the disclosures of the contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Current estimates as of and for the period ended March 31, 2021 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 uncollectible accounts, 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

Central Hudson is subject to cost-based rate regulation. As a result, the effects of regulatory actions are required to be reflected in the financial statements. Regulatory accounting guidance results in differences in the application of GAAP between regulated and non-regulated businesses and requires the recording of regulatory assets and liabilities for certain transactions that would have been treated as expense or revenue in non-regulated businesses. Regulated utilities, such as Central Hudson, defer costs and revenues on the balance sheet as regulatory assets and liabilities when it is probable that those costs and revenues will be recoverable/refundable 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, are reflected in rates or when criteria for recording the revenues are met. 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.

Management periodically assesses whether the regulatory assets are probable of future recovery by considering factors such as changes in the applicable regulatory and political environments, the ability to recover costs through regulated rates, recent rate orders to Central Hudson and other regulated entities, and the status of any pending or potential deregulation legislation. Based on this assessment, management believes the existing regulatory assets are probable of recovery. This assessment reflects the current political and regulatory climate at the state and federal levels and is subject to change in the future. If future recovery of costs ceases to be probable, the regulatory asset would be written-off. Additionally, the regulatory agencies can provide flexibility in the manner and timing of recovery of regulatory assets.

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 (“OATT”).

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

CH Energy Group

(In Thousands)

	March 31, 2021	March 31, 2020
Cash and cash equivalents	\$ 48,871	\$ 33,802
Restricted cash included in other long-term assets	11,877	1,077
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	<u>\$ 60,748</u>	<u>\$ 34,879</u>

Central Hudson

(In Thousands)

	March 31, 2021	March 31, 2020
Cash and cash equivalents	\$ 39,608	\$ 30,081
Restricted cash included in other long-term assets	11,877	1,077
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	<u>\$ 51,485</u>	<u>\$ 31,158</u>

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. CH Energy Group and Central Hudson's allowance for credit losses increased \$1.2 million as a result of the adoption of this accounting standard and was recorded as a cumulative adjustment to retained earnings effective January 1, 2020. At March 31, 2021 there are no expected credit losses on financial instruments other than those on accounts receivable and unbilled utility revenues.

Accounts Receivable and Allowance for Uncollectible Accounts

Beginning on January 1, 2020, receivables and unbilled utility revenues are carried at net realizable value based on the allowance for credit losses model. The accounts receivable balance also reflects Central Hudson's purchase of receivables from energy service companies to support the retail choice programs. The allowance for uncollectible accounts reflects management's best estimate of expected credit losses to reduce accounts receivable for amounts estimated to be uncollectible. Estimates for uncollectible accounts are based on accounts receivable aging data, as well as consideration of various quantitative and qualitative factors, including special collection issues and current and forecasted economic conditions. Interest can be charged on accounts receivable balances that have been outstanding for more than 20 days. See Note 2 – "Revenues and Receivables" for a discussion of the impact of COVID-19 on interest charges and other revenue.

Fuel, Materials & Supplies

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

	March 31, 2021	December 31, 2020	March 31, 2020
Natural gas ⁽¹⁾	\$ -	\$ -	\$ 3,207
Fuel used in electric generation	474	373	404
Materials and supplies	23,822	23,305	22,331
Total	<u>\$ 24,296</u>	<u>\$ 23,677</u>	<u>\$ 25,942</u>

(1) Effective August 1, 2020 Central Hudson 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 Fuel, materials and supplies to Special deposits and prepayments in CH Energy Group's and Central Hudson's Balance Sheets.

Recently Adopted Accounting Pronouncements

Income Taxes

Effective January 1, 2021, CH Energy Group and Central Hudson adopted Accounting Standards Update ("ASU") No. 2019-12, *Simplifying the Accounting for Income Taxes*, which simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in Accounting Standard Codification ("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 simplified 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. CH Energy Group and its subsidiaries' earnings, financial position, cash flows and disclosures were not impacted by this adoption.

Note 2 - Revenues and Receivables

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

Revenue from 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 2020 three-month postponement of the electric and natural gas delivery rate increases for Rate Year ("RY") 3, Gas Merchant Function Charge lost revenue, and revenue requirement effect for incremental Leak Prone Pipe ("LPP") miles replaced above the PSC targets. In addition, Central Hudson records alternative revenues related to Positive Revenue Adjustments ("PRAs") and Earnings Adjustment Mechanism ("EAMs") 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 ("NRAs") pursuant to PSC Orders.

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

	Three Months Ended March 31,	
	2021	2020
Electric		
Revenues from Contracts with Customers (ASC 606)	\$ 149,224	\$ 134,045
Alternative Revenues (Non ASC 606)	(8,916)	280
Other Revenue Adjustments (Non ASC 606)	12,485	8,009
Total Operating Revenues Electric	\$ 152,793	\$ 142,334
Natural Gas		
Revenues from Contracts with Customers (ASC 606)	\$ 72,664	\$ 65,458
Alternative Revenues (Non ASC 606)	2,097	2,561
Other Revenue Adjustments (Non ASC 606)	(2,780)	(2,107)
Total Operating Revenues Natural Gas	\$ 71,981	\$ 65,912

The increase in electric and natural gas revenues from contracts with customers is primarily driven by the increase in customer delivery rates effective July 1, 2020, as well as higher recovery of purchased commodity costs driven by both an increase in sales volumes and price due to colder weather when compared to 2020 and billed RAM and EAM surcharges. Revenue from contracts with customers for both electric and natural gas also include higher credits to customer bills for rate moderation in 2021 when compared to 2020, which does not impact total revenues. The offset of these credits is reflected in other revenue.

The decrease in electric and natural gas alternative revenue programs for 2021 is due to an increase in the deferral of actual billed revenues in excess of the 2018 Rate Order prescribed targets and the deferral of the delivery rate increase which was delayed from July 1, 2020 to October 1, 2020. The decrease in electric alternative revenue programs is partially offset by incentives earned in the current year based on achieving certain targets and milestones associated with energy efficiency as provided in the 2018 Rate Order.

The increase in other electric revenues is due to higher credits to customer bills for previously deferred revenues in excess of the 2018 Rate Order prescribed target as well as higher credits for rate moderation in 2021 when compared to 2020. Partially offsetting these increases is the decrease due to the suspension of finance charges on customers' past due balances to mitigate the impact of COVID-19 on customers. The decrease in other natural gas revenues is primarily due to higher recovery of previously deferred revenues below those prescribed in the 2018 Rate Order and the suspension of finance charges on customers' past due balances to mitigate the impact of COVID-19 on customers.

Allowance for Uncollectible Accounts

Accounts receivable are recorded net of an allowance for uncollectible accounts based on the allowance for credit losses model. A summary of all changes in the allowance for uncollectible accounts receivable and accrued unbilled utility revenue balance is as follows:

	Three Months Ended March 31,	
	2021	2020
Balance at Beginning of Period	\$ (10,400)	\$ (4,500)
Accounting Standard Adoption – cumulative effect adjustment	-	(1,200)
Uncollectible expense	(2,992)	(2,453)
Bad debt write-offs (recoveries) - net	2,192	1,453
Balance at End of Period	\$ (11,200)	\$ (6,700)

During the three months ended March 31, 2021, management recorded an additional increase to the allowance for uncollectible accounts of \$0.8 million based on a quantitative and qualitative assessment of forecasted economic conditions related to COVID-19. This assessment included a historical analysis of the relationship of write-offs to accounts receivable balances in arrears and taking into consideration 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. Overall, the increase in the allowance for uncollectible accounts in the comparable periods is directly related to the impact of COVID-19, including the continuation of regulatory mandates that have continued into 2021 which have extended the restriction of certain collection activities and increased payment plan offerings for residential customers.

NOTE 3 – Utility Plant - Central Hudson

The following summarizes the type and amount of assets included in the electric, natural gas, and common categories of Central Hudson's utility plant balances (In Thousands):

	Estimated Depreciable Life in Years	Utility Plant		
		March 31, 2021	December 31, 2020	March 31, 2020
Electric:				
Production	25-85	\$ 43,210	\$ 42,992	\$ 42,964
Transmission	30-90	438,391	435,855	404,925
Distribution	7-80	1,151,292	1,139,941	1,091,002
Other	40	6,909	6,908	6,481
Total		\$ 1,639,802	\$ 1,625,696	\$ 1,545,372
Natural Gas:				
Transmission	19-85	\$ 61,533	\$ 61,476	\$ 59,730
Distribution	28-95	627,432	615,728	565,308
Other	N/A	442	442	442
Total		\$ 689,407	\$ 677,646	\$ 625,480
Common:				
Land and Structures	50	\$ 105,703	\$ 88,310	\$ 85,427
Office and Other Equipment, Radios and Tools	8-35	82,117	79,429	75,799
Transportation Equipment	10-12	77,970	77,668	73,036
Other	3-10	95,573	93,922	81,326
Total		\$ 361,363	\$ 339,329	\$ 315,588
Gross Utility Plant		\$ 2,690,572	\$ 2,642,671	\$ 2,486,440

For the three months ended March 31, 2021 and 2020, the borrowed component of funds used during construction and recorded as a reduction of interest expense was \$0.4 million for both periods and the equity component reported as other income was \$0.7 million and \$0.5 million, respectively.

Included in the Net Utility Plant balance of \$2.2 billion at March 31, 2021 and December 31, 2020 and \$2.0 billion at March 31, 2020, is \$149.5 million, \$141.7 million and \$116.5 million of intangible utility plant assets, comprised primarily of computer software costs, land, transmission and water and other rights, and the related accumulated amortization of \$68.0 million, \$64.7 million and \$55.4 million, respectively.

As of March 31, 2021, December 31, 2020, and March 31, 2020, Central Hudson has reclassified from utility plant assets \$41.4 million, \$40.4 million and \$42.1 million, respectively, of cost of removal recovered through the rate-making process in excess of amounts incurred to date as a regulatory liability.

Asset Retirement Obligations (“AROs”) for Central Hudson were approximately \$1.9 million as of March 31, 2021 and December 31, 2020 and \$0.6 million at March 31, 2020. These amounts have been classified in the above chart under “Electric - Other” and “Common - Other” based on the nature of the ARO and are reflected as “Other - long-term liabilities” in the CH Energy Group and Central Hudson Balance Sheets.

NOTE 4 – Regulatory Matters

Summary of Regulatory Assets and Liabilities

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

	March 31, 2021	December 31, 2020	March 31, 2020
Regulatory Assets:			
Deferred purchased electric costs (Note 1)	\$ 8,407	\$ 3,470	\$ 8,475
Deferred purchased natural gas costs (Note 1)	1,640	4,453	-
Deferred unrealized losses on derivatives - electric and natural gas (Note 15)	362	2,153	3,836
RAM - electric and carrying charges	11,792	13,866	10,759
RAM - natural gas and carrying charges	3,174	3,418	542
EAMs - electric	3,628	3,410	2,073
SC 8 Street Lighting and carrying charges	1,920	1,678	1,087
Delayed electric and natural gas delivery rate increase	2,007	4,596	-
RDM and carrying charges - natural gas	2,421	3,778	2,527
Energy efficiency programs and carrying charges	845 ⁽²⁾	1,260	-
Revenue requirement of LPP replacement and carrying charges	2,549	1,696	692
Deferred pension costs	5,376	7,551	-
Demand management programs and carrying charges	10,802	11,032	10,866
Deferred and accrued costs - SIR (Note 13) and carrying charges	82,144	84,370	87,453
Deferred storm costs and carrying charges	21,277	19,902	11,847
Deferred vacation pay accrual	11,171	10,197	9,694
Income taxes recoverable through future rates	24,805	26,968	16,966
Tax reform - unprotected impacts	13,464	13,464	13,464
Other	9,833 ⁽¹⁾	10,140 ⁽¹⁾	10,552 ⁽¹⁾
Total Regulatory Assets	\$ 217,617	\$ 227,402	\$ 190,833
Less: Current Portion of Regulatory Assets	\$ 56,786	\$ 57,079	\$ 51,170
Total Long-term Regulatory Assets	\$ 160,831	\$ 170,323	\$ 139,663
Regulatory Liabilities:			
Rate moderator - electric and carrying charges	\$ 12,655	\$ 15,786	\$ 24,453
Rate moderator - natural gas and carrying charges	4,717	6,247	6,910
RDM and carrying charges - electric	19,551	22,073	6,720
Deferred purchased natural gas costs (Note 1)	-	-	138
Clean Energy Fund and carrying charges	50,051 ⁽²⁾	57,893 ⁽²⁾	67,624 ⁽²⁾
Tax reform - protected deferred tax liability	182,549	183,915	188,070
Deferred cost of removal (Note 3)	41,443	40,384	42,076
Deferred pension costs	-	-	3,224
Income taxes refundable through future rates	8,766	9,149	7,908
Deferred OPEB costs	12,559	13,540	25,166
Low income program and carrying charges	6,237	4,722	3,413
Net plant and depreciation targets	12,175	10,193	7,900
Fast charging infrastructure program and carrying charges	5,244	5,124	4,695
Energy efficiency programs and carrying charges	-	-	5,764
Deferred unbilled revenue	5,082	5,082	5,082
Other	8,303 ⁽¹⁾	5,038 ⁽¹⁾	7,899 ⁽¹⁾
Total Regulatory Liabilities	\$ 369,332	\$ 379,146	\$ 407,042
Less: Current Portion of Regulatory Liabilities	\$ 77,691	\$ 89,006	\$ 90,528
Total Long-term Regulatory Liabilities	\$ 291,641	\$ 290,140	\$ 316,514
Net Regulatory Liabilities	\$ (151,715)	\$ (151,744)	\$ (216,209)

(1) 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.

(2) In accordance with Order 18-M-0844, during the quarter ended March 31, 2021, accumulated Clean Energy Fund carrying charges of \$4.7 million were transferred to fund Energy Efficiency Programs.

PSC Proceedings

2018 Rate Order and Related Proceedings

On June 14, 2018, the PSC issued an Order Approving Rate Plan in Cases 17-E-0459 and 17-G-0460. The 2018 Rate Order adopted the terms set forth in the April 18, 2018 Joint Proposal with minor modifications. The 2018 Rate Order was effective July 1, 2018, with RY1, RY2 and RY3 defined as the twelve months ending June 30, 2019, June 30, 2020 and June 30, 2021, respectively.

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

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

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

On June 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 postponed for three months Central Hudson's approved RY3 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 ending 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 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 the 50% equity ratio approved as part of our current rate agreement. 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 (\$48.5 million during the rate year ending June 30, 2022) and 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, respectively.

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 employment 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 replacement of gas LPP, replacing 15 miles per year resulting in an elimination of all 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 Order;
- 2) introduce new PRAs while eliminating or modifying the structure of certain NRAs;
- 3) expansion of Central Hudson's RDMs to include additional service classes;
- 4) institute new deferral mechanisms, including authority 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.

On January 29, 2021, Central Hudson filed a notice of impending settlement negotiations. Under the statutory 11-month timeline, a PSC Order in response to the filing is anticipated with new rates to become effective July 1, 2021. In the event the 11-month period is extended, management does not anticipate a material impact on the Company's long-term earnings, financial position or cash flow.

COVID-19 Proceeding

On June 11, 2020, the Commission established a new proceeding under Case 20-M-0266 to identify and address the effects of the COVID-19 pandemic on utility service in New York State. 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 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. As requested by PSC Staff, utilities are providing, on a monthly basis, financial information to enable an assessment of the COVID-19 impacts on utility earnings and cash flow. Central Hudson is providing monthly reports to PSC Staff with regards to COVID-19, including: lost finance charge revenues and incremental costs, including the change in past due customer balances, the uncollectible reserve and cost reductions.

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 certain New York State utilities' responses to Tropical Storm Isaias, which impacted Central Hudson's service territory on August 4, 2020. On November 19, 2020, New York State Department of Public Service Staff issued an interim Storm Report setting forth preliminary findings, including purported failures by the identified utilities to comply with their respective Commission approved Emergency Response Plans and Show Cause ("Show Cause Order") that initiated proceedings against Central Hudson and the other utilities. The Show Cause Order identified 32 apparent violations by Central Hudson, which, if established, could result in up to \$16 million of penalties. Central Hudson filed its response to the Show Cause Order on December 21, 2020. On February 23, 2021, Central Hudson filed a Notice of Impending Settlement Negotiations and, on that same date, Central Hudson and Staff filed a joint motion to adjourn the procedural schedule to facilitate a meaningful opportunity for the parties to engage in settlement discussions. By ruling dated March 5, 2021, the Administrative Law Judge suspended the proceeding's schedule for a period of 90 days to allow the parties to negotiate; additional suspension periods can be sought by the parties if the matter is not resolved during the initial 90-day suspension period. Management cannot predict the outcome of this matter, but does not believe it will have a material impact on Central Hudson's earnings, financial position or cash flow.

Federal Energy Regulatory Commission ("FERC") Proceeding

On December 31, 2019, Central Hudson submitted to FERC a new rate schedule pursuant to Rate Schedule 12 of the NYISO OATT to establish a Facilities Charge for System Deliverability Upgrades ("SDU") being installed on Central Hudson's transmission facilities, which are required to provide four Large Generating Facility Developers with Capacity Resource Interconnection Service. This charge provides Central Hudson with full recovery of all reasonably incurred costs related to the development, construction, operation and maintenance of the SDU and a reasonable return on its investment. Project costs to be recovered by Central Hudson and allocated to the Load Serving Entities ("LSEs") pursuant to Rate Schedule 12 of the NYISO OATT are expected to be approximately \$2.6 million plus operation, maintenance and other applicable costs and will be updated annually. On March 23, 2021, Central Hudson circulated for signature a settlement agreement at an updated Return on Equity ("ROE") of 9.4% plus a 50 basis point adder for a total ROE of 9.9%.

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		Central Hudson	
	Three Months Ended		Three Months Ended	
	March 31,		March 31,	
	2021	2020	2021	2020
Tax reserve balance at the beginning of the period	\$ -	\$ 3,126	\$ -	\$ 2,910
Change in natural gas transmission and distribution repair deduction	181	176	181	176
Change in tax benefit offset ⁽¹⁾	765	3,487	751	3,646
Tax reserve balance at the end of the period	<u>\$ 946</u>	<u>\$ 6,789</u>	<u>\$ 932</u>	<u>\$ 6,732</u>

(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*.

Coronavirus Aid, Relief, and Economic Security (“CARES”) Act

The CARES Act was signed into law on March 27, 2020. As permitted under the CARES Act, Central Hudson deferred 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. 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 of March 31, 2021, the liability for the deferred payment of the employer’s portion of Social Security tax on payroll is \$5.2 million, with \$2.6 million reflected in Other liabilities current and \$2.6 million in Other long-term liabilities in the CH Energy Group and Central Hudson Balance Sheets.

CH Energy Group

	Three Months Ended	
	March 31,	
	2021	2020
Effective tax rate - federal	12.4%	11.6%
Effective tax rate - state	4.4%	6.0%
Effective tax rate - combined	<u>16.8%</u>	<u>17.6%</u>

Central Hudson

	Three Months Ended	
	March 31,	
	2021	2020
Effective tax rate - federal	12.1%	11.6%
Effective tax rate - state	4.4%	6.0%
Effective tax rate - combined	<u>16.5%</u>	<u>17.6%</u>

For the three months ended March 31, 2021, the combined effective tax rate for CH Energy Group and Central Hudson is lower than the statutory rate due to tax normalization rules. The decrease in the periods is primarily due to the impact of increases in book reserves not subject to tax included in the prior year effective rate.

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. As of March 31, 2021, CHET has made capital contributions of \$2.0 million to Transco to fund a portion of the Segment B project costs. At March 31, 2021, December 31, 2020 and March 31, 2020, CHET’s investment in Transco was approximately \$10.3 million, \$9.2 million and \$8.1 million, respectively.

At March 31, 2021 CHEC had one remaining equity investment in a limited partnership, and it is not considered to be a part of the core business. All other interests were liquidated in prior periods. The value of CHEC’s equity investments at March 31, 2021 and December 31, 2020 was approximately \$0.2 million and at March 31, 2020 it was \$1.4 million.

NOTE 7 – Research and Development

Central Hudson’s research and development expenditures for the three months ended March 31, 2021 and 2020 were \$1.2 million and \$1.6 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 that there will be no event of default, and subject to certain exceptions, that Central Hudson will not sell, lien, or otherwise encumber its assets or enter into certain transactions including certain transactions 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 facility. At March 31, 2021, Central Hudson was in compliance with all financial debt covenants.

At March 31, 2021 and December 31, 2020 there were no amounts outstanding under the committed credit arrangements for Central Hudson. At March 31, 2020, CH Energy Group and Central Hudson had \$30 million in borrowings outstanding under Central Hudson's committed credit agreements with an effective weighted average interest rate of 1.875%.

Uncommitted Credit

At March 31, 2021 and December 31, 2020, Central Hudson had uncommitted short-term credit arrangements with two commercial banks totaling \$30 million. At March 31, 2020, Central Hudson had uncommitted short-term credit arrangements with three commercial banks totaling \$40 million. Proceeds from these credit arrangements are 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 Central Hudson's uncommitted credit agreements at March 31, 2021 and March 31, 2020. At December 31, 2020, 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 0.9%.

NOTE 9 – Capitalization – Common and Preferred Stock

Capitalization

During the first quarter of 2021, CH Energy Group received a contribution of approximately \$5.0 million under the tax sharing agreement with its parent FortisUS Inc. Additionally, during the three months ended March 31, 2021, CHET received a \$0.6 million capital contribution from its parent CH Energy Group. There were no capital contributions made during the first quarter of 2020. These contributions were recorded as paid-in capital, see CH Energy Group'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 \$70.3 million and \$66.1 million in dividends to CH Energy Group for the periods ended March 31, 2021 and 2020, 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. CH Energy Group's other subsidiaries do not have express restrictions on their ability to pay dividends.

There were no dividends paid during the first quarter of 2021 and 2020.

Preferred Stock

Other than one share of Junior Preferred Stock, Central Hudson had no outstanding preferred stock as of March 31, 2021, December 31, 2020, and March 31, 2020.

NOTE 10 – Capitalization – Long-Term Debt

As of March 31, 2021, CH Energy Group and Central Hudson were in compliance with all covenants. 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 March 16, 2021, Central Hudson issued \$75 million of Series U Senior Notes, with an interest rate of 3.29% per annum and a maturity date of March 16, 2051. Central Hudson expects to use the proceeds from the sale of the Senior Notes for general corporate purposes, including the repayment of maturing debt. See Note 18 – “Subsequent Events” for additional details.

During 2020, Central Hudson issued \$130 million in unsecured Senior Notes, with various interest rates and maturities ranging from 10 to 40 years. 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 and the repayment of short-term borrowings.

At March 31, 2021, Central Hudson had \$30 million of 2014 Series E 10-year notes with a floating interest rate of 3-month LIBOR plus 1%. To mitigate the potential cash flow impact from unexpected increases in short-term interest rates, Central Hudson purchased a four-year interest rate cap on March 26, 2020 that will expire on March 26, 2024. The rate cap has a notional amount equal to the outstanding principal amount of the 2014 Series E notes and is based on the quarterly reset of the LIBOR rate on the quarterly interest payment dates. Central Hudson would receive a payout if the LIBOR rate exceeds 3% at the start of any quarterly interest period during the term of the cap. This interest rate cap replaced a similar interest rate cap that expired on March 26, 2020. There have been no payouts on these interest rate caps during the three months ended March 31, 2021 and 2020.

The principal amount of Central Hudson’s outstanding 1999 Series B NYSERDA Bonds totaled \$33.7 million at March 31, 2021. 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. There was no payout on this interest rate cap during the three months ended March 31, 2021. Central Hudson received a payout of \$0.03 million during the three months ended March 31, 2020.

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 March 31,		Three Months Ended March 31,	
	2021	2020	2021	2020
Service cost	\$ 3,763	\$ 3,363	\$ 469	\$ 417
Interest cost	4,962	5,922	892	1,048
Expected return on plan assets	(9,042)	(8,836)	(1,986)	(1,985)
Amortization of prior service cost (credit)	132	162	(114)	(114)
Amortization of recognized actuarial net (gain)/loss	633	401	(651)	(979)
Net Periodic (Benefit) Cost	<u>\$ 448</u>	<u>\$ 1,012</u>	<u>\$ (1,390)</u>	<u>\$ (1,613)</u>

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 under-funded status does not reflect approximately \$40.8 million, \$32.9 million and \$33.7 million of SERP trust assets at March 31, 2021, December 31, 2020 and March 31, 2020.

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

	March 31, 2021 ⁽¹⁾⁽²⁾	December 31, 2020 ⁽¹⁾⁽²⁾	March 31, 2020 ⁽¹⁾⁽²⁾
Accrued pension costs	\$ (26,212)	\$ (26,813)	\$ (12,491)

(1) Includes approximately \$0.2 million at March 31, 2021, December 31, 2020 and March 31, 2020 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 \$1.5 million at March 31, 2021 and December 31, 2020 and \$1.1 million at March 31, 2020 that is reflected in the Balance Sheet under other current liabilities for pension payments expected to be made 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 other comprehensive income ("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 as OCI, net of tax, relate to a former Central Hudson employee who transferred to an affiliated company, but who continues to accrue benefits in Central Hudson's Retirement Plan and SERP. These amounts reported as OCI are charged to and reimbursed by the affiliated company.

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

	March 31, 2021 ⁽¹⁾⁽²⁾	December 31, 2020 ⁽¹⁾⁽²⁾	March 31, 2020 ⁽¹⁾⁽²⁾
Accrued pension costs prior to funding status adjustment	\$ (25,914)	\$ (25,751)	\$ (23,585)
Funding status adjustment required	(298)	(1,062)	11,094
Accrued pension costs	<u>\$ (26,212)</u>	<u>\$ (26,813)</u>	<u>\$ (12,491)</u>

Offset to funding status adjustment - regulatory (liability) assets - pension plan	\$ 134	\$ 851	\$ (11,577)
Offset to funded status adjustment - accumulated OCI, net of tax of \$43, \$55 and \$126, respectively	\$ 121	\$ 156	\$ 357

- (1) Includes approximately \$0.2 million at March 31, 2021, December 31, 2020 and March 31, 2020 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 \$1.5 million at March 31, 2021 and December 31, 2020 and \$1.1 million at March 31, 2020 that is reflected in the Balance Sheet under other current liabilities for pension payments expected to be made over the next twelve months.

Decisions to fund Central Hudson's Retirement Plan are based on several factors, including, but not limited to, the funded status, corporate resources, projected investment returns, actual investment returns, inflation, the value of plan assets relative to plan liabilities, regulatory considerations, interest rate assumptions and the Pension Protection Act of 2006 ("PPA"). Based on the funding requirements of the PPA, Central Hudson plans to make contributions that maintain the target funded percentage at 80% or higher. Actual contributions could vary significantly based upon a range of factors that Central Hudson considers in its funding decisions.

Contribution levels to the OPEB Plans are determined by various factors including the discount rate, expected return on plan assets, medical claims assumptions used, mortality assumptions used, benefit changes, corporate resources and regulatory considerations.

In accordance with the terms of the Trust agreement for the SERP, following the acquisition of CH Energy Group, Inc. by Fortis on June 27, 2013, Central Hudson is required to maintain a funding level for the SERP at 110% of the present value of the accrued benefits payable under the Plan on an annual basis.

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

	Three Months Ended March 31,	
	2021	2020
Retirement Plan	\$ -	\$ -
OPEB	\$ 812	\$ 1,081
SERP	\$ 8,115	\$ 6,998

401(k) Retirement Plan

Central Hudson sponsors a 401(k) retirement plan ("401(k) plan") for its employees. The 401(k) plan provides for employee tax-deferred salary deductions for participating employees and employer matches. The matching benefit varies by employee group. Central Hudson's matching contributions for the three months ended March 31, 2021 and 2020 were both \$1.4 million. Central Hudson also provides an additional contribution of 4% to the 401(k) plan of annualized base salary for eligible employees who do not qualify for Central Hudson's Retirement Income Plan. The additional non-discretionary contribution was approximately \$0.7 million for the three months ended March 31, 2021 and 2020.

NOTE 12 – Equity-Based Compensation

Share Unit Plan Units

In January 2021, officers of Central Hudson were granted 14,249 Units under the 2021 Fortis Restricted Share Unit Plan ("2021 RSUP"), representing a portion of the officers' long-term incentives. The issued 2021 Restricted Units granted are time-based and vest at the end of the three-year period

without regard to performance. Each 2021 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 2021 RSUP Unit grant. Each 2021 RSUP Unit accrues notional dividend equivalents equal to the dividends declared by the Fortis Board of Directors on Fortis common shares.

In January 2021, officers of Central Hudson were granted 28,497 Units under the Central Hudson 2021 Share Unit Plan (“2021 SUP”), representing a portion of the officers’ long-term incentives. The issued 2021 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 2021 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 2021 SUP Unit grant. Each 2021 SUP Unit accrues notional dividend equivalents equal to the dividends declared by the Fortis Board of Directors on Fortis common shares.

Awards granted under the 2018 PSUP and 2018 SUP Plans vested and were paid out during the first quarter of 2021.

CH Energy Group:	Grant Date	Grant Date Fair Value	Time Based		Performance Based	
			Granted	Outstanding ⁽⁶⁾	Granted	Outstanding ⁽⁶⁾
2020 RSUP ⁽⁵⁾	January 1, 2020	\$ 41.55	7,257	7,600	-	-
2020 PSUP ⁽⁵⁾	January 1, 2020	\$ 41.55	-	-	21,770	22,799
2019 PSUP	January 1, 2019	\$ 33.10	8,838	9,591	26,514	28,773
2018 PSUP ⁽¹⁾	January 1, 2018	\$ 36.59	-	-	29,514	-

Central Hudson:	Grant Date	Grant Date Fair Value	Time Based		Performance Based	
			Granted	Outstanding ⁽²⁾⁽⁶⁾	Granted	Outstanding ⁽²⁾⁽⁶⁾
2021 RSUP	January 1, 2021	\$ 41.12	14,249	14,394	-	-
2021 SUP	January 1, 2021	\$ 41.12	-	-	28,497	28,788
2020 RSUP ⁽⁵⁾	January 1, 2020	\$ 41.55	12,655	13,254	-	-
2020 SUP ⁽⁵⁾	January 1, 2020	\$ 41.55	-	-	25,311	26,507
2019 SUP ⁽⁴⁾	January 1, 2019	\$ 33.10	15,691	13,541	31,383	31,854
2018 SUP ⁽³⁾⁽¹⁾	January 1, 2018	\$ 36.59	16,337	-	32,675	-

⁽¹⁾In the first quarter of 2021, 49,732 units under the 2018 SUP and 32,998 units under the 2018 PSUP vested and were paid out at \$41.64 per unit for a total of approximately \$4.1 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⁾During 2020, the 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 March 31, 2021.

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

Compensation Expense

	Three Months Ended March 31,	
	2021	2020
CH Energy Group	\$ 1,095	\$ 1,128
Central Hudson	\$ 1,095	\$ 1,128

The liabilities associated with the annual 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 annual 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 2020 Annual Financial Report, except as noted below.

Energy Credit Purchase Obligations

In August 2016, the PSC issued Order 15-E-0302 adopting a Clean Energy Standard that includes Renewable Energy Credits ("RECs") and Zero-Emissions Credit ("ZECs") requirements. Beginning in 2017, LSEs, which include Central Hudson, are required to obtain RECs and ZECs in amounts determined by the PSC. LSEs may satisfy their REC obligation by either purchasing RECs acquired through central procurement by NYSEERDA, by self-supply through direct purchase of tradable RECs, through value stack payments, or by making alternative compliance payments. Through March 31, 2022 LSEs will purchase ZECs from NYSEERDA 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. Central Hudson's ZEC 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. In October 2020, the PSC issued an Order that revised the Tier 1 REC obligations through calendar year 2023 and set requirements for Tier 2 Competitive RECs through calendar year 2025. NYSEERDA introduced 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.

At March 31, 2021, based on Central Hudson's estimated annual load to be served through March 31, 2022, the total obligation to procure ZECs is estimated to be approximately \$11.5 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, 2023 for Tier 1 RECs and December 31, 2025 for Tier 2 RECs and is estimated for Central Hudson to be approximately \$12.8 million.

Other Commitments

Pension Benefit 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. Actual contributions 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. In January 2021, Central Hudson made a contribution of \$0.8 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 2021 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. 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, and 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 Trust for 2020 of \$8.1 million in March 2021, 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. 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 March 31, 2021, CHET's investment in Transco was approximately \$10.3 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. At March 31, 2021, Central Hudson has accrued \$73.8 million with respect to all SIR activities, including operation, maintenance and monitoring costs (“OM&M”), of which \$5.9 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 March 31, 2021	Estimated spend in the next twelve months
Investigation	Little Britain Road	\$ 2.5	\$ 0.5
Remedial Alternatives Analysis		-	-
Remedial Design		-	-
Remediation	North Water Street ⁽¹⁾	66.7	5.1
Post-Remediation Monitoring	Newburgh Areas A, B & C, Laurel Street, Catskill, Kingston, and Eltings Corners	4.6	0.3
No Action Required	Beacon and Bayeaux Street	-	-
Total		\$ 73.8	\$ 5.9

There were no significant updates during the three months ended March 31, 2021 or changes in the nature and amounts of Central Hudson’s contingencies related to environmental matters, except as noted below.

➤ (1) Remediation in Progress - Site – North Water Street

- In the first quarter of 2020, Central Hudson revised its estimate and recorded the low end of the range of projected costs for remediation activities associated with this site based on an assessment of a high-solids hydraulic dredging remedial alternative including predictive cost modeling for a pilot test and full-scale remediation.
- In September 2020, the New York State Department of Environmental Conservation (“DEC”) approved the Hydraulic Dredging Pilot Test (“HDPT”) Work Plan and Water Supply Protection and Contingency Plan. Preliminary site monitoring and mobilization activities commenced in October 2020 and pilot test activities, including demobilization, were completed in January 2021.
- The goals of the pilot study were successfully achieved. Hydraulic dredging was completed in three areas with different degrees of impacted sediment (no impact, medium impact and high impact). A draft hydraulic dredge pilot test evaluation summary report was prepared which summarized the data compiled related to:
 - production rates associated with the hydraulic dredge equipment in each area including the impacts of protective shroud attached for protective measures,
 - impacts of sheening events that occurred, the ability to contain it and the related work stoppages during the pilot,
 - impact of prescribed protective measures regarding the placement of daily clean cover and backfill on the riverbed, and
 - debris encountered in the river and the related mechanical removal.

- The report concluded that the use of hydraulic dredging is technically feasible. However, there were several factors (as noted above) that impacted the previously estimated production rates able to be achieved during the pilot. When extrapolated to full-scale remediation, the cumulative effect of these impacts on the production rates observed during the HDPT significantly increased the total estimated time to complete the dredging and backfilling remediation and, as a result of this increased time frame, also equated to a significant increase in the projected cost.
- Based on the increase in the projected time frame, it was concluded by the project's Engineer of Record ("EOR") that full-scale hydraulic dredging is not practical to pursue as the sole remedial approach. Following review of the evaluation summary report, the DEC concurred that this timeframe was not practical and with the conclusion of the report. At this point, the DEC has communicated that removal of source material is still the best long-term remedy for the site and as such is directing Central Hudson to examine other methods, including a mix of alternative approaches and taking into consideration the extent of removal that may be feasible.
- Central Hudson is working with the EOR, the DEC and other stakeholders to evaluate remedial alternative approaches which may still fit within the framework of the DEC approved work plan, achieve the established regulatory clean-up objectives, and be completed within a reasonable period of time. The impact of these potential alternatives or adjustments to the work plan cannot be reasonably estimated at this time. The accrual for remediation will continue to be updated as further alternative remedial approaches are evaluated and discussed with the parties.
- Based on the above, no remediation activities are anticipated to occur during 2021, though it is possible that certain dredging techniques or protective measures may be tested for potential future deployment.
- The estimated spending as of March 31, 2021 for the next 12 months of approximately \$5.1 million is primarily based on anticipated efforts to perform the additional analysis requested.

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 plants ("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 \$23.7 million recovered through March 31, 2021.
- The total spent related to site investigation and remediation for the three months ended March 31, 2021 and 2020 was approximately \$1.4 million and \$1.3 million, respectively.
- The regulatory asset balance including carrying charges as of March 31, 2021, December 31, 2020 and March 31, 2020 was \$82.1 million, \$84.4 million and \$87.5 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.

Central Hudson has put its insurers on notice and intends to seek reimbursement from its insurers for its costs. Certain of these insurers have denied coverage. There were no insurance recoveries during the three months ended March 31, 2021 and 2020. We do not expect insurance recoveries to offset a meaningful portion of total costs.

Litigation

Asbestos Litigation

Central Hudson is involved in various asbestos lawsuits.

As of March 31, 2021, of the 3,382 asbestos cases brought against Central Hudson, 1,165 remain pending. Of the cases no longer pending against Central Hudson, 2,054 have been dismissed or discontinued without payment by Central Hudson and Central Hudson has settled 163 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 investments in 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 March 31, 2021				
	Segments		Other Businesses and Investments	Eliminations	Total
	Central Hudson				
	Electric	Natural Gas			
Revenues from external customers	\$ 152,793	\$ 71,981	\$ -	\$ -	\$ 224,774
Intersegment revenues	16	140	-	(156)	-
Total operating revenues	152,809	72,121	-	(156)	224,774
Income before income taxes	16,756	20,393	243	-	37,392
Net Income Attributable to CH Energy Group	\$ 15,189	\$ 15,826	\$ 78	\$ -	\$ 31,093
Segment Assets at March 31, 2021	\$ 1,946,064	\$ 760,562	\$ 23,558	\$ (1,657)	\$ 2,728,527

CH Energy Group Segment Disclosure

(In Thousands)

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

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 March 31, 2021 are as follows:

Central Hudson	% of Requirement Hedged ⁽¹⁾
Electric Derivative Contracts:	0.1 million MWh
June 2021 – August 2021	14.2%
Natural Gas Derivative Contracts:	0.8 million Dth
November 2021 – December 2021	1.5%
January 2022 – March 2022	1.2%

(1) Projected coverage as of March 31, 2021.

Cash Flow Hedges

Central Hudson has been authorized to fully recover the interest costs associated with its \$33.7 million Series B NYSEERDA Bonds and its \$30.0 million of variable rate debt, which includes costs and gains or losses associated with its interest rate cap contracts.

Derivative Risks

The basic types of risks associated with derivatives are market risk (that the value of the derivative will be adversely impacted by changes in the market, primarily the change in commodity prices and interest rates) and credit risk (that the counterparty will not perform according to the terms of the contract). The market risk of the derivatives generally offset the market risk associated with the hedged commodity.

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

To help limit the credit exposure of derivatives, Central Hudson enters into master netting agreements with counterparties whereby contracts in a gain position can be offset against contracts in a loss position. Of the 26 total agreements held by Central Hudson, 11 agreements contain credit risk contingent features. As of March 31, 2021, one open contract with credit risk contingent features was in a liability position and, if the contingent features were triggered, \$0.4 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 March 31, 2021, December 31, 2020, and March 31, 2020, Central Hudson did not have collateral posted against the fair value amount of derivatives.

Notes to Quarterly Condensed Financial Statements (UNAUDITED)

The net presentation for CH Energy Group's and Central Hudson's derivative assets and liabilities are as follows (In Thousands):

Description	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amount of Assets Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position		
				Financial Instruments	Cash Collateral Received	Net Amount
As of March 31, 2021 ⁽¹⁾						
Derivative Contracts:						
Central Hudson - electric	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Central Hudson - natural gas	4	-	4	-	-	4
Total CH Energy Group and Central Hudson Assets	\$ 4	\$ -	\$ 4	\$ -	\$ -	\$ 4
As of December 31, 2020 ⁽¹⁾						
Derivative Contracts:						
Central Hudson - electric	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Central Hudson - natural gas	18	-	18	14	-	4
Total CH Energy Group and Central Hudson Assets	\$ 18	\$ -	\$ 18	\$ 14	\$ -	\$ 4
As of March 31, 2020 ⁽¹⁾						
Derivative Contracts:						
Central Hudson - electric	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Central Hudson - natural gas	25	-	25	25	-	-
Total CH Energy Group and Central Hudson Assets	\$ 25	\$ -	\$ 25	\$ 25	\$ -	\$ -

(1) Interest rate cap agreements are not shown in the above chart. As of March 31, 2021, December 31, 2020 and March 31, 2020 the fair value was \$0.

Description	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amount of Liabilities Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position		
				Financial Instruments	Cash Collateral Received	Net Amount
As of March 31, 2021 ⁽¹⁾						
Derivative Contracts:						
Central Hudson - electric	\$ 362	\$ -	\$ 362	\$ -	\$ -	\$ 362
Central Hudson - natural gas	-	-	-	-	-	-
Total CH Energy Group and Central Hudson Liabilities	\$ 362	\$ -	\$ 362	\$ -	\$ -	\$ 362
As of December 31, 2020 ⁽¹⁾						
Derivative Contracts:						
Central Hudson - electric	\$ 2,104	\$ -	\$ 2,104	\$ -	\$ -	\$ 2,104
Central Hudson - natural gas	49	-	49	14	-	35
Total CH Energy Group and Central Hudson Liabilities	\$ 2,153	\$ -	\$ 2,153	\$ 14	\$ -	\$ 2,139
As of March 31, 2020 ⁽¹⁾						
Derivative Contracts:						
Central Hudson - electric	\$ 3,836	\$ -	\$ 3,836	\$ 25	\$ -	\$ 3,811
Central Hudson - natural gas	-	-	-	-	-	-
Total CH Energy Group and Central Hudson Liabilities	\$ 3,836	\$ -	\$ 3,836	\$ 25	\$ -	\$ 3,811

(1) Interest rate cap agreements are not shown in the above chart. As of March 31, 2021, December 31, 2020 and March 31, 2020 the fair value was \$0.

Gross Fair Value of Derivative Instruments

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

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

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

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

Derivative contracts are measured at fair value on a recurring basis. As of March 31, 2021, December 31, 2020 and March 31, 2020, CH Energy Group's and Central Hudson's derivative assets and liabilities by category and hierarchy level are as follows (In Thousands):

Asset or Liability Category	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of March 31, 2021⁽¹⁾				
Assets:				
Derivative Contracts:				
Central Hudson - electric	\$ -	\$ -	\$ -	\$ -
Central Hudson - natural gas	4	4	-	-
Total CH Energy Group and Central Hudson Assets	<u>\$ 4</u>	<u>\$ 4</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities:				
Derivative Contracts:				
Central Hudson - electric	\$ 362	\$ -	\$ 362	\$ -
Central Hudson - natural gas	-	-	-	-
Total CH Energy Group and Central Hudson Liabilities	<u>\$ 362</u>	<u>\$ -</u>	<u>\$ 362</u>	<u>\$ -</u>
As of December 31, 2020⁽¹⁾				
Assets:				
Derivative Contracts:				
Central Hudson - electric	\$ -	\$ -	\$ -	\$ -
Central Hudson - natural gas	18	18	-	-
Total CH Energy Group and Central Hudson Assets	<u>\$ 18</u>	<u>\$ 18</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities:				
Derivative Contracts:				
Central Hudson - electric	\$ 2,104	\$ -	\$ 2,104	\$ -
Central Hudson - natural gas	49	49	-	-
Total CH Energy Group and Central Hudson Liabilities	<u>\$ 2,153</u>	<u>\$ 49</u>	<u>\$ 2,104</u>	<u>\$ -</u>

Notes to Quarterly Condensed Financial Statements (UNAUDITED)

As of March 31, 2020 ⁽¹⁾					
Assets:					
Derivative Contracts:					
Central Hudson - electric	\$	-	\$	-	\$ -
Central Hudson - natural gas		25		25	-
Total CH Energy Group and Central Hudson Assets	\$	25	\$	25	\$ -
Liabilities:					
Derivative Contracts:					
Central Hudson - electric	\$	3,836	\$	-	\$ 3,836
Central Hudson - natural gas		-		-	-
Total CH Energy Group and Central Hudson Liabilities	\$	3,836	\$	-	\$ 3,836

(1) Interest rate cap agreements are not shown in the above chart. These are classified as Level 2 in the fair value hierarchy using SIFMA Municipal Swap Curves and 3 month US Dollar Libor rate forward curves. As of March 31, 2021, December 31, 2020 and March 31, 2020 the fair value was \$0.

The Effect of Derivative Instruments on the Statements of Income

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

For the three months ended March 31, 2021 and 2020, neither CH Energy Group nor Central Hudson had derivatives designated as hedging instruments. The following table summarizes the effects of CH Energy Group's and Central Hudson's derivatives on the Statements of Income (In Thousands):

	Amount of Gain(Loss) Recognized as Increase/(Decrease) in the Statements of Income		Location of Gain (Loss)
	Three Months Ended March 31,		
	2021	2020	
Central Hudson:			
Electricity swap contracts	\$ 2,308	\$ (8,843)	Deferred purchased electric costs ⁽¹⁾
Natural gas swap contracts	3	(941)	Deferred purchased natural gas costs ⁽¹⁾
Total CH Energy Group and Central Hudson	\$ 2,311	\$ (9,784)	

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

Other Hedging Activities

Central Hudson – Electric

In October 2020, Central Hudson entered into a weather option for the period December 1, 2020 through March 31, 2021, to hedge the effect of significant variances in weather conditions on electricity costs. The aggregate limit on the contract was \$5 million. The \$1.3 million premium paid was amortized to purchased electricity over the term of the contract. The \$0.6 million payout earned was

recorded as a reduction to purchased electricity in the Statement of Income, with \$0.4 million recorded in the first quarter of 2021.

In 2019, Central Hudson entered into a similar weather option for the period December 1, 2019 through March 31, 2020. 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 \$0.1 million was recorded as a reduction to purchased electricity in the Statement of Income in the first quarter of 2020.

Central Hudson – Natural Gas

In October 2020, Central Hudson entered into a weather option for the period December 1, 2020 through March 31, 2021, 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 \$1.7 million premium paid was amortized to purchased natural gas over the term of the contract. The \$0.1 million payout earned was recorded as a reduction to purchased natural gas in the Statement of Income during the first quarter of 2021.

In 2019, Central Hudson entered into a similar weather option for the period December 1, 2019 through March 31, 2020. The aggregate limit of the contract was \$5 million. The \$2.2 million premium paid was amortized to purchased natural gas over the term of the agreement. There was no payout earned for the 2019 contract.

NOTE 16 – Other Fair Value Measurements

Other Assets Recorded at Fair Value

In addition to the derivatives reported at fair value discussed in Note 15 – “Accounting for Derivative Instruments and Hedging Activities,” CH Energy Group and Central Hudson report certain other assets at fair value in the Balance Sheets. The following table summarizes the amounts reported at fair value related to these assets (In Thousands):

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of March 31, 2021:				
Other Investments	\$ 22,599	\$ 22,599	\$ -	\$ -
As of December 31, 2020:				
Other Investments	\$ 14,776	\$ 14,776	\$ -	\$ -
As of March 31, 2020:				
Other Investments	\$ 15,892	\$ 15,892	\$ -	\$ -

As of March 31, 2021, December 31, 2020, and March 31, 2020, a portion of the trust assets for the funding of the SERP and Deferred Compensation Plan were invested in mutual funds and money market accounts, which are measured at fair value on a recurring basis. These investments are valued at quoted market prices in active markets and, as such, are Level 1 investments as defined in the fair value hierarchy. These amounts are included in “Other investments” within the Deferred Charges and Other Assets section of the CH Energy Group’s and Central Hudson’s Balance Sheets.

The remaining amount reported in “Other investments” represents trust assets for the funding of the SERP and Deferred Compensation Plan held in trust-owned life insurance policies, which are recorded at cash surrender value. As of March 31, 2021, December 31, 2020, and March 31, 2020, the total

cash surrender value of trust-owned life insurance held by these trusts was approximately \$34.0 million, \$33.1 million, and \$31.1 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

	March 31, 2021		December 31, 2020		March 31, 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed rate debt	\$ 858,797	\$ 922,783	\$ 783,797	\$ 949,413	\$ 695,515	\$ 758,602
Variable rate debt	63,700	63,700	63,700	63,700	63,700	63,700
Total	\$ 922,497	\$ 986,483	\$ 847,497	\$ 1,013,113	\$ 759,215	\$ 822,302
Estimated effective interest rate		3.92%		3.98%		4.28%

Central Hudson

	March 31, 2021		December 31, 2020		March 31, 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed rate debt	\$ 848,250	\$ 911,034	\$ 773,250	\$ 937,666	\$ 683,250	\$ 745,527
Variable rate debt	63,700	63,700	63,700	63,700	63,700	63,700
Total	\$ 911,950	\$ 974,734	\$ 836,950	\$ 1,001,366	\$ 746,950	\$ 809,227
Estimated effective interest rate		3.88%		3.94%		4.24%

NOTE 17 – Related Party Transactions

Thompson Hine LLP serves as outside counsel to CH Energy Group and Central Hudson. One partner in that firm serves as each corporation's General Counsel and Corporate Secretary. In addition, The Chazen Companies perform engineering services for Central Hudson, and a principal in the firm serves as a director of Central Hudson.

The following are fees paid by CH Energy Group and Central Hudson to Thompson Hine LLP and The Chazen Companies, respectively, as follows (In Thousands):

	Three Months Ended March 31,	
	2021	2020
CH Energy Group (Thompson Hine LLP)	\$ 659	\$ 616
Central Hudson (Thompson Hine LLP)	\$ 644	\$ 599
Central Hudson (The Chazen Companies)	\$ 138	\$ 89

CH Energy Group and Central Hudson may provide general and administrative services ("services") to and receive services from each other, Fortis and other subsidiaries of Fortis. The costs of these services are reimbursed by the beneficiary company through accounts receivable and accounts payable, as necessary. CH Energy Group and Central Hudson may also incur charges from Fortis or each other for the recovery of general corporate expenses incurred by one another, Fortis or other affiliates. In addition, CH Energy Group and Central Hudson may also incur charges from Fortis for federal income taxes under their tax sharing agreement. These transactions are in the normal course of business and are recorded at the United States dollar amounts.

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

	March 31,		December 31,		March 31,	
	2021		2020		2020	
	Fortis		Fortis		Fortis	
CH Energy Group ⁽¹⁾						
Accounts Receivable	\$ 505	\$ 1,350	\$ 641			
Accounts Payable	\$ 37	\$ -	\$ 158			

	March 31,			December 31,			March 31,		
	2021			2020			2020		
	CHEG	Fortis	Other Affiliates	CHEG	Fortis	Other Affiliates	CHEG	Fortis	Other Affiliates
Central Hudson ⁽¹⁾									
Accounts Receivable	\$ 3	\$ 19	\$ 8	\$ 157	\$ 25	\$ 9	\$ 116	\$ 26	\$ 6
Accounts Payable	\$ 1,525	\$ -	\$ -	\$ 931	\$ -	\$ -	\$ 1,203	\$ -	\$ -

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

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

	Three Months Ended March 31, 2021		Three Months Ended March 31, 2020	
	CHEG	Fortis ⁽¹⁾	CHEG	Fortis ⁽¹⁾
CH Energy Group	\$ -	\$ 1,371	\$ -	\$ 1,092
Central Hudson	\$ 1,487	\$ -	\$ 1,220	\$ -

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

NOTE 18 – Subsequent Events

An evaluation of subsequent events was completed through May 4, 2021, the date these Condensed Consolidated Financial Statements were available to be issued, to determine whether circumstances warranted recognition and disclosure of events or transactions in the Condensed Consolidated Financial Statements as of March 31, 2021.

On April 30, 2021 CHET accepted a \$1.5 million capital contribution from its parent CH Energy Group in order to fund capital expenditures related to the Transco AC Project.

On April 1, 2021, Central Hudson repaid \$44.1 million of maturing 2010 Series G Senior Notes plus unpaid interest due at 4.15%. The Senior Notes were originally issued pursuant to a 2009 PSC Order approving the issuance by Central Hudson.

On April 6, 2021 the New York State fiscal year 2022 budget bill was enacted. The budget bill included an increase in the corporate tax rate for businesses with taxable income over \$5 million from 6.5% to 7.25% for tax years beginning on or after January 1, 2021 and before January 1, 2024 and extending the capital base tax which was set to phase out in 2021. For tax years beginning on or after January 1, 2021 and before January 1, 2024, the business capital tax rate would be 0.1875% and would phase out for tax years beginning on and after January 1, 2024. CH Energy Group and Central Hudson have state Net Operating Losses that are expected to reduce taxable income below the \$5 million threshold for the duration of the increased tax rate period and therefore that provision is not expected to have an impact on the Company's earnings or cash flows. Both CH Energy Group and Central Hudson are expecting to be subject to the capital base tax during this period which will result in an increase in the state effective tax rate. The PSC Order anticipated in response to Central Hudson's August 2020 Rate Filing is expected to reflect the recovery of the impact of the new tax legislation in the revenue requirement and therefore this increase in capital base tax is also not expected to have a material impact on the Company's earnings and cash flows.

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

For the Three Months Ended March 31, 2021

This information should be read in conjunction with the Quarterly Condensed Financial Statements and the notes contained herein, and the audited 2020 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, Central Hudson Electric Transmission LLC ("CHET") and Central Hudson Gas Transmission LLC. 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 well-diversified leader in the North American regulated electric and gas utility industry, with 2020 revenue of CAD\$8.9 billion and total assets of approximately CAD\$55 billion. Fortis and its subsidiaries' 9,000 employees serve 3.3 million utility customers in five Canadian provinces, nine U.S. states and three Caribbean countries.

Central Hudson purchases, sells at wholesale and retail, and distributes electricity and natural gas at retail, in portions of New York State to electric and natural gas customers and is subject to regulation by the New York Public Service Commission ("PSC" or "Commission").

Purpose and Strategy

In the fourth quarter of 2020, Central Hudson adopted a new Purpose Statement - "**Together We Power Endless Possibilities,**" supported by the following Core Values:

- *We Never Compromise on **Safety***
- *We Value Our **People***
- *We Put the **Customer** First*
- *We Aim for **Excellence** Every Day*
- *We Put Energy Into Our **Communities***

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 natural gas infrastructure, resiliency and automation of distribution systems, new common facilities, and investments in information and distribution system technologies that are expected to allow for greater penetration of distributed energy resources and 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 April 2019, National Grid and Transco were awarded the Segment B portion of one of its proposals for a transmission project that will improve the flow of power from upstate renewable resources to meet downstate demand and enhance the reliability and resilience of the grid. Transco will be authorized to earn a return on equity invested in the project (up to 53% of the project cost) of 9.65%, with up to an additional 1% available for incentives. The project has an estimated cost of \$600 million plus interconnection costs, and CHET's equity funding requirement of this cost as a 6.1% owner of Transco is expected to be \$19.4 million. At March 31, 2021, CHET's investment in Transco was approximately \$10.3 million.

Central Hudson Business Description and Strategy

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

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

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

Central Hudson is committed to a cleaner energy future by supporting New York State's energy policies and its Reforming the 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 demand, including the Hudson Valley, and investments in the regional electric distribution system to facilitate greater levels of locally sited renewable generators;
- Pursuing the lowest cost approach to emission reduction, by examining current incentives to determine which offer the highest value in lowering emissions;
- Integrating natural gas benefits, utilized for fast-start electric generation to enable intermittent renewable resources, and as a low-carbon option for heating and manufacturing;
- Expanding energy efficiency programs, the most cost-effective method to reduce emissions; and
- Advancing environmentally beneficial electrification, for example promoting electric vehicles and heat pumps to lower emissions from the transportation and building heating sectors.

Central Hudson recognizes the importance of its employees and dedicates substantial efforts toward attracting, developing and retaining individuals who exemplify the values that are the cornerstone of our Company. In addition, we work with many outside firms to obtain additional resources to supplement our internal forces to address fluctuations in certain aspects of the Company's operations. Safety is of the utmost importance for our employees and is a priority for our Company. We strive to maintain good relationships with both our union and suppliers of contracted services and to provide a safe, inclusive and diverse environment for all.

Risk Factors

There were no material changes to CH Energy Group's or Central Hudson's risk factors, as set forth in its 2020 Annual Financial Report; however, during the three months of 2021, the following updates were noted:

COVID-19

We provide essential services to our customers and it is paramount that we keep our employees safe. The outbreak of the 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. Along with all major utilities in New York State, 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 are maintaining inventory at increased levels to meet anticipated operational needs. The Company is continuing with electric and natural gas capital investments in accordance with approved levels. Vaccines continue to be made available to the population and legislative restrictions regarding gatherings and capacity limits within service industries are beginning to ease. However, there continues to be uncertainty regarding the full economic impact that COVID-19 has had, and will continue to have, on our customers and business.

Central Hudson has taken measures to support our customers, employees and communities impacted by COVID-19 and to support the economic recovery in our service territory. For all of its customers, Central Hudson suspended certain collection activities including terminating service for non-payment, waived finance charges and doubled its contribution to its last resort grant program. 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. Additionally, Central Hudson's rate filing in August 2020 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 two largest impacts on our business relate to lost revenues as a result of the waived finance charges and potential future write-offs of uncollectible customer balances. The Company is also incurring certain incremental operating expenses to ensure the safety of our employees and to ensure continued safe and reliable service during the pandemic, which are only partially offset by cost reductions achieved related to employee travel and training. However, the net impact of these incremental costs is not expected to have a material impact on our operations going forward, barring any setbacks that could be caused by an unforeseen increase in the number of cases in our service territory.

Central Hudson is currently contacting customers regarding past due balances to advise customers of certain financial assistance programs available to them and to proactively engage with them in managing these balances with deferred payment arrangements. Management is monitoring New York State legislation and working with the New York State Department of Public Service ("DPS") to determine the appropriate time to begin additional collection efforts, including re-instating finance charges on past due balances and termination activities. Central Hudson has increased its reserve for uncollectible accounts during the first quarter of 2021 by \$0.8 million based on a quantitative and qualitative assessment of the growing customer past due balances and management's best estimate of forecasted economic conditions related to COVID-19.

On June 11, 2020, the Commission established a new proceeding (Case 20-M-0266), to identify and address the effects of COVID-19 on utility service in New York State. The scope of the proceeding

includes, but is not limited to, impacts on rate-setting, collections and termination of service, and ensuring the provision of safe and adequate service at just and reasonable rates in recognition of the ramifications from COVID-19. Central Hudson is providing information on a monthly basis to the PSC concerning COVID-19-related uncollected finance charge revenues and incremental costs, including the increase in past due balances and the uncollectible reserve and cost reductions. Additionally, the Company also included deferral in its rate case for COVID-19-related costs.

The total extent of impacts of COVID-19 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 the 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. The Company will continue to monitor COVID-related developments, including regulatory or legislative mandates, that may affect our workforce, our customers, contractors and suppliers, 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 March 31

	Year to Date		
	2021	2020	Change
Electricity Sales (GWh)	1,290	1,243	47
Natural Gas Sales (PJ)	9.4	8.4	1.0
<i>(In millions)</i>			
Revenues	\$ 224.8	\$ 208.2	\$ 16.6
Energy Supply Costs - Matched to Revenues	64.1	58.2	5.9
Operating Expenses - Matched to Revenues	27.7	25.2	2.5
Operating Expenses - Other	75.5	74.3	1.2
Depreciation and Amortization	17.7	16.5	1.2
Other Income, net	6.5	6.0	0.5
Interest Charges	9.1	8.4	0.7
Income Taxes	6.1	5.6	0.5
Net income	<u>\$ 31.0</u>	<u>\$ 26.1</u>	<u>\$ 4.9</u>

Earnings: In the first quarter of 2021, Central Hudson achieved earnings growth of \$4.9 million over the comparable period in 2020. The PSC-approved increase in delivery rates effective July 1, 2020 provided return on additional capital invested in the business and recovery of higher operating and financing expenses. Central Hudson also experienced fluctuations in certain operating expenses due to the seasonality of the business and availability of contract labor, which provided favorability in the first quarter results compared to prior year but are not expected to impact the full year. Central Hudson also earned incentives in the current period based on achieving certain targets and milestones associated with energy efficiency as provided in the 2018 Rate Order. These increases in earnings were partially offset by impacts associated with COVID-19. The impacts of COVID-19 on earnings in the current quarter resulted from reduced revenues from the suspension of finance charges applied to customers' past due balances and net incremental costs, including an increase in our reserve for future uncollectible write-offs. Central Hudson's current rates include Revenue Decoupling Mechanisms ("RDMs") which provide 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 sales.

Energy supply costs reflect higher electric commodity prices coupled with increases in purchase volume for both electric and natural gas due to colder weather in 2021 as compared to 2020. 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. However, the variation in revenues billed through these volumetric factors was not material.

Electricity Sales

Electricity sales in 2021 were higher than 2020 due to an increase in residential sales driven by a change in consumption patterns as a result of COVID-19, which were only partially offset by a reduction in commercial sales. Colder weather and an increase in sales for resale also contributed to the higher sales in 2021.

Natural Gas Sales

Natural gas sales increased in 2021 compared to 2020 due to higher sales to firm and interruptible customers driven by colder weather and changes in consumption patterns as a result of COVID-19.

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 when compared to 2020.

Interest Charges: The increase in interest charges is primarily due to higher underlying long-term debt and short-term borrowings balances.

Income Taxes: The combined effective tax rate is lower than the statutory rate due to tax normalization rules and lower than the prior year due to the flow through impact of changes in the operating reserves.

Central Hudson Revenues - Electric

Period Ended March 31

(In millions)

	<u>Year to Date</u>		
	<u>2021</u>	<u>2020</u>	<u>Change</u>
Revenues with Matching Expense Offsets:⁽¹⁾			
Recovery of commodity purchases	\$ 36.0	\$ 35.8	\$ 0.2
Sales to others for resale	4.7	1.4	3.3
Other revenues with matching offsets	19.2	17.8	1.4
<i>Subtotal</i>	59.9	55.0	4.9
Revenues Impacting Earnings:			
Customer sales	100.5	85.1	15.4
RDM and other regulatory mechanisms	(9.3)	0.4	(9.7)
Finance Charges	-	0.9 ⁽²⁾	(0.9)
Incentives earned	1.1	0.4	0.7
Net plant & depreciation targets	(1.1)	(1.1)	-
Other revenues	1.7	1.6 ⁽²⁾	0.1
<i>Subtotal</i>	92.9	87.3	5.6
Total Electric Revenues	\$ 152.8	\$ 142.3	\$ 10.5

- (1) Revenues with matching offsets do not affect earnings since they offset related costs, the most significant being energy cost adjustment revenues, which provide for the recovery of purchased electricity costs. Other related costs include certain authorized business expenses recovered through rates and the cost of special programs authorized by the PSC and funded with certain available credits. Changes in revenues from electric sales to other entities for resale also do not affect earnings since any related profits or losses are returned or charged, respectively, to customers.
- (2) Other revenues reported for the period ended March 31, 2020 have been reclassified to conform with current period presentation.

Central Hudson Revenues - Natural Gas

Period Ended March 31

(In millions)

	Year to Date		
	2021	2020	Change
Revenues with Matching Expense Offsets:⁽¹⁾			
Recovery of commodity purchases	\$ 17.9	\$ 15.5	\$ 2.4
Sales to others for resale	5.5	5.4	0.1
Other revenues with matching offsets	3.2	2.9	0.3
<i>Subtotal</i>	26.6	23.8	2.8
Revenues Impacting Earnings:			
Customer sales	45.7	37.2	8.5
RDM and other regulatory mechanisms	(1.5)	3.1	(4.6)
Finance Charges	-	0.3 ⁽²⁾	(0.3)
Incentives earned	0.1	0.2	(0.1)
Net plant & depreciation targets	(0.8)	(0.9)	0.1
Other revenues	1.9	2.2 ⁽²⁾	(0.3)
<i>Subtotal</i>	45.4	42.1	3.3
Total Natural Gas Revenues	\$ 72.0	\$ 65.9	\$ 6.1

- (1) Revenues with matching offsets do not affect earnings since they offset related costs, the most significant being energy cost adjustment revenues, which provide for the recovery of purchased natural gas costs. Other related costs include certain authorized business expenses recovered through rates and the cost of special programs authorized by the PSC and funded with certain available credits. For natural gas sales to other entities for resale, 85% of such profits are returned to customers.
- (2) Other revenues reported for the period ended March 31, 2020 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 ("OPEB") and New York State energy efficiency programs). Any difference between these revenues and the actual expenses incurred is deferred for future recovery from or refund to customers and, therefore, does not impact earnings, with the exception of related carrying charges, which are recorded within other income or interest charges in the CH Energy Group and Central Hudson Statements of Income.

Electric Revenues:

The increase in electric revenues is primarily due to the increase in customer delivery rates effective July 1, 2020, as well as higher recovery of purchased commodity costs driven by both an increase in sales volumes and price due to colder weather when compared to 2020. Additionally, the Company recorded positive revenue adjustments for earned incentives in the current year based on achieving certain targets and milestones associated with energy efficiency as provided in the 2018 Rate Order. Partially offsetting these increases was the suspension 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 COVID-19.

Natural Gas Revenues:

Natural gas revenues increased as a result of the increase in customer delivery rates effective July 1, 2020 and higher recovery of natural gas commodity costs driven primarily by increases in sales volumes. Partially offsetting these increases is the suspension of finance charges applied on customers' past due balances in order to alleviate additional financial hardship during the current economic conditions caused by COVID-19.

Central Hudson Operating Expenses

Period Ended March 31

(In millions)

	Year to Date		
	2021	2020	Change
Expenses Currently Matched to Revenues:⁽¹⁾			
Purchased electricity	\$ 40.7	\$ 37.2	\$ 3.5
Purchased natural gas	23.5	21.1	2.4
Pension & OPEB	4.1	3.1	1.0
New York State energy efficiency programs	11.0	10.2	0.8
Major storm reserve	3.1	3.1	-
Low income programs	3.8	3.4	0.4
Other matched expenses	5.6	5.3	0.3
<i>Subtotal</i>	91.8	83.4	8.4
Other Operating Expense Variations:			
COVID-19 incremental operating expenses	0.5	0.1 ⁽³⁾	0.4
COVID-19 related uncollectible reserve	0.8	1.2 ⁽³⁾	(0.4)
Depreciation and amortization	17.7	16.5	1.2
Property and school taxes ⁽²⁾	18.0	16.5	1.5
Weather related service restoration	1.6	0.9	0.7
Distribution and transmission maintenance	1.3	1.3	-
Information technology	3.3	3.5	(0.2)
Labor and related benefits	24.5	24.8	(0.3)
Tree trimming	5.6	6.4	(0.8)
Other expenses	19.9	19.6 ⁽³⁾	0.3
<i>Subtotal</i>	93.2	90.8	2.4
Total Operating Expenses	\$ 185.0	\$ 174.2	\$ 10.8

(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) Certain expenses reported for the period ended March 31, 2020 have been reclassified to "Other" to conform to the current period presentation.

Operating Expenses:

The increase in operating expenses is primarily attributed to higher purchased commodity cost for both electric and natural gas, driven by overall higher sales volumes and an increase in electric commodity costs. Further impacting the increase were storm restoration costs as a result of weather events impacting service during the first quarter 2021 and increases in certain expenses as provided for in delivery rates. Partially offsetting these increases were lower expenses associated with tree trimming due to crew availability in the first quarter; however, these amounts are expected to be spent in the second quarter.

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 For the three months ended March 31, 2021

(In millions)

Balance Sheet Account	Increase (Decrease)	Explanation
Accounts receivable, net of allowance for uncollectible accounts	8.9	Increase is primarily due to the seasonality of the business coupled with higher commodity prices and the impacts of the COVID-19 pandemic on customers, including legislative actions related to ceasing service terminations for non-payment and offering more flexible payment arrangements.
Regulatory assets - long term	(7.3)	Decrease primarily related to amounts collected in rates in excess of environmental expenses, lower deferred taxes recoverable through future rates attributable to plant and collections of eligible deferrals related to the rate adjustment mechanisms.
Other investments	8.6	Increase primarily due to funding of the non-qualified Supplemental Executive Retirement Plan.
Other assets - long term	10.7	Increase reflects \$10.4 million received and held in escrow.
Long term debt, including current maturities	75.0	Increase is due to the issuance of \$75 million in long-term debt in March 2021.
Notes Payable	(15.0)	Decrease is related to the repayment of short-term borrowings that were outstanding at December 31, 2020.
Accounts payable	(7.8)	Decrease is primarily due to payment of invoices that were outstanding at year-end associated with major storm restoration efforts and environmental remediation costs at the North Water Street MGP site.
Regulatory liabilities - current	(11.3)	Decrease is primarily due to bill credits provided to customers per the 2018 Rate order, payments submitted to New York State Energy Research and Development Authority ("NYSERDA") to fund Clean Energy Fund ("CEF") initiatives in excess of amounts collected in the first quarter and amounts returned to customers for revenues previously billed above revenue targets.
Other liabilities - long term	9.0	Increase primarily due to \$10.4 million received and held in escrow.
Accumulated deferred income tax	6.4	The increase is primarily due to the accounting requirement to recognize deferred taxes for the difference between tax basis of assets and liabilities and the book basis. These amounts are fully deferred for future return to or recovery from customers.

Liquidity and Capital Resources

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

(In millions)

	Year to Date	
	2021	2020
Cash, cash equivalents and restricted cash - beginning of period	\$ 12.8	\$ 21.1
Cash from operations pre-working capital	73.4	49.8
Working capital	(33.8)	(6.4)
Operating Activities	39.6	43.4
Investing Activities	(56.3)	(59.6)
Financing Activities	64.6	30.0
Cash, cash equivalents and restricted cash - end of period	\$ <u>60.7</u>	\$ <u>34.9</u>

Operating Activities: The increase in cash from operations pre-working capital in 2021 as compared to 2020 was primarily attributable to the increase in delivery rates which provided earnings on rate base growth and a deposit received and held in escrow. Working capital needs resulted in a decrease in cash flow during the first quarter of 2021 compared to the prior year primarily due to the impacts of the COVID-19 pandemic, most notably the impacts on customer billings and collections, coupled with an increase in electric energy and natural gas costs in excess of amounts billed to customers. Working capital in 2021 was also impacted by the payment of invoices outstanding at year-end associated with major storm restoration efforts, environmental remediation costs at the North Water Street site and higher remittances of CEF collections to NYSERDA.

Investing Activities: Central Hudson's capital expenditures in the first quarter of 2021 were consistent with the prior year. Approved capital spend is estimated to be approximately \$230 million for the year ended December 31, 2021, compared to actual spend of \$253 million for 2020, and includes continued strengthening of existing electrical and natural gas infrastructure, resiliency and automation of distribution systems, new common facilities and investments in information and distribution system technologies.

Financing Activities: During 2021, Central Hudson issued \$75 million in Senior Notes compared to \$30 million of proceeds received from short-term borrowings in the first quarter of 2020. Proceeds received from the sale of the Senior Notes were primarily used to repay short-term borrowings incurred in the first quarter of 2021 and for the repayment of maturing debt on April 1, 2021.

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 re-invests its earnings into future capital investments and 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 2021 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 for 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 throughout 2020 and as well as in the first quarter of 2021, all 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 2021 and the foreseeable future to meet working capital needs, fund Central Hudson's capital program and CHET's investment obligations in Transco and meet 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 ("S&P") or Moody's rating on the average daily unused portion of the credit facility.

At March 31, 2021 and December 31, 2020 there were no amounts outstanding under the committed credit arrangements for Central Hudson.

Uncommitted Credit

At March 31, 2021 and December 31, 2020, Central Hudson had uncommitted short-term credit arrangements with two commercial banks totaling \$30 million. There were no outstanding borrowings under the uncommitted credit agreements at March 31, 2021. At December 31, 2020, 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 0.9%.

Central Hudson's Bond Ratings

	March 31, 2021		December 31, 2020	
	Rating ⁽¹⁾	Outlook	Rating ⁽¹⁾	Outlook
S&P	A-	Stable	A-	Stable
Moody's	A3	Negative	A3	Negative
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 its rating outlook from stable to negative. Moody's indicated that the outlook reflects its 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. On December 11, 2020, Fitch affirmed its rating (A-) and stable outlook. On March 2, 2021, S&P published an updated report confirming no changes in the ratings or outlook.

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 March 16, 2021, Central Hudson issued \$75 million of Series U Senior Notes, with an interest rate of 3.29% per annum and a maturity date of March 16, 2051. Central Hudson primarily used the proceeds from the sale of the Senior Notes to repay short-term borrowings incurred in the first quarter of 2021 and for the repayment of maturing debt on April 1, 2021.

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 reasonable.

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

CH Energy Group

	March 31, 2021		December 31, 2020	
		%		%
Long-term Debt ⁽¹⁾	\$ 922.5	50.8	\$ 847.5	49.3
Short-term Debt	-	-	15.0	0.9
Common Equity	891.9	49.2	855.8	49.8
Total	\$ 1,814.4	100.0	\$ 1,718.3	100.0

(1) Includes current maturities of long-term debt.

Central Hudson

	March 31, 2021		December 31, 2020	
		%		%
Long-term Debt ⁽¹⁾	\$ 912.0	50.8	\$ 837.0	49.1
Short-term Debt	-	-	15.0	0.9
Common Equity	883.4	49.2	852.4	50.0
Total	<u>\$ 1,795.4</u>	<u>100.0</u>	<u>\$ 1,704.4</u>	<u>100.0</u>

(1) Includes current maturities of long-term debt.

Beginning July 1, 2020, Central Hudson's customer rates were premised on a capital structure, excluding short-term debt, with a common equity ratio of 50%. Central Hudson continues to manage 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, 2020

Regulation: There were no material changes to Central Hudson's regulatory accounting policies during the three months ended March 31, 2021.

Critical Accounting Estimates: There were no material changes to CH Energy Group's or Central Hudson's critical accounting estimates during the three months ended March 31, 2021.

GAAP Accounting Policies: There were no changes to CH Energy Group's or Central Hudson's accounting policies during the three months ended March 31, 2021.

Business Outlook

There were no material changes to CH Energy Group's or Central Hudson's mission and strategy since its 2020 Annual Financial Report.

Changes in Internal Controls over Financial Reporting

There have been no material changes in CH Energy Group's or Central Hudson's internal control over financial reporting during the three months ended March 31, 2021.

Regulatory Proceedings

There were no material changes to regulatory proceedings disclosed in the 2020 Annual Financial Report; however, activity related to on-going and new proceedings in the first quarter of 2021 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.

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 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 the 50% equity ratio approved as part of our current rate agreement to maintain financial integrity. PSC Staff and intervenor testimony was filed on December 22, 2020. Central Hudson and certain intervenors filed rebuttal testimony on January 22, 2021. On January 29, 2021, Central Hudson filed a notice of impending settlement negotiations. The first settlement conference was held February 4, 2021 and will continue thereafter as needed. Under the statutory 11-month timeline, a PSC Order in response to the filing is anticipated with new rates to become effective July 1, 2021. In the event the 11-month period is extended, management does not anticipate a material impact on the Company's long-term earnings, financial position or cash flow.

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 certain New York State utilities' responses to Tropical Storm Isaias, which impacted Central Hudson's service territory on August 4, 2020. On November 19, 2020, DPS Staff issued an interim Storm Report setting forth preliminary findings, including purported failures by the identified utilities to comply with their respective Commission approved Emergency Response Plans and Show Cause ("Show Cause Order") that initiated proceedings against Central Hudson and the other utilities. The Show Cause Order identified 32 apparent violations by Central Hudson, which, if established, could result in up to \$16 million of penalties. Central Hudson filed its response to the Show Cause Order on December 21, 2020. On February 23, 2021, Central Hudson filed a Notice of Impending Settlement Negotiations and, on that same date, Central Hudson and Staff filed a joint motion to adjourn the procedural schedule to facilitate a meaningful opportunity for the parties to engage in settlement discussions. By ruling dated March 5, 2021, the Administrative Law Judge suspended the proceeding's schedule for a period of 90 days to allow the parties to negotiate; additional suspension periods can be sought by the parties if the matter is not resolved during the initial 90-day suspension period. Management cannot predict the outcome of this matter, but does not believe it will have a material impact on Central Hudson's earnings, financial position or cash flow.

Federal Energy Regulatory Commission ("FERC") Proceeding

On December 31, 2019, Central Hudson submitted to FERC a new rate schedule pursuant to Rate Schedule 12 of the New York Independent System Operator ("NYISO") Open Access Transmission Tariff ("OATT") to establish a Facilities Charge for System Deliverability Upgrades ("SDU") being installed on Central Hudson's transmission facilities, which are required to provide four Large Generating Facility Developers with Capacity Resource Interconnection Service. This charge provides Central Hudson with full recovery of all reasonably incurred costs related to the development, construction, operation and maintenance of the SDU and a reasonable return on its investment. Project costs to be recovered by Central Hudson and allocated to the Load Serving Entities pursuant to Rate Schedule 12 of the NYISO OATT are expected to be approximately \$2.6 million plus operation, maintenance and other applicable costs and will be updated annually. On March 23, 2021, Central Hudson circulated for signature a settlement agreement at an updated Return on Equity ("ROE") of 9.4% plus a 50 basis point technology adder for a total ROE of 9.9%.

Low Income Energy Affordability – Effects of COVID

On February 4, 2021, Staff issued a whitepaper on NYS Energy Affordability Policy ("EAP"), Case 14-M-0565, proposing potential modifications and improvements to the distribution utility's energy affordability program for low-income customers. The report includes 24 recommendations to the Commission's EAP, which also incorporates specific related comments received in the COVID-19 Proceeding in Case 20-M-0266. The recommendations include: 1) proposed modifications to the utilities' EAP budget development methodologies, 2) recommendations for greater statewide standardization of utility programs to the maximum extent feasible, including: continued automatic enrollment of low-income participants into each utility's levelized budget billing programs; inclusion of all ratepayers that are recipients of any financial assistance programs described in the whitepaper; adopting a uniform statewide annual filing date to submit updates to their energy affordability programs

and tariff amendments and 3) development of customer Arrears Management Programs funded 50% by the Utility shareholders with an overall funding level that is based on 10% of the difference between pre-COVID arrears and post-COVID arrears. Initial Comments and Reply Comments are due on April 19, 2021 and May 3, 2021, respectively. On April 16, 2021, the Commission granted the Joint Utilities (“JU”) 30 day extension request to file both Initial and Reply comments on four of the recommendations related to financial and rate making issues that address COVID-related residential and commercial customer protections and a short-term arrears management program in the Staff report on EAP. Initial comments on the subset of the four financial and rate making issues are due on May 19, 2021 and Reply Comments are due on June 2, 2021.

Interim Modifications to New York State Standard Interconnection Requirements

On March 18, 2021, the Commission issued an Order in response to the JU seeking amendments to the system upgrade cost-sharing provisions contained in the New York State Site Investigation and Remediation for New Distributed Generators and Energy Storage Systems 5 MW or Less Connected in Parallel with Utility Distribution Systems to modify the existing cost sharing methodology, which has been in place since January 2017. The Commission authorized temporary measures to ensure interconnection applications that would benefit from a more equitable cost-sharing methodology remain in the interconnection process until the Commission addresses the full scope of the Petition in a future Order. Central Hudson implemented the required interim cost-sharing mechanism effective as of the issuance of the Order.

Gas Planning Procedure

On February 12, 2021, Staff filed the Gas System Planning Process Proposal which offers a modernized gas planning process for the gas distribution utilities in New York State and a Staff Moratorium Proposal that identifies procedures and criteria for managing moratoria on new attachments to the gas distribution systems. On March 25, 2021, Staff held a Stakeholder Forum to provide interested entities with an opportunity to engage with Staff to better understand the proposals. Initial comments on the Staff proposals are due May 3, 2021 and Reply Comments are due June 4, 2021.

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 to combine the multiple proceedings where data related topics have been addressed in recent years. 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 (“IEDR”) that provides a platform for access to customer and system data and enable achievement of Climate Leadership and Community Protection Act (“CLCPA”). On February 11, 2021, the Commission issued Order Implementing an IEDR to establish a path to achieve this data platform, assigning NYSERDA the role of Program Sponsor. The Order directed utilities to work with Staff and NYSERDA to implement a statewide IEDR Program. The Order requires utilities to establish an IEDR Implementation Team, led by a member of the company’s senior management team. The Commission established a budget cap of \$13.5 million for the Program Sponsor’s efforts for Phase 1, including \$12 million for procured resources and \$1.5 million for the NYSERDA administrative costs as Project Sponsor. The Order directs that program costs be allocated and collected from the jurisdictional electric utilities in the same manner as the current authorized costs are being allocated and collected via the existing Bill-As-You-Go (“BAYG”) agreements that NYSERDA has with each utility. Phase 1 shall be completed in 24 – 30 months. Phase 2 shall be completed in 30 – 36 months following completion of Phase 1. Operation of the utility’s IEDR data feeds shall persist for the life of the IEDR (multiple decades). The Order requires utilities file tariff amendments necessary to effectuate the recovery of costs associated with the IEDR Program and General Accounting Procedures associated with the implementation cost deferral provisions, which were filed on March 29, 2021. In addition, utilities are directed to file quarterly reports on IEDR project planning and investment. The Order directs

NYSERDA to file an initial Implementation Plan, an updated BAYG Summary, quarterly reports and program reports on Phase 1 and Phase 2.

On April 15, 2021, the Commission issued an Order Adopting a Data Access Framework. The Order adopts many of the Staff recommendations proposed in their Data access Policy Framework whitepaper. The framework incorporates the existing Commission established data access requirements to date including cybersecurity and privacy requirements and establishes data quality and integrity standards criterion to be met by the utility, or data custodian, for application or use case specific purposes. The Order also establishes a process that ensures the utilities will play a role with increasing customers' familiarity with appropriate data sharing options. The Order directs the Joint Utilities to file a Data Access Implementation Plan within 60 days.

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. On February 11, 2021, the Commission issued Order Adopting a Host Community Benefit Program to provide residential electric utility customers within a Host Community an annual bill credit. The credit will be provided on electric utilities' bills for accounts of residential customers within the town or city that hosts a Facility. The Renewable Owner will pay an annual Program Fee, in the amount of \$500 per MW of nameplate capacity and \$1,000 MW of nameplate capacity for solar and wind facilities, respectively. The Order directs utilities to file Implementation Plans for the Host Community Benefit Programs for Commission consideration and approval by July 31, 2021.

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. The Commission issued Order on Phase 1 Local Transmission and Distribution Project Proposals ("LT&D") on February 11, 2021. The Order directs the JU to proceed with development of the Phase 1 LT&D projects which have been incorporated into the Utilities' capital planning processes and rate plans. To the extent proposed projects are not included in rate plans, they shall be included, with supporting information, in the JU's next rate filings. If projects are needed to meet CLCPA deadlines sooner than can be achieved through a utility's next rate filing, the utility may file a separate petition. The utility should consider whether projects can be reprioritized within its current budgets before filing a petition for additional cost recovery. Semi-annual reports detailing the status of the funded Phase 1 projects are required. Staff filed a straw proposal on March 16, 2021, setting forth proposed study methodologies that will generate

an improved understanding of system headroom for the purpose of evaluating the CLCPA benefits of potential projects. Comments on Staff's proposal are due June 1, 2021.

On March 19, 2021, in the proceeding reviewing the NYISO Public Policy Transmission Needs for 2020, the Commission issued an Order that found that certain aspects of the CLCPA regarding offshore wind are driving the need for additional transmission facilities between Long Island and New York City, and therefore constitute a Public Policy Requirement ("PPR"). In particular, the CLCPA requires the Commission to establish programs whereby (1) a minimum of 70 percent of electricity is derived from renewable sources by 2030 and (2) at least 9,000 MW of offshore wind is procured by 2035. The Commission referred the identified PPR to the NYISO for the solicitation of potential solutions and the preparation of analyses related to those solutions.

Electric Generation Facility Cessation Mitigation Program

On April 8, 2020, the State Energy Planning Board adopted an amendment to the State Energy Plan directing the Commission to develop a mechanism to provide a stable source of funding for the Electric Generation Facility Cessation Mitigation Program ("Mitigation Program"). On February 11, 2021, the Commission issued an Order that authorizes NYSERDA to enter into a memorandum of understanding ("MOU") with Empire State Development for the use of uncommitted funds from legacy programs in the amount of approximately \$12.5 million per year through 2030, not to exceed \$112.5 million in total, to create a stable source of funding for the Mitigation Program. The Order directs NYSERDA to update the existing BAYG terms to specify the Mitigation Program as a component of the requisition process to access the funds from the investor-owned electric distribution utilities. NYSERDA filed the MOU on March 11, 2021. NYSERDA is required to file annual reports beginning March 16, 2022 on funding amounts made, paid and refunded during the previous calendar year as well as beginning and ending cash balances.

Energy Storage

On April 16, 2021, the Commission issued an Order in Case 18-E-0130 directing modifications to energy storage solicitations. In the Order, the Commission adopted the JU request to extend the in service date for qualified projects by three years to December 31, 2025 and to extend the maximum contract duration from seven to ten years. However, the Commission denied the JU proposal for a utility ownership model of energy storage assets finding that competitive ownership of energy storage assets, and of Distributed Energy Resources in general, is a core principle and the existing limitations on utility ownership of energy storage should be maintained.

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. On March 15, 2021, Central Hudson filed its update reporting that it considered all 47 audit recommendations complete. To date, 45 recommendations have been accepted by Staff.

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.