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

## QUARTERLY FINANCIAL REPORT

for the period ended

## MARCH 31, 2022

**QUARTER ENDED MARCH 31, 2022**

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**FINANCIAL STATEMENTS (Unaudited)**

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

| | Three Months Ended March 31, 2022 | 2021 |
|---|---|---|
| Operating Revenues | | |
| Electric | $ 205,995 | $ 152,793 |
| Natural gas | 91,568 | 71,981 |
| Total Operating Revenues | 297,563 | 224,774 |
| Operating Expenses | | |
| Operation: | | |
| Purchased electricity | 91,421 | 40,678 |
| Purchased natural gas | 37,621 | 23,445 |
| Other expenses of operation - regulated activities | 95,548 | 82,385 |
| Other expenses of operation - non-regulated | 36 | 46 |
| Depreciation and amortization | 20,155 | 17,731 |
| Taxes, other than income tax | 22,235 | 20,753 |
| Total Operating Expenses | 267,016 | 185,038 |
| Operating Income | 30,547 | 39,736 |
| Other Income and Deductions | | |
| Income from unconsolidated affiliates | 618 | 477 |
| Interest on regulatory assets and other interest income | 645 | 1,035 |
| Regulatory adjustments for interest costs | (242) | (178) |
| Non-service cost components of pension and other post-employment benefits ("OPEB") | 9,792 | 5,226 |
| Other - net | 964 | 385 |
| Total Other Income | 11,777 | 6,945 |
| Interest Charges | | |
| Interest on long-term debt | 9,419 | 8,456 |
| Interest on regulatory liabilities and other interest | 553 | 833 |
| Total Interest Charges | 9,972 | 9,289 |
| Income Before Income Taxes | 32,352 | 37,392 |
| Income Tax Expense | 6,776 | 6,299 |
| Net Income | $ 25,576 | $ 31,093 |

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

| | Three Months Ended March 31, 2022 | 2021 |
|---|---|---|
| Net Income | $ 25,576 | $ 31,093 |
| Other Comprehensive Income: | | |
| Employee future benefits - net of tax expense | 4 | 35 |
| Comprehensive Income | $ 25,580 | $ 31,128 |

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, 2022 | Three Months Ended March 31, 2021 |
|---|---|---|
| Operating Activities: | | |
| Net income | $ 25,576 | $ 31,093 |
| Adjustments to reconcile net income to net cash provided from operating activities: | | |
| Depreciation | 15,793 | 14,510 |
| Amortization | 4,362 | 3,221 |
| Deferred income taxes - net | 7,428 | 7,822 |
| Uncollectible expense | 1,114 | 2,992 |
| Undistributed equity in earnings of unconsolidated affiliates | (109) | (458) |
| Pension expense | (1,774) | 695 |
| OPEB credit | (2,062) | (1,755) |
| Regulatory liability - rate moderation | 222 | (5,126) |
| Regulatory asset - revenue decoupling mechanism ("RDM") recorded | 7,646 | 6,533 |
| Changes in operating assets and liabilities - net: | | |
| Accounts receivable, unbilled revenues and other receivables | (64,775) | (8,251) |
| Fuel, materials and supplies | (2,003) | (619) |
| Special deposits and prepayments | (1,237) | (1,157) |
| Income and other taxes | (231) | (1,773) |
| Accounts payable | 10,941 | (6,793) |
| Accrued interest | 3,465 | 4,143 |
| Customer advances | (4,515) | (4,122) |
| Other advances | (726) | 9,575 |
| Pension plan contribution | (372) | (285) |
| OPEB contribution | (528) | (812) |
| Regulatory asset - RDM refunded | (3,280) | (7,697) |
| Regulatory asset - RY 3 - delayed electric and natural gas delivery rate increase | 191 | 2,590 |
| Regulatory asset - major storm | (26,444) | (904) |
| Regulatory asset - site investigation and remediation ("SIR") | 1,988 | 1,206 |
| Regulatory liability - energy efficiency programs including clean energy fund | (8,141) | (7,543) |
| Regulatory asset - rate adjustment mechanisms ("RAM") | 4,397 | 2,329 |
| Regulatory asset - deferred natural gas and electric costs | (7,205) | (2,124) |
| Other - net | 3,169 | 2,384 |
| Net cash (used in) provided from operating activities | (37,110) | 39,674 |
| Investing Activities: | | |
| Additions to utility plant | (50,612) | (48,311) |
| Other - net | (497) | (8,008) |
| Net cash used in investing activities | (51,109) | (56,319) |
| Financing Activities: | | |
| Proceeds from issuance of long-term debt | 110,000 | 75,000 |
| Net change in short-term borrowings | (17,000) | (15,000) |
| Capital contribution | 29,300 | 4,996 |
| Other - net | (580) | (410) |
| Net cash provided from financing activities | 121,720 | 64,586 |
| Net Change in Cash, Cash Equivalents and Restricted Cash | 33,501 | 47,941 |
| Cash, Cash Equivalents and Restricted Cash at Beginning of Period | 18,129 | 12,807 |
| Cash, Cash Equivalents and Restricted Cash at End of Period | $ 51,630 | $ 60,748 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Interest paid, net of amounts capitalized | $ 6,112 | $ 4,008 |
| Federal and state income taxes paid (refunded), net | $ 144 | $ 288 |
| Non-Cash Operating Activities: | | |
| Right-of-Use Assets Obtained in Exchange for New Operating Lease Liabilities | $ - | $ 387 |
| Non-Cash Investing Activities: | | |
| Accrued capital expenditures | $ 12,957 | $ 16,650 |

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

**CH ENERGY GROUP**

**CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)**

(In Thousands)

| | March 31, 2022 | December 31, 2021 | March 31, 2021 |
|---|---|---|---|
| **ASSETS** | | | |
| Utility Plant (Note 3) | | | |
| Electric | $ 1,708,755 | $ 1,687,291 | $ 1,639,802 |
| Natural gas | 741,855 | 734,165 | 689,407 |
| Common | 436,825 | 425,970 | 361,363 |
| Gross Utility Plant | 2,887,435 | 2,847,426 | 2,690,572 |
| Less: Accumulated depreciation | 664,435 | 649,513 | 623,840 |
| Net | 2,223,000 | 2,197,913 | 2,066,732 |
| Construction work in progress | 115,661 | 118,182 | 116,664 |
| Net Utility Plant | 2,338,661 | 2,316,095 | 2,183,396 |
| Non-utility property & plant | 524 | 524 | 524 |
| Net Non-Utility Property & Plant | 524 | 524 | 524 |
| Current Assets | | | |
| Cash and cash equivalents (Note 1) | 40,840 | 7,339 | 48,871 |
| Accounts receivable from customers - net of allowance for uncollectible accounts of $9.4 million, $9.7 million and $10.2 million, respectively (Note 2) | 188,894 | 120,600 | 86,135 |
| Accounts receivable - affiliates (Note 17) | 86 | 1,390 | 505 |
| Accrued unbilled utility revenues - net of allowance for uncollectible accounts of $1.8 million, $1.5 million and $1.0 million, respectively (Note 2) | 20,520 | 25,378 | 23,018 |
| Other receivables | 18,950 | 17,421 | 12,508 |
| Fuel, materials and supplies (Note 1) | 26,119 | 24,116 | 24,296 |
| Regulatory assets (Note 4) | 76,204 | 78,849 | 56,786 |
| Income tax receivable | 912 | 671 | 2,261 |
| Fair value of derivative instruments (Note 15) | 501 | 1,768 | 4 |
| Special deposits and prepayments | 37,445 | 36,208 | 33,368 |
| Total Current Assets | 410,471 | 313,740 | 287,752 |
| Deferred Charges and Other Assets | | | |
| Regulatory assets - deferred pension costs (Note 4) | - | - | 5,376 |
| Regulatory assets - other (Note 4) | 191,496 | 174,483 | 155,455 |
| Prefunded pension costs (Note 11) | 71,704 | 70,222 | |
| Prefunded OPEB costs (Note 11) | 32,056 | 30,480 | 7,935 |
| Investments in unconsolidated affiliates (Note 6) | 16,505 | 15,252 | 10,503 |
| Other investments (Note 16) | 56,396 | 56,875 | 56,560 |
| Other | 18,397 | 18,988 | 21,026 |
| Total Deferred Charges and Other Assets | 386,554 | 366,300 | 256,855 |
| Total Assets | $ 3,136,210 | $ 2,996,659 | $ 2,728,527 |

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, 2022 | December 31, 2021 | March 31, 2021 |
|---|---|---|---|
| **CAPITALIZATION AND LIABILITIES** | | | |
| Capitalization (Note 9) | | | |
| CH Energy Group Common Shareholders' Equity | | | |
| Common Stock (30,000,000 shares authorized: $0.01 par value; 15,961,400 shares issued and outstanding) | $ 160 | $ 160 | $ 160 |
| Paid-in capital | 463,102 | 433,802 | 429,402 |
| Retained earnings | 530,877 | 505,301 | 462,441 |
| Accumulated other comprehensive income (loss) | 23 | 19 | (126) |
| Total Equity | 994,162 | 939,282 | 891,877 |
| Long-term debt (Note 10) | | | |
| Principal amount | 1,016,146 | 906,146 | 876,510 |
| Unamortized debt issuance costs | (5,608) | (5,139) | (5,104) |
| Net long-term debt | 1,010,538 | 901,007 | 871,406 |
| Total Capitalization | 2,004,700 | 1,840,289 | 1,763,283 |
| Current Liabilities | | | |
| Current maturities of long-term debt (Note 10) | 25,364 | 25,364 | 45,987 |
| Short-term borrowings (Note 8) | 90,000 | 107,000 | - |
| Accounts payable | 68,794 | 64,722 | 49,839 |
| Accounts payable - affiliates (Note 17) | - | - | 37 |
| Accrued interest | 11,650 | 8,185 | 11,757 |
| Accrued vacation and payroll | 12,611 | 11,590 | 13,016 |
| Customer advances | 13,590 | 18,105 | 11,171 |
| Customer deposits | 7,582 | 7,539 | 7,523 |
| Regulatory liabilities (Note 4) | 62,261 | 63,456 | 77,691 |
| Fair value of derivative instruments (Note 15) | 883 | 7,563 | 362 |
| Accrued environmental remediation costs (Note 13) | 6,803 | 5,900 | 5,856 |
| Other current liabilities | 33,341 | 37,294 | 37,787 |
| Total Current Liabilities | 332,879 | 356,718 | 261,026 |
| Deferred Credits and Other Liabilities | | | |
| Regulatory liabilities - deferred pension costs (Note 4) | 91,302 | 90,934 | - |
| Regulatory liabilities - deferred OPEB costs (Note 4) | 29,944 | 31,032 | 12,559 |
| Regulatory liabilities - other (Note 4) | 277,612 | 272,555 | 279,082 |
| Operating reserves | 5,215 | 5,006 | 4,901 |
| Accrued environmental remediation costs (Note 13) | 64,589 | 65,753 | 67,896 |
| Accrued pension costs (Note 11) | - | - | 24,738 |
| Tax reserve (Note 5) | - | - | 946 |
| Other liabilities | 44,667 | 48,373 | 48,678 |
| Total Deferred Credits and Other Liabilities | 513,329 | 513,653 | 438,800 |
| Accumulated Deferred Income Tax (Note 5) | 285,302 | 285,999 | 265,418 |
| Commitments and Contingencies | | | |
| Total Capitalization and Liabilities | $ 3,136,210 | $ 2,996,659 | $ 2,728,527 |

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, 2022 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Common Stock | | | | | | | | | | |
| | Shares Issued | | Amount | | Paid-In Capital | | Retained Earnings | | AOCI* | | Total Equity |
| **Balance at December 31, 2021** | 15,961,400 | $ | 160 | $ | 433,802 | $ | 505,301 | $ | 19 | $ | 939,282 |
| Net income | | | | | | | 25,576 | | | | 25,576 |
| Capital contribution | | | | | 29,300 | | | | | | 29,300 |
| Employee future benefits, net of tax | | | | | | | | | 4 | | 4 |
| **Balance at March 31, 2022** | 15,961,400 | $ | 160 | $ | 463,102 | $ | 530,877 | $ | 23 | $ | 994,162 |

| | Three Months Ended March 31, 2021 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Common Stock | | | | | | | | | | |
| | 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 - tax sharing agreement | | | | | 4,996 | | | | | | 4,996 |
| Employee future benefits, net of tax | | | | | | | | | 35 | | 35 |
| **Balance at March 31, 2021** | 15,961,400 | $ | 160 | $ | 429,402 | $ | 462,441 | $ | (126) | $ | 891,877 |

*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, 2022 | Three Months Ended March 31, 2021 |
|---|---|---|
| Operating Revenues | | |
| Electric | $ 205,995 | $ 152,793 |
| Natural gas | 91,568 | 71,981 |
| Total Operating Revenues | 297,563 | 224,774 |
| Operating Expenses | | |
| Operation: | | |
| Purchased electricity | 91,421 | 40,678 |
| Purchased natural gas | 37,621 | 23,445 |
| Other expenses of operation | 95,548 | 82,385 |
| Depreciation and amortization | 20,155 | 17,731 |
| Taxes, other than income tax | 22,219 | 20,746 |
| Total Operating Expenses | 266,964 | 184,985 |
| Operating Income | 30,599 | 39,789 |
| Other Income and Deductions | | |
| Interest on regulatory assets and other interest income | 645 | 1,035 |
| Regulatory adjustments for interest costs | (242) | (178) |
| Non-service cost components of pension and OPEB | 9,798 | 5,233 |
| Other - net | 920 | 379 |
| Total Other Income | 11,121 | 6,469 |
| Interest Charges | | |
| Interest on long-term debt | 9,271 | 8,276 |
| Interest on regulatory liabilities and other interest | 554 | 833 |
| Total Interest Charges | 9,825 | 9,109 |
| Income Before Income Taxes | 31,895 | 37,149 |
| Income Tax Expense | 6,605 | 6,134 |
| Net Income | $ 25,290 | $ 31,015 |

## CENTRAL HUDSON
## CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
(In Thousands)

| | Three Months Ended March 31, 2022 | Three Months Ended March 31, 2021 |
|---|---|---|
| Net Income | $ 25,290 | $ 31,015 |
| Other Comprehensive Income: | | |
| Employee future benefits - net of tax expense | 4 | 35 |
| Comprehensive Income | $ 25,294 | $ 31,050 |

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, 2022 | Three Months Ended March 31, 2021 |
|---|---|---|
| Operating Activities: | | |
| Net income | $ 25,290 | $ 31,015 |
| Adjustments to reconcile net income to net cash provided from operating activities: | | |
| Depreciation | 15,793 | 14,510 |
| Amortization | 4,362 | 3,221 |
| Deferred income taxes - net | 7,284 | 7,696 |
| Uncollectible expense | 1,114 | 2,992 |
| Pension expense | (1,774) | 695 |
| OPEB credit | (2,062) | (1,755) |
| Regulatory liability - rate moderation | 222 | (5,126) |
| Regulatory asset - RDM recorded | 7,646 | 6,533 |
| Changes in operating assets and liabilities - net: | | |
| Accounts receivable, unbilled revenues and other receivables | (66,063) | (8,934) |
| Fuel, materials and supplies | (2,003) | (619) |
| Special deposits and prepayments | (1,237) | (1,157) |
| Income and other taxes | (130) | (1,532) |
| Accounts payable | 11,828 | (5,348) |
| Accrued interest | 3,317 | 3,963 |
| Customer advances | (4,515) | (4,122) |
| Other advances | (726) | 9,575 |
| Pension plan contribution | (372) | (285) |
| OPEB contribution | (528) | (812) |
| Regulatory asset - RDM refunded | (3,280) | (7,697) |
| Regulatory asset - RY 3 - delayed electric and natural gas delivery rate increase | 191 | 2,590 |
| Regulatory asset - major storm | (26,444) | (904) |
| Regulatory asset - SIR | 1,988 | 1,206 |
| Regulatory liability - energy efficiency programs including clean energy fund | (8,141) | (7,543) |
| Regulatory asset - RAM | 4,397 | 2,329 |
| Regulatory asset - deferred natural gas and electric costs | (7,205) | (2,124) |
| Other - net | 5,532 | 4,007 |
| Net cash (used in) provided from operating activities | (35,516) | 42,374 |
| Investing Activities: | | |
| Additions to utility plant | (50,612) | (48,311) |
| Other - net | 618 | (7,362) |
| Net cash used in investing activities | (49,994) | (55,673) |
| Financing Activities: | | |
| Proceeds from issuance of long-term debt | 110,000 | 75,000 |
| Net change in short-term borrowings | (17,000) | (15,000) |
| Capital contribution | 21,000 | - |
| Other - net | (580) | (410) |
| Net cash provided from financing activities | 113,420 | 59,590 |
| Net Change in Cash, Cash Equivalents and Restricted Cash | 27,910 | 46,291 |
| Cash, Cash Equivalents and Restricted Cash - Beginning of Period | 14,541 | 5,194 |
| Cash, Cash Equivalents and Restricted Cash - End of Period | $ 42,451 | $ 51,485 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Interest paid, net of amounts capitalized | $ 6,112 | $ 4,008 |
| Federal and state income taxes paid/(refunded), net | $ (2) | $ - |
| Non-Cash Operating Activities: | | |
| Right-of-Use Assets Obtained in Exchange for New Operating Lease Liabilities | $ - | $ 387 |
| Non-Cash Investing Activities: | | |
| Accrued capital expenditures | $ 12,957 | $ 16,650 |

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

## CENTRAL HUDSON

## CONDENSED BALANCE SHEET (UNAUDITED)

(In Thousands)

| | March 31, 2022 | December 31, 2021 | March 31, 2021 |
|---|---|---|---|
| **ASSETS** | | | |
| Utility Plant (Note 3) | | | |
| Electric | $ 1,708,755 | $ 1,687,291 | $ 1,639,802 |
| Natural gas | 741,855 | 734,165 | 689,407 |
| Common | 436,825 | 425,970 | 361,363 |
| Gross Utility Plant | 2,887,435 | 2,847,426 | 2,690,572 |
| Less: Accumulated depreciation | 664,435 | 649,513 | 623,840 |
| Net | 2,223,000 | 2,197,913 | 2,066,732 |
| Construction work in progress | 115,661 | 118,182 | 116,664 |
| Net Utility Plant | 2,338,661 | 2,316,095 | 2,183,396 |
| 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) | 31,661 | 3,751 | 39,608 |
| Accounts receivable from customers - net of allowance for uncollectible accounts of $9.4 million, $9.7 million and $10.2 million, respectively (Note 2) | 188,894 | 120,600 | 86,135 |
| Accrued unbilled utility revenues - net of allowance for uncollectible accounts of $1.8 million, $1.5 million and $1.0 million, respectively (Note 2) | 20,520 | 25,378 | 23,018 |
| Other receivables | 18,975 | 17,493 | 12,535 |
| Fuel, materials and supplies (Note 1) | 26,119 | 24,116 | 24,296 |
| Regulatory assets (Note 4) | 76,204 | 78,849 | 56,786 |
| Income tax receivable | 161 | - | 1,532 |
| Fair value of derivative instruments (Note 15) | 501 | 1,768 | 4 |
| Special deposits and prepayments | 37,445 | 36,208 | 33,368 |
| Total Current Assets | 400,480 | 308,163 | 277,282 |
| Deferred Charges and Other Assets | | | |
| Regulatory assets - deferred pension costs (Note 4) | - | - | 5,376 |
| Regulatory assets - other (Note 4) | 191,496 | 174,483 | 155,455 |
| Prefunded pension costs (Note 11) | 71,914 | 70,454 | - |
| Prefunded OPEB costs (Note 11) | 32,056 | 30,480 | 7,935 |
| Other investments | 55,448 | 55,896 | 55,633 |
| Other | 18,397 | 18,988 | 21,025 |
| Total Deferred Charges and Other Assets | 369,311 | 350,301 | 245,424 |
| Total Assets | $ 3,108,976 | $ 2,975,083 | $ 2,706,626 |

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, 2022 | December 31, 2021 | March 31, 2021 |
|---|---|---|---|
| **CAPITALIZATION AND LIABILITIES** | | | |
| Capitalization (Note 9) | | | |
| Common Stock (30,000,000 shares authorized: $5 par value; 16,862,087 shares issued and outstanding) | $ 84,311 | $ 84,311 | $ 84,311 |
| Paid-in capital | 301,452 | 280,452 | 274,452 |
| Accumulated other comprehensive income (loss) | 23 | 19 | (126) |
| Retained earnings | 597,311 | 572,021 | 529,413 |
| Capital stock expense | (4,633) | (4,633) | (4,633) |
| Total Equity | 978,464 | 932,170 | 883,417 |
| Long-term debt (Note 10) | | | |
| Principal amount | 1,009,400 | 899,400 | 867,800 |
| Unamortized debt issuance costs | (5,573) | (5,102) | (5,060) |
| Net long-term debt | 1,003,827 | 894,298 | 862,740 |
| Total Capitalization | 1,982,291 | 1,826,468 | 1,746,157 |
| Current Liabilities | | | |
| Current maturities of long-term debt (Note 10) | 23,400 | 23,400 | 44,150 |
| Short-term borrowings (Note 8) | 90,000 | 107,000 | - |
| Accounts payable | 70,291 | 65,332 | 51,148 |
| Accrued interest | 11,477 | 8,160 | 11,548 |
| Accrued vacation and payroll | 12,611 | 11,590 | 13,016 |
| Customer advances | 13,590 | 18,105 | 11,171 |
| Customer deposits | 7,582 | 7,539 | 7,523 |
| Regulatory liabilities (Note 4) | 62,261 | 63,456 | 77,691 |
| Fair value of derivative instruments (Note 15) | 883 | 7,563 | 362 |
| Accrued environmental remediation costs (Note 13) | 6,803 | 5,900 | 5,856 |
| Other current liabilities | 31,559 | 34,924 | 36,442 |
| Total Current Liabilities | 330,457 | 352,969 | 258,907 |
| Deferred Credits and Other Liabilities | | | |
| Regulatory liabilities - deferred pension costs (Note 4) | 91,302 | 90,934 | - |
| Regulatory liabilities - deferred OPEB costs (Note 4) | 29,944 | 31,032 | 12,559 |
| Regulatory liabilities - other (Note 4) | 277,612 | 272,555 | 279,082 |
| Operating reserves | 5,215 | 5,006 | 4,901 |
| Accrued environmental remediation costs (Note 13) | 64,589 | 65,753 | 67,896 |
| Accrued pension costs (Note 11) | - | - | 24,505 |
| Tax reserve (Note 5) | - | - | 932 |
| Other liabilities | 43,540 | 45,491 | 46,977 |
| Total Deferred Credits and Other Liabilities | 512,202 | 510,771 | 436,852 |
| Accumulated Deferred Income Tax (Note 5) | 284,026 | 284,875 | 264,710 |
| Commitments and Contingencies | | | |
| Total Capitalization and Liabilities | $ 3,108,976 | $ 2,975,083 | $ 2,706,626 |

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, 2022 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Common Stock | | | | | | |
| | Shares Issued | Amount | Paid-In Capital | Capital Stock Expense | Retained Earnings | AOCI* | Total Equity |
| **Balance at December 31, 2021** | 16,862,087 | $ 84,311 | $ 280,452 | $ (4,633) | $ 572,021 | $ 19 | $ 932,170 |
| Net income | | | | | 25,290 | | 25,290 |
| Capital contribution | | | 21,000 | | | | 21,000 |
| Employee future benefits, net of tax | | | | | | 4 | 4 |
| **Balance at March 31, 2022** | 16,862,087 | $ 84,311 | $ 301,452 | $ (4,633) | $ 597,311 | $ 23 | $ 978,464 |

| | 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** | 16,862,087 | $ 84,311 | $ 274,452 | $ (4,633) | $ 529,413 | $ (126) | $ 883,417 |

*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, 2022, there has been no activity in CHGT. CHEC had ownership interests in certain non-regulated subsidiaries that are less than 100% owned; at March 31, 2022 the value of the investments is $0.

### **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, 2021 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, 2021 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, 2022 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.

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 either 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 Orders. 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") and on November 18, 2021, the PSC issued an Order Approving Rate Plan in Cases 20-E-0428 and 20-G-0429 (the "2021 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 applicable 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, which would materially impact earnings. 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, 2022 | March 31, 2021 |
|---|---|---|
| Cash and cash equivalents | $ 40,840 | $ 48,871 |
| Restricted cash included in other long-term assets | 10,790 | 11,877 |
| Total cash, cash equivalents and restricted cash shown in the statement of cash flows | $ 51,630 | $ 60,748 |

**Central Hudson**

(In Thousands)

| | March 31, 2022 | March 31, 2021 |
|---|---|---|
| Cash and cash equivalents | $ 31,661 | $ 39,608 |
| Restricted cash included in other long-term assets | 10,790 | 11,877 |
| Total cash, cash equivalents and restricted cash shown in the statement of cash flows | $ 42,451 | $ 51,485 |

## Accounts Receivable and Allowance for Uncollectible Accounts

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.

## Financial Instruments

CH Energy Group and Central Hudson use reasonable and supportable forecasts in the estimate of credit losses and the recognition of expected losses upon initial recognition of a financial instrument, in addition to using past events and current conditions. At March 31, 2022, December 31, 2021, and March 31, 2021 there were no expected credit losses on financial instruments other than those on accounts receivable and unbilled utility revenues.

## Fuel, Materials & Supplies

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

| | March 31, 2022 | December 31, 2021 | March 31, 2021 |
|---|---|---|---|
| Fuel used in electric generation | 380 | 491 | 474 |
| Materials and supplies | 25,739 | 23,625 | 23,822 |
| Total | $ 26,119 | $ 24,116 | $ 24,296 |

Effective August 1, 2020 Central Hudson entered into an Asset Management Agreement ("AMA") 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. Amounts related to the AMA are recorded in "Special deposits and prepayments" in CH Energy Group's and Central Hudson's Balance Sheets.

**Reclassification**

Certain amounts shown in Note 4 – "Regulatory Matters" related to prior year, have been reclassified to conform to the 2022 presentation. These reclassifications had no effect on the reported results of operations.

***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; see Note 4 – "Regulatory Matters" for details, the electric and natural gas make whole provision and lost finance charges as established in the 2021 Rate Order, 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 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, | |
|---|---|---|
| **Electric** | 2022 | 2021 |
| Revenues from Contracts with Customers (ASC 606) | $ 207,860 | $ 149,224 |
| Alternative Revenues (Non ASC 606) | (5,448) | (8,916) |
| Other Revenue Adjustments (Non ASC 606) | 3,583 | 12,485 |
| Total Operating Revenues Electric | $ 205,995 | $ 152,793 |
| **Natural Gas** | | |
| Revenues from Contracts with Customers (ASC 606) | $ 96,417 | $ 72,664 |
| Alternative Revenues (Non ASC 606) | (908) | 2,097 |
| Other Revenue Adjustments (Non ASC 606) | (3,941) | (2,780) |
| Total Operating Revenues Natural Gas | $ 91,568 | $ 71,981 |

The quarter over quarter increase in electric and natural gas revenues from contracts with customers was primarily driven by higher billed purchased commodity costs, higher sales for resale and surcharges when compared to 2021.

The increase in electric alternative revenue programs during 2022 is due to the recovery of suspended finance charges as approved in the 2021 Rate Order and to lower actual billed revenues compared to the Rate Order prescribed targets. The decrease in natural gas alternative revenue programs quarter over quarter is due to actual billed revenues above the prescribed targets partially offset by the recovery of suspended finance charges as approved in the 2021 Rate Order.

The quarter over quarter decrease in other electric revenue adjustments is due to lower customer credits for previously deferred revenues in excess of prescribed targets and bill credit surcharges in 2022 when compared to bill credits issued to customers in 2021. The decrease in other natural gas revenue adjustments is primarily due to lower bill credits in 2022 when compared to 2021. Further impacting the decreases in other revenue adjustments for electric and natural gas are higher NRAs recorded during the first quarter 2022 related to PSC complaint rate and customer satisfaction survey performance ratings above and below the PSC prescribed targets, respectively.

**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, | |
|---|---|---|
| | 2022 | 2021 |
| Balance at Beginning of Period | $ (11,200) | $ (10,400) |
| Uncollectible expense | (1,114) | (2,992) |
| Bad debt write-offs (recoveries) - net | 1,114 | 2,192 |
| Balance at End of Period | $ (11,200) | $ (11,200) |

Management completes a quantitative and qualitative assessment of forecasted economic conditions including a historical analysis of the relationship of write-offs to accounts receivable balances in arrears taking into consideration certain qualitative factors differentiating the current situation from other significant events in the historical period, including the nature and cause of economic downturn, as well as legislative and governmental actions under consideration and taken to provide relief and assistance to customers financially impacted by the COVID-19 pandemic. Central Hudson continues to proactively contact customers regarding past due balances to advise them of financial assistance programs available and is also working with local agencies and municipalities to obtain funding for its customers which has been made available through federal and state programs. On April 7, 2022, $250 million was approved in the New York State budget to provide additional funding for utility arrears relief for customers eligible for energy affordability programs. This funding will be made available to utilities regulated by the PSC, municipal utilities, and the residential utility customers of the Long Island Power Authority. Discussions continue among the New York Joint Utilities and PSC Staff under various proceedings regarding utility arrears management programs. The Company concluded that no further increase to the reserve is necessary as of March 31, 2022 based on the potential available funding to assist customers with their arrears balances.

***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, 2022 | Utility Plant December 31, 2021 | Utility Plant March 31, 2021 |
|---|---|---|---|---|
| Electric: | | | | |
| Production | 25-95 | $ 43,660 | $ 43,719 | $ 43,210 |
| Transmission | 30-90 | 461,783 | 449,054 | 438,391 |
| Distribution | 8-80 | 1,196,402 | 1,187,608 | 1,151,292 |
| Other | 40 | 6,910 | 6,910 | 6,909 |
| Total | | $ 1,708,755 | $ 1,687,291 | $ 1,639,802 |
| Natural Gas: | | | | |
| Transmission | 19-85 | $ 63,886 | $ 63,284 | $ 61,533 |
| Distribution | 28-95 | 677,527 | 670,439 | 627,432 |
| Other | N/A | 442 | 442 | 442 |
| Total | | $ 741,855 | $ 734,165 | $ 689,407 |
| Common: | | | | |
| Land and Structures | 50 | $ 112,642 | $ 113,200 | $ 105,703 |
| Office and Other Equipment, Radios and Tools | 8-35 | 87,334 | 85,404 | 82,117 |
| Transportation Equipment | 10-12 | 78,778 | 78,349 | 77,970 |
| Other | 3-15 | 158,071 | 149,017 | 95,573 |
| Total | | $ 436,825 | $ 425,970 | $ 361,363 |
| Gross Utility Plant | | $ 2,887,435 | $ 2,847,426 | $ 2,690,572 |

For the three months ended March 31, 2022 and 2021, the borrowed component of funds used during construction and recorded as a reduction of interest expense was $0.3 and $0.4 million and the equity component reported as other income was $0.6 and $0.7 million, respectively.

Included in the Net Utility Plant balance of $2.3 billion at March 31, 2022 and December 31, 2021 and $2.2 billion at March 31, 2021, is $187.9 million, $181.0 million and $149.5 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 $82.9 million, $78.5 million and $68.0 million, respectively.

As of March 31, 2022, December 31, 2021, and March 31, 2021, Central Hudson has reclassified from utility plant assets $44.7 million, $42.8 million and $41.4 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 $3.1 million as of March 31, 2022 and December 31, 2021 and $1.9 million at March 31, 2021. 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, 2022 | December 31, 2021 | March 31, 2021 |
|---|---|---|---|
| Regulatory Assets: | | | |
| Deferred purchased electric costs (Note 1) | $ 22,604 | $ 17,319 | $ 8,407 |
| Deferred purchased natural gas costs (Note 1) | 9,977 | 8,057 | 1,640 |
| Deferred unrealized losses on derivatives - electric and natural gas (Note 15) | 883 | 7,563 | 362 |
| RAM - electric and carrying charges | 12,500 | 15,258 | 11,792 |
| RAM - natural gas and carrying charges | 2,089 | 3,397 | 3,174 |
| EAMs - electric | 3,158 | 3,570 | 3,628 |
| SC 8 Street Lighting and carrying charges | - | - | 1,920 |
| Delayed electric and natural gas delivery rate increase and carrying charges | - | - | 2,007 |
| RDM and carrying charges - natural gas | - | 2,942 | 2,421 |
| Energy efficiency programs and carrying charges | 22,603 | 16,819 (2) | 845 (2) |
| Revenue requirement of LPP replacement and carrying charges | 410 | - | 2,549 |
| Deferred pension costs (Note 11) | - | - | 5,376 |
| Demand management programs and carrying charges | 8,589 | 8,809 | 10,802 |
| Deferred and accrued costs - SIR (Note 13) and carrying charges | 73,831 | 76,032 | 82,144 |
| Deferred storm costs and carrying charges | 40,648 | 13,742 | 21,277 |
| Deferred vacation pay accrual | 11,203 | 9,753 | 11,171 |
| Income taxes recoverable through future rates | 25,085 | 35,784 | 24,805 |
| Tax reform - unprotected impacts | 23,733 | 23,733 | 13,464 |
| Other | 10,387 (1) | 10,554 (1) | 9,833 (1) |
| Total Regulatory Assets | $ 267,700 | $ 253,332 | $ 217,617 |
| Less: Current Portion of Regulatory Assets | $ 76,204 | $ 78,849 | $ 56,786 |
| Total Long-term Regulatory Assets | $ 191,496 | $ 174,483 | $ 160,831 |
| Regulatory Liabilities: | | | |
| Rate moderator - electric and carrying charges | $ 20,315 | $ 19,371 | $ 12,655 |
| Rate moderator - natural gas and carrying charges | 9,863 | 10,115 | 4,717 |
| RDM and carrying charges - electric | 964 | - | 19,551 |
| RDM and carrying charges - natural gas | 344 | - | - |
| Deferred unrealized gains on derivatives - electric and natural gas (Note 15) | 501 | 1,768 | - |
| Clean Energy Fund and carrying charges | 50,059 | 52,584 | 50,051 (2) |
| Tax reform - protected deferred tax liability | 179,020 | 179,900 | 182,549 |
| Deferred cost of removal (Note 3) | 44,693 | 42,794 | 41,443 |
| Deferred pension costs (Note 11) | 91,302 | 90,934 | - |
| Deferred property taxes | 3,361 | - | 3,350 (3) |
| Income taxes refundable through future rates | 7,357 | 9,027 | 8,766 |
| Deferred OPEB costs | 29,944 | 31,032 | 12,559 |
| Low income program and carrying charges | 5,606 | 5,289 | 6,237 |
| Net plant and depreciation targets | 371 | - | 12,175 |
| Fast charging infrastructure program and carrying charges | 5,525 | 5,455 | 5,244 |
| NRAs | 2,091 | - | 1,638 (3) |
| Deferred unbilled revenue | 5,082 | 5,082 | 5,082 |
| Other | 4,721 (1) | 4,626 (1) | 3,315 (1) |
| Total Regulatory Liabilities | $ 461,119 | $ 457,977 | $ 369,332 |
| Less: Current Portion of Regulatory Liabilities | $ 62,261 | $ 63,456 | $ 77,691 |
| Total Long-term Regulatory Liabilities | $ 398,858 | $ 394,521 | $ 291,641 |
| Net Regulatory Liabilities | $ (193,419) | $ (204,645) | $ (151,715) |

(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-0084, during 2021, accumulated Clean Energy Fund carrying charges of $4.7 million were transferred to fund Energy Efficiency Programs.

(3) Certain amounts included in Other related to prior periods, have been reclassified to conform to the March 31, 2022 presentation.

## PSC Proceedings

2018 Rate Order / 2021 Rate Order

The 2018 Rate Order was effective July 1, 2018, with RY1 through 3, when used in connection with the 2018 Rate Order, defined as the twelve months ending June 30, 2019, June 30, 2020, and June 30, 2021, respectively.

On June 11, 2020, the Commission issued an 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 stated that no carrying charges would be applied to the delayed recovery of these revenues and that Central Hudson would adjust the RDM targets to be consistent with the delayed electric and natural gas delivery rate increase implementation.

The 2021 Rate Order adopts the terms set forth in the August 24, 2021 Joint Proposal. The 2021 Rate Order also fully resolves all issues associated with the Sales Tax Refund Proceeding (Case 20-M-0134). The 2021 Rate Order was effective December 1, 2021, and includes a make-whole provision that provides new rates to become effective retroactive to July 1, 2021, with RY1, RY2, and RY3 defined as the twelve months ending June 30, 2022, June 30, 2023, and June 30, 2024, respectively.

A summary of the key terms of the 2018 and 2021 Rate Orders are as follows:

| | 2018 Rate Order (dollars in millions) | | | 2021 Rate Order (dollars in millions) | | |
|---|---|---|---|---|---|---|
| Description | RY1 | RY2 | RY3 | RY1 | RY2 | RY3 |
| Electric delivery rate increase/(decrease) | $19.7 | $18.6 | $25.1 | ($3.1) | $19.5 | $20.7 |
| Natural gas delivery rate increases | $6.7 | $6.7 | $8.2 | $4.7 | $6.3 | $6.4 |
| Return on Equity | 8.80% | 8.80% | 8.80% | 9.00% | 9.00% | 9.00% |
| Earnings sharing | Yes(1) | Yes(1) | Yes(1) | Yes(2) | Yes(2) | Yes(2) |
| Capital structure – common equity | 48% | 49% | 50% | 50% | 49% | 48% |
| Bill Credits/(surcharge) - Electric | $6.0 | $9.0 | $11.0 | ($2.0) | $9.5 | $21.5 |
| Bill Credits - Natural Gas | $3.5 | $4.0 | $4.0 | $0.8 | $3.2 | $5.6 |
| RDMs – electric and natural gas | Yes | Yes | Yes | Yes | Yes | Yes |

(1) Return on equity ("ROE") > 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.

(2) ROE > 9.5% and up to 10.0%, is shared 50% to customers, > 10.0% and up to 10.5%, is shared 75% to customers, and > 10.5% is shared 90% to customers.

The 2021 Rate Order utilizes existing regulatory balances to reduce bill impacts for customers during the term of the agreement. The 2021 Rate Order also reflects a postponement of certain capital projects, as well as reductions to operations and maintenance ("O&M") costs to help manage customer bill impacts. The total electric revenue (decrease)/increase (after bill credits) is (0.2)%, 1.2%, and 1.2% for RY1 through RY3, respectively, and the total natural gas revenue increase (after bill credits) is 1.9%, 1.8%, and 1.8% for RY1 through RY3, respectively. The rate plan also includes an allowed ROE of 9.0% and an equity ratio of 50%, 49% and 48% for RY1 through RY3, respectively.

The 2021 Rate Order:

- establishes the Company's future energy infrastructure investments, programs and operations;
- stabilizes electric delivery rates in the first year with a slight decrease for residential customers;
- reflects modest increases in gas delivery rates producing bill impacts just under two percent each RY;
- includes increased electric bill discounts for income qualified households and expanded access into Central Hudson's Energy Affordability Program;
- reflects investments in clean energy efficiency ground and air-source electric heat pumps, electric vehicle charging, and system upgrades that support utilization of renewable sources;
- implements ten EAMs which reflect a maximum earnings potential of 100 basis points;
- maintains the current Customer Average Interruption Duration Index ("CAIDI") metric and reflects increasingly stringent System Average Interruption Frequency Index ("SAIFI") targets, continues and further enhances existing gas safety performance metrics and public safety programs, and includes higher performance requirements for Customer Service Performance Indicators with a net increase in total potential NRAs;
- provides Central Hudson with necessary resources to support ongoing O&M and necessary investments to reinforce electric and gas system reliability and resiliency through storm hardening, expanded vegetation management/tree trimming, continued investment for LPP replacement or elimination, and deployment of new technologies, as well as information technology systems to further protect against cyber security risks and;
- includes several deferrals that provide the Company authorization to defer COVID-19 Incremental O&M Costs net of savings, lost revenues (finance charges and reconnection fee revenues), and uncollectible write-offs.

<u>Agway Petition</u>

On February 25, 2022, Agway Energy Services LLC ("Agway") filed a Petition for Declaratory Ruling and Corrective Action Plan Concerning Failure of Central Hudson Gas and Electric Corporation to provide accurate Electronic Data Interchange information or provide accurate client bills ("Petition"). Agway is a licensed Energy Service Company that supplies energy for approximately 1,035 customers in Central Hudson's service territory. The Petition alleges impacts to Agway's business related to Central Hudson's billing system transition and alleges violations of the Uniform Billing Practices ("UBP") and that Central Hudson breached the Billing Services Agreement ("BSA"). Agway requests that the Commission investigate these issues, declare violations, order that Central Hudson resolve these violations in a timely manner, appoint an independent monitor to oversee the resolution, disgorge incurred fees, and award compensatory damages.

On March 18, 2022, Central Hudson filed its Verified Motion to Dismiss and, in the Alternative, Opposition to the Petition of Agway for a Declaratory Ruling ("Motion"). The Motion argues that the Petition should be dismissed because it is not a proper Petition for Declaratory Ruling and because it fails to seek a Commission interpretation to a statute or rule and is deficient because it fails to allege a specific violation of either the UBP or BSA. Central Hudson's Motion also argues that it is improper for Agway to seek compensatory damages as damages are limited pursuant to the BSA and outside of the Commission's jurisdiction to provide. Central Hudson cannot predict the outcome of this proceeding at this time.

<u>Central Hudson 2021 Financing Order</u>

On November 18, 2021, the Commission approved the Company's request under Section 69 of the Public Service Law authorizing Central Hudson to enter into multi-year credit agreements in an aggregate amount not to exceed $250 million; and approval to issue and sell new long-term debt from time to time through December 31, 2024, in an aggregate amount not to exceed $445.7 million, including $412 million for traditional utility purposes and up to $33.7 million to refinance its variable interest debt. Central Hudson filed a letter indicating its unconditional acceptance of the November 18, 2021 Order on December 6, 2021.

August 2020 Tropical Storm Isaias

On August 5, 2020, the New York State Governor instituted proceeding 20-01633 directing the Commission to initiate an investigation of 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 ("DPS") 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 have resulted in up to $16 million of penalties. Central Hudson filed its response to the Show Cause Order on December 21, 2020. The Company performed a thorough investigation and, as indicated in its response, believed no penalty should be issued because the facts demonstrated that Central Hudson fully complied with its Commission-approved Emergency Response Plan, which served as the standard against which Central Hudson should be evaluated. On February 23, 2021, Central Hudson filed a Notice of Impending Settlement Negotiations. On July 7, 2021, Central Hudson and New York State DPS entered into a Settlement Agreement, which included a commitment by Central Hudson to establish a $1.5 million regulatory liability to be used by Central Hudson to support or advance storm restoration and/or electric system resiliency and reliability in excess of amounts funded by customers. The Commission approved the Settlement Agreement within the Order Granting Motion and Adopting Settlement Agreement on July 15, 2021. The Settlement Agreement does not include any finding or admission of any violation by Central Hudson, and it specifies that the settlement amount is not a penalty.

Federal Energy Regulatory Commission ("FERC") System Deliverability Upgrades 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. Parties submitted an Offer of Settlement with the FERC on June 30, 2021, which included an updated ROE of 9.4% plus a 50 basis point adder for a total ROE of 9.9%. The settlement was certified as uncontested by the designated settlement judge on August 3, 2021 and was subsequently approved by FERC on October 4, 2021.

## *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 March 31, | | Three Months Ended March 31, | |
| | 2022 | 2021 | 2022 | 2021 |
| Tax reserve balance at the beginning of the period | $ - | $ - | $ - | $ - |
| Change in natural gas transmission and distribution repair deduction | 158 | 181 | 158 | 181 |
| Change in tax benefit offset [(1)] | (158) | 765 | (158) | 751 |
| Tax reserve balance at the end of the period | $ - | $ 946 | $ - | $ 932 |

(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 is to be paid over two years; with half of the required amount paid by December 31, 2021 and the other half by December 31, 2022. There was 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, 2022 and December 31, 2021, the liability for the deferred payment of the employer's portion of Social Security tax on payroll was $2.6 million reflected in "Other current liabilities" in the CH Energy Group and Central Hudson Balance Sheets and will be paid in December 2022. As of March 31, 2021, the liability for the deferred payment of the employer's portion of Social Security tax on payroll was $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.

## New York State 2022 Budget Bill

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 extended 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 tax increase is not expected to have an impact on the Company's earnings or cash flows. Both CH Energy Group and Central Hudson expect to be subject to the capital base tax during this period. For the three months ended March 31, 2022, Central Hudson has recorded $0.5 million of Capital Base Tax, which is included in "Taxes, other than income tax" in the CH Energy Group and Central Hudson Statements of Income. The increase in Capital Base Tax is included in the tax calculation used to set rates in the 2021 Rate Order.

**CH Energy Group**

| | Three Months Ended March 31, | |
|---|---|---|
| | 2022 | 2021 |
| Effective tax rate - federal | 15.0% | 12.4% |
| Effective tax rate - state | 5.9% | 4.4% |
| Effective tax rate - combined | 20.9% | 16.8% |

**Central Hudson**

| | Three Months Ended March 31, | |
|---|---|---|
| | 2022 | 2021 |
| Effective tax rate - federal | 14.9% | 12.1% |
| Effective tax rate - state | 5.8% | 4.4% |
| Effective tax rate - combined | 20.7% | 16.5% |

For the three months ended March 31, 2022 and 2021, the combined effective tax rate for CH Energy Group and Central Hudson is lower than the statutory rate due to tax normalization rules and the timing of flow through tax items related to capital expenditures. The increase in the effective rate in the periods, is due to the timing of increases in book deductions that are excluded for tax purposes.

***NOTE 6 – Investments in Unconsolidated Affiliates***

In April 2019, National Grid and Transco were awarded the Segment B portion of one of their 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 is 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, 2022, CHET has made capital contributions of $6.7 million to Transco to fund a portion of the Segment B project costs. At March 31, 2022, December 31, 2021 and March 31, 2021, CHET's investment in Transco was approximately $16.5 million, $15.0 million and $10.3 million, respectively.

During the first quarter of 2022, CHEC received a final distribution from one of its remaining investments following termination of the partnership. The value of CHEC's equity investments at March 31, 2022 following the distribution was $0, and at December 31, 2021 and March 31, 2021 was approximately $0.2 million.

***NOTE 7 – Research and Development***

Central Hudson's research and development expenditures for the three months ended March 31, 2022 and 2021 were $1.1 million and $1.2 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 March 13, 2020, Central Hudson entered into a $200 million, five-year revolving credit agreement with five commercial banks. Proceeds received from the revolving credit agreement are 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 its total funded debt to total capital will 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, 2022, Central Hudson was in compliance with all financial debt covenants.

### Uncommitted Credit

At March 31, 2022, December 31, 2021, and March 31, 2021, Central Hudson had uncommitted short-term credit arrangements with two commercial banks totaling $30 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.

Balances outstanding under the various credit arrangements are as follows (Dollars in Thousands):

| | CH Energy Group | | | Central Hudson | | |
|---|---|---|---|---|---|---|
| | March 31, 2022 | December 31, 2021 | March 31, 2021 | March 31, 2022 | December 31, 2021 | March 31, 2021 |
| Committed Credit | $ 90,000 | $ 100,000 | $ - | $ 90,000 | $ 100,000 | $ - |
| Uncommitted Credit | - | 7,000 | - | - | 7,000 | - |
| Total | $ 90,000 | $ 107,000 | $ - | $ 90,000 | $ 107,000 | $ - |
| Weighted Average Interest Rate | 1.29% | 0.99% | 0.00% | 1.29% | 0.99% | 0.00% |

## NOTE 9 – Capitalization – Common and Preferred Stock

### Capitalization

During the first quarter of 2022, CH Energy Group received a capital contribution of $29.3 million from its parent FortisUS Inc. ("FortisUS") and Central Hudson received a capital contribution of $21.0 million from its parent CH Energy Group. Additionally, during the three months ended March 31, 2022, CHET received a capital contribution of $1.3 million from its parent CH Energy Group in order to fund capital expenditures related to the Transco AC Project.

During the first quarter of 2021, CH Energy Group received a contribution of approximately $5.0 million under the tax sharing agreement with FortisUS. Additionally, during the three months ended March 31, 2021, CHET received a $0.6 million capital contribution from its parent CH Energy Group.

These contributions were recorded as paid-in capital, see CH Energy Group and Central Hudson's Condensed Consolidated Statement of Equity.

**Common Stock Dividends**

CH Energy Group's ability to pay dividends is affected by the ability of its subsidiaries to pay dividends. The Federal Power Act limits the payment of annual dividends by Central Hudson to its retained earnings. More restrictive is the PSC's limit on the dividends Central Hudson may pay to CH Energy Group, which is 100% of the average annual income available for common stock, calculated on a two-year rolling average basis. Based on this calculation, Central Hudson was restricted to a maximum annual payment of $71.0 million and $70.3 million in dividends to CH Energy Group for the periods ended March 31, 2022 and 2021, 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 2022 and 2021.

**Preferred Stock**

Other than one share of Junior Preferred Stock, Central Hudson had no outstanding preferred stock as of March 31, 2022, December 31, 2021, and March 31, 2021.

***NOTE 10 – Capitalization – Long-Term Debt***

As of March 31, 2022, CH Energy Group and Central Hudson were in compliance with all covenants under their long-term debt instruments. Most of these 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 January 27, 2022, Central Hudson issued $50 million of Series W, 5-year Senior Notes with an interest rate of 2.37% per annum and a maturity date of January 27, 2027 and $60 million of Series X, 7-year Senior Notes with an interest rate of 2.59% per annum and a maturity date of January 27, 2029. Central Hudson expects to use the proceeds from the sale of the Senior Notes general corporate purposes, including the repayment of maturing debt. See Note 18 – "Subsequent Events" for additional details.

During 2021, Central Hudson issued $130 million in unsecured Senior Notes, with various interest rates and maturities of 30 years. Central Hudson used the proceeds from the sale of the Senior Notes to repay $44.2 million of maturing debt and for general corporate purposes, including the repayment of short-term borrowings.

At March 31, 2022, 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 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. There have been no payouts on this interest rate cap during the three months ended March 31, 2022 and 2021.

The principal amount of Central Hudson's outstanding 1999 Series B NYSERDA Bonds totaled $33.7 million at March 31, 2022. 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 one year interest rate cap on March 30, 2022. The rate cap has a notional amount equal to the outstanding principal amount of the Series B bonds and expires on April 1, 2023. The cap is based on the monthly weighted average of an index of tax-exempt variable rate debt, multiplied by 175%. Central Hudson would receive a payout if the adjusted index exceeds 5% for a given month. This interest rate cap replaced a similar interest rate cap that expired on April 1, 2022. There were no payouts on these interest rate caps during the periods presented.

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, | |
| | 2022 | 2021 | 2022 | 2021 |
| Service cost | $ 3,235 | $ 3,763 | $ 397 | $ 469 |
| Interest cost | 5,508 | 4,962 | 997 | 892 |
| Expected return on plan assets | (9,853) | (9,042) | (2,242) | (1,986) |
| Amortization of prior service cost (credit) | 130 | 132 | (114) | (114) |
| Amortization of recognized actuarial net (gain)/loss | (2,776) | 633 | (1,432) | (651) |
| Net Periodic (Benefit) Cost | $ (3,756) | $ 448 | $ (2,394) | $ (1,390) |

The funded status of Central Hudson's pension costs is as follows (In Thousands):

| | March 31, 2022(1)(2) | December 31, 2021(1)(2) | March 31, 2021(1)(2) |
|---|---|---|---|
| Prefunded (Accrued) pension costs | $ 70,211 | $ 68,728 | $ (26,212) |

(1) Includes approximately $0.2 million at March 31, 2022, December 31, 2021 and March 31, 2021 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, 2022, December 31, 2021 and March 31, 2021 that is reflected in the Balance Sheet under other current liabilities for pension payments expected to be made over the next twelve months.

The funded status includes the difference between the projected benefit obligation for the Retirement Plan and the market value of the pension assets, net of any liability for the non-qualified SERP. The funded status does not reflect approximately $40.2 million, $40.1 million and $40.8 million of SERP trust assets at March 31, 2022, December 31, 2021 and March 31, 2021.

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, 2022(1)(2) | December 31, 2021(1)(2) | March 31, 2021(1)(2) |
|---|---|---|---|
| Accrued pension costs prior to funding status adjustment | $ (21,940) | $ (26,068) | $ (25,914) |
| Funding status adjustment required | 92,151 | 94,796 | (298) |
| Prefunded (Accrued) pension costs | $ 70,211 | $ 68,728 | $ (26,212) |
| | | | |
| Offset to funding status adjustment - regulatory (liability) assets - pension plan | $ (92,122) | $ (94,773) | $ 134 |
| Offset to funding status adjustment - accumulated OCI, net of tax of ($9), ($6) and $43, respectively | $ (20) | $ (17) | $ 121 |

(1) Includes approximately $0.2 million at March 31, 2022, December 31, 2021, and March 31, 2021 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, 2022, December 31, 2021, and March 31, 2021 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 officer who transferred to an affiliated company. These amounts reported as OCI are charged to and reimbursed by the affiliated company.

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

| | Three Months Ended March 31, 2022 | Three Months Ended March 31, 2021 |
|---|---|---|
| Retirement Plan | $ - | $ - |
| OPEB | $ 528 | $ 812 |
| SERP | $ - | $ 8,115 |

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, regulatory considerations, interest rate assumptions and the requirements of 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.

**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, 2022 and 2021 were $1.5 million and $1.4 million, respectively. Central Hudson also provides an additional contribution of 4% to the 401(k) plan of annualized base salary for eligible employees who do not qualify for Central Hudson's Retirement Income Plan. The additional non-discretionary contribution was approximately $0.7 million for the three months ended March 31, 2022 and 2021, respectively.

***NOTE 12 – Equity-Based Compensation***

**Share Unit Plan Units**

In January 2022, officers of Central Hudson were granted 12,781 Units under the 2022 Fortis Restricted Share Unit Plan ("2022 RSUP"), representing a portion of the officers' long-term incentives. The issued 2022 Restricted Units granted are time-based and vest at the end of the three-year period without regard to performance. Each 2022 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 2022 RSUP Unit grant. Each 2022 RSUP Unit accrues notional dividend equivalents equal to the dividends declared by the Fortis Board of Directors on Fortis common shares.

In January 2022, officers of Central Hudson were granted 25,562 Units under the Central Hudson 2022 Share Unit Plan ("2022 SUP"), representing a portion of the officers' long-term incentives. The issued 2022 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 2022 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 2022 SUP Unit grant. Each 2022 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 2019 Performance Share Unit Plan ("PSUP") and 2019 SUP Plans vested and were paid out during the first quarter of 2022.

| **CH Energy Group:** | Grant Date | Grant Date Fair Value | Time Based Granted | Time Based Outstanding[3] | Performance Based Granted | Performance Based Outstanding[3] |
|---|---|---|---|---|---|---|
| 2020 RSUP[2] | January 1, 2020 | $ 41.55 | 7,257 | 7,886 | - | - |
| 2020 PSUP[2] | January 1, 2020 | $ 41.55 | - | - | 21,770 | 23,658 |
| 2019 PSUP[1] | January 1, 2019 | $ 33.10 | 8,838 | - | 26,514 | - |

| **Central Hudson:** | Grant Date | Grant Date Fair Value | Time Based Granted | Time Based Outstanding[3] | Performance Based Granted | Performance Based Outstanding[3] |
|---|---|---|---|---|---|---|
| 2022 RSUP | January 1, 2022 | $ 48.18 | 12,781 | 12,899 | - | - |
| 2022 SUP | January 1, 2022 | $ 48.18 | - | - | 25,562 | 25,798 |
| 2021 RSUP | January 1, 2021 | $ 41.12 | 14,249 | 14,930 | - | - |
| 2021 SUP | January 1, 2021 | $ 41.12 | - | - | 28,497 | 29,861 |
| 2020 RSUP[2] | January 1, 2020 | $ 41.55 | 12,655 | 13,748 | - | - |
| 2020 SUP[2] | January 1, 2020 | $ 41.55 | - | - | 25,311 | 27,496 |
| 2019 SUP[1] | January 1, 2019 | $ 33.10 | 15,691 | - | 31,383 | - |

[1]In the first quarter of 2022, 46,656 units under the 2019 SUP and 39,431 units under the 2019 PSUP vested and were paid out at $44.78 per unit for a total of approximately $5.3 million.

[2]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.

[3]Includes notional dividends accrued as of March 31, 2022.

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

**Compensation Expense**

| | Three Months Ended March 31, 2022 | Three Months Ended March 31, 2021 |
|---|---|---|
| CH Energy Group | $ 1,562 | $ 1,095 |
| Central Hudson | $ 1,562 | $ 1,095 |

The liabilities associated with the 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 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 (ninety days prior notice with respect to the 2022 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 2021 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. Since 2017, LSEs, which include Central Hudson, have been required to obtain Tier 1 RECs and ZECs in amounts determined by the PSC. LSEs may satisfy their REC obligation by either purchasing RECs acquired through central procurement by NYSERDA, by self-supply through direct purchase of tradable RECs, through value stack Tier 1 offset payments, or by making alternative compliance payments. Through March 31, 2023, LSEs will purchase ZECs from NYSERDA at tranche prices approved by the PSC based on qualifying in-state nuclear plant output and Central Hudson's full-service customer New York Control Area load-ratio share. 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. NYSERDA introduced indexed Tier 1 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, 2022, based on Central Hudson's estimated annual load to be served through March 31, 2023, the total obligation to procure ZECs is estimated to be approximately $11.6 million. 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 Tier 1 RECs is defined as a percentage of load served in the state through December 31, 2023 and as a "pay as you go" load basis for Tier 2 RECs; the combined Tier 1 and Tier 2 REC obligation is estimated for Central Hudson to be approximately $9.1 million through December 31, 2025.

### 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 2022, Central Hudson made a contribution of $0.5 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 2022 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. The SERP was fully funded for 2021, in accordance with the requirements of the Trust agreement.

*Parental Guarantee*

CHET was established to be an investor in Transco, which was created to develop, own and operate electric transmission projects in New York State. 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, 2022, the amount of the outstanding parental guarantee is $64.4 million. CHET's investment in Transco was approximately $16.5 million at March 31, 2022, 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, 2022, Central Hudson has accrued $71.4 million with respect to all SIR activities, including operation, maintenance and monitoring costs ("OM&M"), of which $6.8 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, 2022 | Estimated spend in the next twelve months |
|---|---|---|---|
| Investigation | Little Britain Road | $ 2.1 | $ 0.1 |
| Remedial Alternatives Analysis | | - | - |
| Remedial Design | | - | - |
| Remediation | North Water Street | 65.0 | 6.5 |
| Post-Remediation Monitoring | Newburgh Areas A, B & C, Laurel Street, Catskill, Kingston, and Eltings Corners | 4.3 | 0.2 |
| No Action Required | Beacon and Bayeaux Street | - | - |
| Total | | $ 71.4 | $ 6.8 |

There were no significant updates during the three months ended March 31, 2022 or changes in the nature and amounts of Central Hudson's contingencies related to environmental matters, except as noted below.

- **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 ("NYSDEC") 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 the protective shroud attached for additional protection,
    - impacts of sheening events that occurred, the ability to contain them 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 was 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 and cost, 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 NYSDEC concurred that this timeframe was not practical and agreed with the conclusion of the report. At this point, the NYSDEC 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 taking into consideration the extent of removal that may be feasible.
  - A scope of work for limited upland remedial activities was submitted to and approved by the NYSDEC in May 2021. The activities were completed in June 2021.
  - During 2021, Central Hudson worked with the EOR to evaluate remedial alternative approaches, including some that still fit within the framework of the NYSDEC approved Work Plan and achieved the established regulatory clean-up objectives within a reasonable time period, as well as other approaches that considered capping or monitoring-only activities. A Focused Remedial Alternatives Analysis ("FRAA") report presenting the evaluation of alternative approaches was submitted to the NYSDEC in November 2021. A preliminary follow up discussion was held with the NYSDEC in December 2021. The NYSDEC did not provide any initial feedback regarding the alternatives at this time and requested further time to review the report and that additional meetings be held with all parties to discuss next steps. Central Hudson is still awaiting comprehensive comments from the NYSDEC.

- An Air Bubble Curtain ("ABC") lab pilot test work plan was forwarded to the NYSDEC for informational purposes on January 11, 2022. Central Hudson will keep the NYSDEC informed as the study progresses and forward the summary report upon conclusion. The ABC bench scale pilot test activities commenced in February 2022 and are anticipated to be completed in the third quarter of 2022. Based on the results of the laboratory testing, in-river testing may be conducted in the latter half of 2022.
- The total accrual for remediation as of March 31, 2022 for this site of $65.0 million reflects management's estimate of the low end of a predictive cost estimate range of potential alternatives, plus additional costs associated with the ABC, continued work of the EOR on the development of design and analysis of the FRAA based on future discussions with other parties, and other associated fees. The FRAA included potential alternatives for remediation with costs estimated as high as $95 million. The accrual will be updated as the alternative remedial approaches are discussed, and a path forward is agreed upon by all involved parties.
- The estimated spending as of March 31, 2022 for the next 12 months of approximately $6.5 million is primarily based on anticipated efforts to perform the additional analysis requested, conduct laboratory bench scale testing of an ABC and possible in-river testing, and continued alternative remedial approach discussions/design.
- On April 8, 2022, Central Hudson received a response from the NYSDEC with regard to the November 2021 FRAA. The comment letter indicated that the tests of alternate containment methods (i.e. Air Bubble Curtain pilot test) should be completed prior to consideration of the alternatives presented in the FRAA report and therefore the NYSDEC rejected the report at this time. The comment letter also requested additional information be provided and additional concerns be addressed as the process continues. There is no change in the current course of action and focus, which is the completion of the ABC pilot test and communication with the parties on the results of the effectiveness and protectiveness. The comments and additional information requests in the comment letter will be contemplated in a more detailed Remedial Design and/or work plan that will be developed once concurrence is received on an acceptable alternative approach. As such, management believes this comment letter does not provide evidence of any adjustment required to the low end of the range currently accrued or the total range of potential costs disclosed at this time and it does not impact management's method of estimating the range and liability recorded as of March 31, 2022.

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 2021 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 2021 Rate Order includes cash recovery of approximately $24.2 million during the three-year rate plan period ending June 30, 2024, with $6.1 million recovered through March 31, 2022.

➢ The total spending related to site investigation and remediation for the three months ended March 31, 2022 and 2021 was approximately $0.3 million and $1.4 million, respectively.

- The regulatory asset balance including carrying charges as of March 31, 2022, December 31, 2021 and March 31, 2021, was $73.8 million, $76.0 million and $82.1 million, respectively, which represents the cumulative difference between amounts spent or currently accrued as a liability and the amounts recovered to date through rates or insurance recoveries.

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, 2022 and 2021. 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, 2022, of the 3,385 asbestos cases brought against Central Hudson, 1,168 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 former investment in a limited partnership, 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 2021 Rate Order and 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, 2022 | | | | |
|---|---|---|---|---|---|
| | Segments | | Other Businesses and Investments | Eliminations | Total |
| | Central Hudson | | | | |
| | Electric | Natural Gas | | | |
| Revenues from external customers | $ 205,995 | $ 91,568 | $ - | $ - | $ 297,563 |
| Intersegment revenues | 15 | 544 | - | (559) | - |
| Total operating revenues | 206,010 | 92,112 | - | (559) | 297,563 |
| Income before income taxes | 8,380 | 23,515 | 457 | - | 32,352 |
| Net Income Attributable to CH Energy Group | $ 7,719 | $ 17,571 | $ 286 | $ - | $ 25,576 |
| Segment Assets at March 31, 2022 | $ 2,257,117 | $ 851,859 | $ 28,996 | $ (1,762) | $ 3,136,210 |

**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 |

## *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, 2022 are as follows:

| Central Hudson | % of Requirement Hedged (1) |
|---|---|
| Electric Derivative Contracts: | 0.1 million MWh |
| June 2022 – August 2022 | 13.2% |
| | |
| Natural Gas Derivative Contracts: | 0.2 million Dth |
| November 2022 – December 2022 | 3.4% |
| January 2023 – March 2023 | 2.6% |

(1) Projected coverage as of March 31, 2022.

### Cash Flow Hedges

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

### Derivative Risks

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

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

To help limit the credit exposure of derivatives, Central Hudson enters into master netting agreements with counterparties whereby contracts in a gain position can be offset against contracts in a loss position. Of the 26 total agreements held by Central Hudson, 11 agreements contain credit risk contingent features. As of March 31, 2022, there were two open contracts with credit risk contingent features in a liability position and, if the contingent features were triggered, $0.5 million would be required to settle these instruments.

### Derivative Contracts

CH Energy Group and Central Hudson have elected gross presentation for their derivative contracts under master netting agreements and collateral positions. On March 31, 2022, December 31, 2021, and March 31, 2021 Central Hudson did not have collateral posted against the fair value amount of derivatives.

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

| Description | Gross Amounts of Recognized Assets | Gross Amounts Offset in the Statement of Financial Position | Net Amount of Assets Presented in the Statement of Financial Position | Gross Amounts Not Offset in the Statement of Financial Position: Financial Instruments | Cash Collateral Received | Net Amount |
|---|---|---|---|---|---|---|
| As of March 31, 2022[(1)] | | | | | | |
| Derivative Contracts: | | | | | | |
| Central Hudson - electric | $ 385 | $ - | $ 385 | $ 385 | $ - | $ - |
| Central Hudson - natural gas | 116 | - | 116 | - | - | 116 |
| Total CH Energy Group and Central Hudson Assets | $ 501 | $ - | $ 501 | $ 385 | $ - | $ 116 |
| As of December 31, 2021[(1)] | | | | | | |
| Derivative Contracts: | | | | | | |
| Central Hudson - electric | $ 1,604 | $ - | $ 1,604 | $ 380 | $ - | $ 1,224 |
| Central Hudson - natural gas | 164 | - | 164 | - | - | 164 |
| Total CH Energy Group and Central Hudson Assets | $ 1,768 | $ - | $ 1,768 | $ 380 | $ - | $ 1,388 |
| 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 |

(1) Interest rate cap agreements are not shown in the above chart. As of March 31, 2022, December 31 2021, and March 31, 2021 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, 2022[(1)] | | | | | | |
| Derivative Contracts: | | | | | | |
| Central Hudson - electric | $ 883 | $ - | $ 883 | $ 385 | $ - | $ 498 |
| Central Hudson - natural gas | - | - | - | - | - | - |
| Total CH Energy Group and Central Hudson Liabilities | $ 883 | $ - | $ 883 | $ 385 | $ - | $ 498 |
| As of December 31, 2021[(1)] | | | | | | |
| Derivative Contracts: | | | | | | |
| Central Hudson - electric | $ 7,563 | $ - | $ 7,563 | $ 380 | $ - | $ 7,183 |
| Central Hudson - natural gas | - | - | - | - | - | - |
| Total CH Energy Group and Central Hudson Liabilities | $ 7,563 | $ - | $ 7,563 | $ 380 | $ - | $ 7,183 |
| 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 |

(1) Interest rate cap agreements are not shown in the above chart. As of March 31, 2022, December 31, 2021, and March 31, 2021 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, 2022, December 31, 2021, and March 31, 2021, 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, 2022[1] | | | | |
| Assets: | | | | |
| Derivative Contracts: | | | | |
| Central Hudson - electric | $ 385 | $ - | $ 385 | $ - |
| Central Hudson - natural gas | 116 | 116 | - | - |
| Total CH Energy Group and Central Hudson Assets | $ 501 | $ 116 | $ 385 | $ - |
| Liabilities: | | | | |
| Derivative Contracts: | | | | |
| Central Hudson - electric | $ 883 | $ - | $ 883 | $ - |
| Central Hudson - natural gas | - | - | - | - |
| Total CH Energy Group and Central Hudson Liabilities | $ 883 | $ - | $ 883 | $ - |
| As of December 31, 2021[1] | | | | |
| Assets: | | | | |
| Derivative Contracts: | | | | |
| Central Hudson - electric | $ 1,604 | $ - | $ 1,604 | $ - |
| Central Hudson - natural gas | 164 | 164 | - | - |
| Total CH Energy Group and Central Hudson Assets | $ 1,768 | $ 164 | $ 1,604 | $ - |
| Liabilities: | | | | |
| Derivative Contracts: | | | | |
| Central Hudson - electric | $ 7,563 | $ - | $ 7,563 | $ - |
| Central Hudson - natural gas | - | - | - | - |
| Total CH Energy Group and Central Hudson Liabilities | $ 7,563 | $ - | $ 7,563 | $ - |

| | | | | |
|---|---|---|---|---|
| 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 | $ 4 | $ 4 | $ - | $ - |
| Liabilities: | | | | |
| Derivative Contracts: | | | | |
| Central Hudson - electric | $ 362 | $ - | $ 362 | $ - |
| Central Hudson - natural gas | - | - | - | - |
| Total CH Energy Group and Central Hudson Liabilities | $ 362 | $ - | $ 362 | $ - |

(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, 2022, December 31, 2021, and March 31, 2021 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, 2022 and 2021, neither CH Energy Group nor Central Hudson had derivatives designated as hedging instruments. The following table summarizes the effects of CH Energy Group's and Central Hudson's derivatives on the Statements of Income (In Thousands):

| | Amount of Gain(Loss) Recognized as Increase/(Decrease) in the Statements of Income | | |
|---|---|---|---|
| | Three Months Ended March 31, | | |
| | 2022 | 2021 | Location of Gain (Loss) |
| Central Hudson: | | | |
| Electricity swap contracts | $ 12,310 | $ 2,308 | Deferred purchased electric costs[1] |
| Natural gas swap contracts | 493 | 3 | Deferred purchased natural gas costs[1] |
| Total CH Energy Group and Central Hudson | $ 12,803 | $ 2,311 | |

(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 November 2021, Central Hudson entered into a Heating Degree Days ("HDD") costless collar weather option for the period December 1, 2021 through March 31, 2022, to hedge the effect of significant variances in weather conditions on electricity costs. The aggregate limit on the contract was $5 million. No premium was paid for the HDD costless collar weather option and there was no associated net payout at the end of this contract. In December 2021, Central Hudson recorded $0.3 million of expense incurred as an increase to purchased electric cost; no additional cost was recorded upon settlement of this contract.

In 2020, Central Hudson entered into a premium based weather option for the period of December 1, 2020 through March 31, 2021 with an aggregate contract limit of $5 million. The $1.3 million premium paid was amortized to purchased electricity over the term of the contract. The payout earned of $0.6 million was recorded as a reduction to purchased electricity in the Statement of Income, with $0.4 million recorded in the first quarter of 2021.

***Central Hudson – Natural Gas***

In November 2021, Central Hudson entered into a HDD costless collar weather option for the period December 1, 2021 through March 31, 2022, to hedge the effect of significant variances in weather conditions on natural gas costs. The aggregate limit on the contract was $5 million. No premium was paid for the HDD costless collar weather option and there were no net associated payouts upon the settlement of the contract. In December 2021, Central Hudson recorded $0.3 million of expense incurred as an increase to purchased natural gas costs; no additional cost was recorded upon settlement of this contract.

In 2020, Central Hudson entered into a premium based weather option for the period of December 1, 2020 through March 31, 2021. 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 payout earned of $0.1 million on the 2020 contract was recorded as a reduction to purchased natural gas in the Statement of Income in the first quarter of 2021.

## ***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 on 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, 2022: | | | | |
| Other Investments | $ 21,615 | $ 21,615 | $ - | $ - |
| As of December 31, 2021: | | | | |
| Other Investments | $ 21,624 | $ 21,624 | $ - | $ - |
| As of March 31, 2021: | | | | |
| Other Investments | $ 22,599 | $ 22,599 | $ - | $ - |

As of March 31, 2022, December 31, 2021, and March 31, 2021, 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, 2022, December 31, 2021, and March 31, 2021, the total cash surrender value of trust-owned life insurance held by these trusts was approximately $34.8 million, $35.3 million and $34.0 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, 2022 | | December 31, 2021 | | March 31, 2021 | |
|---|---|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Fixed rate debt | $ 977,810 | $ 986,389 | $ 867,810 | $ 1,012,654 | $ 858,797 | $ 922,783 |
| Variable rate debt | 63,700 | 63,700 | 63,700 | 63,700 | 63,700 | 63,700 |
| Total | $ 1,041,510 | $ 1,050,089 | $ 931,510 | $ 1,076,354 | $ 922,497 | $ 986,483 |
| Estimated effective interest rate | | 3.75% | | 3.86% | | 3.92% |

**Central Hudson**

| | March 31, 2022 | | December 31, 2021 | | March 31, 2021 | |
|---|---|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Fixed rate debt | $ 969,100 | $ 977,275 | $ 859,100 | $ 1,003,268 | $ 848,250 | $ 911,034 |
| Variable rate debt | 63,700 | 63,700 | 63,700 | 63,700 | 63,700 | 63,700 |
| Total | $ 1,032,800 | $ 1,040,975 | $ 922,800 | $ 1,066,968 | $ 911,950 | $ 974,734 |
| Estimated effective interest rate | | 3.72% | | 3.83% | | 3.88% |

***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. LaBella Associates D.P.C. (formerly The Chazen Companies) performs 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 LaBella Associates D.P.C., respectively, as follows (In Thousands):

| | Three Months Ended March 31, 2022 | Three Months Ended March 31, 2021 |
|---|---|---|
| CH Energy Group (Thompson Hine LLP) | $ 485 | $ 659 |
| Central Hudson (Thompson Hine LLP) | $ 476 | $ 644 |
| Central Hudson (The Chazen Companies dba Labella Associates) | $ 108 | $ 138 |

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, 2022 | December 31, 2021 | March 31, 2021 |
|---|---|---|---|
| CH Energy Group[1] | Fortis | Fortis | Fortis |
| Accounts Receivable | $ 86 | $ 1,390 | $ 505 |
| Accounts Payable | $ - | $ - | $ 37 |

| | March 31, 2022 | | | December 31, 2021 | | | March 31, 2021 | | |
|---|---|---|---|---|---|---|---|---|---|
| Central Hudson[1] | CHEG | Fortis | Other Affiliates | CHEG | Fortis | Other Affiliates | CHEG | Fortis | Other Affiliates |
| Accounts Receivable | $ 15 | $ 6 | $ 5 | $ 36 | $ 7 | $ - | $ 3 | $ 19 | $ 8 |
| Accounts Payable | $ 1,714 | $ - | $ - | $ 823 | $ - | $ 1 | $ 1,525 | $ - | $ - |

[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, 2022 | | Three Months Ended March 31, 2021 | |
|---|---|---|---|---|
| | CHEG | Fortis[1] | CHEG | Fortis[1] |
| CH Energy Group | $ - | $ 1,563 | $ - | $ 1,371 |
| Central Hudson | $ 1,667 | $ - | $ 1,487 | $ - |

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

***NOTE 18 – Subsequent Events***

An evaluation of subsequent events was completed through May 3, 2022, 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, 2022.

On April 1, 2022, Central Hudson repaid $23.4 million of maturing 2011 Series G Senior Notes plus unpaid interest due at 3.378%. The Senior Notes were originally issued pursuant to a 2009 PSC Order approving the issuance by Central Hudson.

On April 4, 2022, Central Hudson entered into a first amendment and increasing lender supplement to the Central Hudson credit agreement with five commercial banks. The amendment replaces the LIBO Rate with a benchmark replacement rate and increases the aggregate commitment by the lenders by $50 million making the aggregate amount of total commitments equal to $250 million. The credit agreement as amended has a five-year term, maturing in March 2025.

On April 14, 2022, the Transco Board of Directors gave notice to CHET that they will be required to make a $2 million capital contribution during the second quarter of 2022 to fund capital expenditures related to the Transco AC Project.

On April 20, 2022, CH Energy Group's Board of Directors approved the acceptance of a capital contribution in the amount of $25 million from its parent FortisUS to be received in the second quarter of 2022.

On April 20, 2022, Central Hudson's Board of Directors approved the acceptance of a capital contribution in the amount of $25 million from its parent CH Energy Group to be received in the second quarter of 2022.

***MANAGEMENT'S DISCUSSION and ANALYSIS of FINANCIAL CONDITION and RESULTS of OPERATIONS***
**For the Three Months Ended March 31, 2022**

*This information should be read in conjunction with the Quarterly Condensed Financial Statements and the notes contained herein, and the audited 2021 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 ("CHGT"). Central Hudson is a regulated electric and natural gas transmission and distribution utility. CH Energy Group formed CHET to hold its 6.1% ownership interest in New York Transco LLC ("Transco"). Transco is a partnership with affiliates of other investor-owned utilities in New York State which was created to develop, own and operate electric transmission projects in New York State. CHGT was formed to hold CH Energy Group's ownership stake in possible gas transmission pipeline opportunities in New York State. All of CH Energy Group's common stock is indirectly owned by Fortis Inc. ("Fortis"), a leader in the North American regulated electric and gas utility industry, with 2021 revenue of CAD$9.4 billion and total assets of CAD$58 billion. Fortis and its subsidiaries' 9,100 employees serve 3.4 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***

Central Hudson's Purpose Statement is **"Together We Power Endless Possibilities,"** which is 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 Central Hudson's objective of a credit rating 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 cybersecurity and 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 their 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 is 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, 2022, CHET's investment in Transco was approximately $16.5 million.

In November 2018, the Transco limited liability company agreement was amended to allow Transco to pursue additional projects that might result from future New York Independent System Operator's ("NYISO") Public Policy Transmission Planning Processes. In response to a Long Island Offshore Wind Export Public Policy Transmission Need Project Solicitation issued by the NYISO on August 12, 2021, Transco, partnering with the New York Power Authority ("NYPA"), submitted to NYISO on October 11, 2021, four separate proposed solutions to upgrade existing transmission facilities on Long Island to accommodate 3,000 MWs of anticipated offshore wind generated electricity while also proposing three alternative expansion solutions. Three unrelated developers proposed 12 other solutions. NYISO's response to the solicitation proposals, including the Transco-NYPA proposals, is expected to be issued in the fourth quarter of 2022. In the event that a Transco-NYPA proposal is accepted by NYISO, CHET would own, and fund, the equity investment associated with Transco's 10% ownership stake in the project.

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

Central Hudson is committed to transitioning to a low carbon and sustainable future for our customers and the communities we serve. Central Hudson is taking a leading role in reducing emissions in the mid-Hudson Valley through investments in programs that include beneficial electrification (i.e., expanding the electric vehicle charging infrastructure and increasing heat pump installations), grid modernization and reinforced infrastructure in support of renewables, energy efficiency and energy storage system interconnections. The investments into Central Hudson's operations and reduction of carbon emissions are aligned with and support New York State's Climate Leadership and Community Protection Act ("CLCPA"). The CLCPA has mandated an 85% greenhouse gas ("GHG") emissions reduction from 1990 levels by 2050. In addition, we continue to seek opportunities to update and modernize our operations as we adapt to an evolving clean energy landscape while building towards a more sustainable future. At Central Hudson, these efforts take place in a broader context of a heightened focus on Environment, Social, and Governance (“ESG”) factors. We believe that the transparent management of ESG performance and related goals are important for our stakeholders to understand the path we are taking towards our sustainability goals and for Central Hudson to provide assurance around the integrity of the broader operating environment in which those targets are being pursued. Strong ESG performance is expected to yield long-term value through enhanced earnings, reduced costs, improved stakeholder relationships, increased employee satisfaction and optimization of investment and capital expenditures.

Central Hudson continues to integrate our sustainability practices and ESG initiatives into the Company’s overarching strategy. Central Hudson is actively pursuing a cleaner energy future by supporting New York State’s energy policies and goals while continuing to provide reliable, resilient and affordable power. At Central Hudson we continue to make investments in infrastructure, technologies and programs that cost-effectively reduce carbon emissions 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 metropolitan area, 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 as a complement to intermittent renewable generation resources and as a lower carbon alternative to petroleum-derived fuels to reduce overall carbon emissions;
- Expanding energy efficiency programs, the most cost-effective method to reduce emissions; and
- Advancing environmentally beneficial electrification, including promoting electric vehicles and heat pumps to lower emissions from the transportation and building heating sectors.

Central Hudson recognizes the critical importance of its employees and dedicates substantial resources and efforts toward attracting, retaining and developing 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 in the first quarter of 2022 to CH Energy Group’s or Central Hudson’s risk factors, as set forth in their 2021 Annual Financial Report.

## CH Energy Group - Regulated Operations - Central Hudson
## Financial Highlights
## Period Ended March 31

| | Year to Date | | |
|---|---|---|---|
| | **2022** | **2021** | **Change** |
| Electricity Sales (GWh) | 1,256 | 1,290 | (34) |
| Natural Gas Sales (PJ) | 10.0 | 9.4 | 0.6 |

*(In millions)*

| | | | |
|---|---|---|---|
| Revenues | $ 297.6 | $ 224.8 | $ 72.8 |
| Energy Supply Costs - Matched to Revenues | 129.0 | 64.1 | 64.9 |
| Operating Expenses - Matched to Revenues | 30.0 | 27.7 | 2.3 |
| Operating Expenses - Other | 87.8 | 75.5 | 12.3 |
| Depreciation and Amortization | 20.2 | 17.7 | 2.5 |
| Other Income, net | 11.1 | 6.5 | 4.6 |
| Interest Charges | 9.8 | 9.1 | 0.7 |
| Income Taxes | 6.6 | 6.1 | 0.5 |
| Net income | $ 25.3 | $ 31.0 | $ (5.7) |

*Earnings:* The decrease in earnings on a year-over-year basis reflects higher than expected costs and unfavorable performance resulting from Central Hudson's transformation of its Customer Information System ("CIS") from a legacy mainframe system to SAP. Related items include system and software costs, consulting resources, supplemental third-party contact center costs, and Negative Revenue Adjustments ("NRAs") for Customer Satisfaction and Complaint Rate performance. The negative earnings impact of these items more than offset ongoing growth in rate base commensurate with the Company's capital investments and rate agreement.

Energy supply costs reflect higher electric and natural gas commodity prices coupled with increases in purchase volumes driven by colder weather. This did not have a direct impact on earnings due to the full deferral of commodity costs and the Revenue Decoupling Mechanisms ("RDMs"). 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 for the quarter were comparable to the prior year.

*Natural Gas Sales*

Natural gas sales increased slightly quarter over quarter due to higher sales to interruptible customers and sales for resale.

*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 2021.

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

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

**Central Hudson Revenues - Electric**
**Period Ended March 31**

*(In millions)*

| | Year to Date | | |
|---|---|---|---|
| | 2022 | 2021 | Change |
| **Revenues with Matching Expense Offsets:** [(1)] | | | |
| Recovery of commodity purchases | $ 82.3 | $ 36.0 | $ 46.3 |
| Sales to others for resale | 9.1 | 4.7 | 4.4 |
| Other revenues with matching offsets | 18.6 | 19.2 | (0.6) |
| *Subtotal* | 110.0 | 59.9 | 50.1 |
| **Revenues Impacting Earnings:** | | | |
| Customer sales | 98.9 | 100.5 | (1.6) |
| RDM and other regulatory mechanisms | (4.8) | (9.3) | 4.5 |
| Recovery of suspended COVID-19 finance charges | 1.1 | - | 1.1 |
| Incentives earned | 0.3 | 1.1 | (0.8) |
| Negative revenue adjustments | (1.9) | (1.1) | (0.8) |
| Other revenues | 2.4 | 1.7 | 0.7 |
| *Subtotal* | 96.0 | 92.9 | 3.1 |
| **Total Electric Revenues** | $ 206.0 | $ 152.8 | $ 53.2 |

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

**Central Hudson Revenues - Natural Gas**
**Period Ended March 31**

*(In millions)*

| | Year to Date | | |
|---|---|---|---|
| | 2022 | 2021 | Change |
| **Revenues with Matching Expense Offsets:** [(1)] | | | |
| Recovery of commodity purchases | $ 31.5 | $ 17.9 | $ 13.6 |
| Sales to others for resale | 6.0 | 5.5 | 0.5 |
| Other revenues with matching offsets | 1.7 | 3.2 | (1.5) |
| *Subtotal* | 39.2 | 26.6 | 12.6 |
| **Revenues Impacting Earnings:** | | | |
| Customer sales | 54.7 | 45.7 | 9.0 |
| RDM and other regulatory mechanisms | (3.2) | (1.5) | (1.7) |
| Recovery of suspended COVID-19 finance charges | 0.3 | - | 0.3 |
| Incentives earned/(reversed) | (0.1) | 0.1 | (0.2) |
| Negative revenue adjustments | (1.0) | (0.8) | (0.2) |
| Other revenues | 1.7 | 1.9 | (0.2) |
| *Subtotal* | 52.4 | 45.4 | 7.0 |
| **Total Natural Gas Revenues** | $ 91.6 | $ 72.0 | $ 19.6 |

(1) Revenues with matching offsets do not affect earnings since they offset related costs, the most significant being energy cost adjustment revenues, which provide for the recovery of purchased natural gas costs. Other related costs include certain authorized business expenses recovered through rates and the cost of special programs authorized by the PSC and funded with certain available credits. For natural gas sales to other entities for resale, 85% of such profits are returned to customers.

Central Hudson's revenues consist of two major categories: those that offset specific expenses in the current period (matching revenues) and those that impact earnings. Matching revenues represent amounts billed in the current period to recover costs for particular expenses (most notably, purchased electricity and purchased natural gas, major storm, 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 quarter over quarter increase in electric revenues is primarily due to higher recovery of purchased commodity costs driven by an increase in price and higher sales for resale. Further impacting the revenue increase is the PSC approval in the 2021 Rate Order for the recovery of lost financial charges which have been suspended to alleviate financial hardship on customers due to the COVID-19 pandemic. Partially offsetting these increases are higher NRAs related to Customer Complaint and Customer Satisfaction Survey index above and below the PSC prescribed target for 2022.

*Natural Gas Revenues*:

The quarter over quarter increase in natural gas revenues is primarily due to higher recovery of purchased commodity costs driven by an increase in both price and sales volumes. Further impacting year over year revenues is the increase in customer delivery rates and the PSC approval in the 2021 Rate Order for the recovery of lost financial charges which have been suspended since July 1, 2020 to alleviate financial hardship on customers due to the COVID-19 pandemic. Partially offsetting these increases are higher NRAs related to Customer Complaint and Customer Satisfaction Survey index below the PSC prescribed target for 2022.

**Central Hudson Operating Expenses**
**Period Ended March 31**

| *(In millions)* | Year to Date | | |
|---|---|---|---|
| | **2022** | **2021** | **Change** |
| **Expenses Currently Matched to Revenues:**[1] | | | |
| Purchased electricity | $ 91.4 | $ 40.7 | $ 50.7 |
| Purchased natural gas | 37.6 | 23.5 | 14.1 |
| Pension & OPEB | 6.0 | 4.1 | 1.9 |
| New York State energy efficiency programs | 11.2 | 11.0 | 0.2 |
| Major storm reserve | 4.7 | 3.1 | 1.6 |
| Low income programs | 3.0 | 3.8 | (0.8) |
| Other matched expenses | 5.1 | 5.6 | (0.5) |
| *Subtotal* | 159.0 | 91.8 | 67.2 |
| **Other Operating Expenses:** | | | |
| COVID-19 related uncollectible reserve | - | 0.8 | (0.8) |
| Depreciation and amortization | 20.2 | 17.7 | 2.5 |
| Property and school taxes[2] | 19.0 | 18.0 | 1.0 |
| Weather related service restoration | 2.6 | 1.6 | 1.0 |
| Distribution and transmission maintenance | 1.5 | 1.3 | 0.2 |
| Call center expense | 3.5 | 1.2[3] | 2.3 |
| Information technology ("IT") | 7.6 | 3.3 | 4.3 |
| Labor and related benefits | 27.0 | 25.0[3] | 2.0 |
| Tree trimming | 6.0 | 5.6 | 0.4 |
| Other expenses | 20.6[3] | 18.7[3][4] | 1.9 |
| *Subtotal* | 108.0 | 93.2 | 14.8 |
| **Total Operating Expenses** | $ 267.0 | $ 185.0 | $ 82.0 |

(1) Includes expenses that, in accordance with the 2018 and 2021 Rate Orders, 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 and 2021 Rate Orders, 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 $0.6 million, pre-tax per Rate Year.
(3) Certain expenses reported for the three months ended March 31, 2021 have been reclassified to "Labor and related benefits" and "Call center expense" to conform to the current period presentation.
(4) Certain expenses reported under "COVID-19 incremental operating expenses" for the three months ended March 31, 2021 have been reclassified to "Other" to conform to the current period presentation. .

*Operating Expenses:*

The quarter over quarter increase in operating expenses is primarily attributed to higher costs to purchase both electric and natural gas, driven by both higher commodity prices and volumes as a result of colder weather when compared to the prior year. Further impacting the increase were IT, labor and call center expenses related to the implementation of the new CIS and higher expenses including property taxes. Weather restoration costs and tree trimming incurred for several storm events that did not reach the storm deferral threshold during the first quarter 2022 also impacted operating expenses negatively when compared to the prior year. Partially offsetting these increases was a higher allowance for uncollectible accounts during 2021 based on a qualitative assessment and estimated forecast of economic conditions related to the COVID-19 pandemic.

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 year ended March 31, 2022**
*(In millions)*

| Balance Sheet Account | Increase (Decrease) | Explanation |
|---|---|---|
| Accounts receivable, net of allowance for uncollectible accounts | 68.4 | Increase is primarily due to higher commodity prices and an increase in the amounts billed due to delays following the implementation of Central Hudson's new billing system coupled with the impacts of the COVID-19 pandemic on customers, including legislative actions related to suspending service terminations for non-payment and offering more flexible payment arrangements. |
| Regulatory assets - long term | 17.0 | Increase is primarily related to costs incurred for major storm expenses in excess of the rate allowance and energy efficiency programs, partially offset by income taxes recoverable through future rates and amounts collected in rates in excess of environmental expenses. |
| Long term debt, including current maturities | 110.0 | Increase is due to issuance of $110 million in long-term debt in January 2022. |
| Notes payable | (17.0) | Decrease is related to the repayment of short-term borrowings outstanding at the end of the prior year. |
| Accounts payable | 5.0 | Increase is primarily due to higher engineering costs associated with construction, as well as storm restoration costs. |
| Fair value of derivative instruments - current liabilities | (6.7) | Decrease in liabilities is due to higher unrealized mark-to-market gains related to open electric and natural gas derivative contracts. |

| | | |
|---|---|---|
| Regulatory liabilities - long term | 5.1 | Increase is primarily due to amounts collected in rates in excess of property taxes and NRAs associated with PSC customer complaint rates and customer satisfaction survey performance ratings. Partially offsetting these increases is the usage of energy affordability funds to aid in customer arrears. |

***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 | |
|---|---|---|
| | **2022** | **2021** |
| **Cash, cash equivalents and restricted cash - beginning of period** | $ 18.1 | $ 12.8 |
| Cash from operations pre-working capital | 25.8 | 73.4 |
| Working capital | (62.9) | (33.8) |
| Operating Activities | (37.1) | 39.6 |
| Investing Activities | (51.1) | (56.3) |
| Financing Activities | 121.7 | 64.6 |
| **Cash, cash equivalents and restricted cash - end of period** | $ 51.6 | $ 60.7 |

*Operating Activities:* The decrease in cash from operations pre-working capital in 2022 as compared to 2021 was primarily attributable to increased storm restoration costs and higher costs associated with the CIS implementation. Additionally, a decrease in other advances compared to prior year resulted from cash received in 2021 and held in escrow for a future project work. An increase in working capital needs in 2022 resulted in a decrease in cash from operations primarily due to increases in accounts receivable balances driven by higher commodity prices, delays following the implementation of the new billing system and delayed collections from suspension of service termination and more flexible payment arrangements to aid customers during the COVID-19 pandemic. Further impacting the working capital increase is the timing of storm restoration and purchased electric and natural gas payments.

*Investing Activities:* Central Hudson's capital expenditures in the first quarter of 2022 were consistent with the prior year comparable quarter. Projected capital spending is estimated to be approximately $230 million for the year ended December 31, 2022, compared to actual spending of $240 million for 2021, and includes continued strengthening of existing electrical and natural gas infrastructure, resiliency and automation of distribution systems and investments in cybersecurity and distribution system technologies. Central Hudson made an $8.1 million contribution to the Supplemental Executive Retirement Plan Trust in the first quarter of 2021 as per the Trust agreement, no such funding requirement was needed in the current year.

*Financing Activities:* The increase in cash from financing activities of $57 million in 2022 was primarily due to increased issuances of Senior Notes of $35 million coupled with higher capital contributions received in 2022 to finance the deficit in cash needed to operate the business.

***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, Central Hudson 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 equity 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 aligned with its delivery rates. That ratio is currently 50% and is expected to decrease to 48% over the three years in the 2021 Rate Order.

Central Hudson utilizes short-term debt to fund seasonal and temporary variations in working capital requirements. Increases in wholesale energy prices, such as those experienced in 2022, result in a corresponding increase in the current level of working capital. While commodity cost adjustment mechanisms provide short-term recovery of these cost increases, short-term debt is used to supplement liquidity until commodity prices stabilize. Increased commodity prices over an extended period of time after a period of COVID-19 impact on the local economy and further combined with delays in collections of accounts receivable from customers have all contributed to increased working capital in 2022. However, potential funding from various federal and state initiatives is expected to provide relief for customers with arrears and deferral authorization and regulatory recovery mechanisms associated with bad debt write-offs should alleviate this pressure on working capital in future periods.

Central Hudson's secondary sources of funds are its cash reserves and credit. Central Hudson's ability to use its credit facility is contingent upon maintaining compliance with certain financial covenants. Central Hudson does not anticipate that those covenants will restrict its access to funds in 2022.

Despite the economic challenges noted, Central Hudson has not experienced any issues with accessing capital markets during the pandemic or thereafter, having successfully secured new financing in recent years, as well as in the first quarter of 2022. Central Hudson's 2021 Rate Order was approved in the fourth quarter of 2021 and was implemented retroactively to July 1, 2021. Management took initiatives to mitigate the impact of new rates on customers during this difficult economic environment as illustrated by the rate decrease in the 2021 Rate Order in the first year for electric delivery revenues. The increase in rates over the subsequent two years should continue to provide the necessary cost recovery to ensure safe and reliable service, as well as a reasonable rate of return on its investment.

At this time, CH Energy Group believes cash generated from operations and funds obtained from equity infusions from Fortis, as well as its financing program will be sufficient for 2022 and the foreseeable future to meet working capital needs, fund Central Hudson's capital program, CHET's current investment obligations in Transco and meet Central Hudson's public service obligations and growth objectives.

**Committed Credit Facilities**

On March 13, 2020, Central Hudson entered into a $200 million, five-year revolving credit agreement with five commercial banks. Proceeds received from the revolving credit agreement are 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, 2022, there were $90 million in borrowings outstanding under Central Hudson's committed credit arrangements compared to $100 million in borrowings outstanding at December 31, 2021.

The PSC issued a Financing Order, effective November 22, 2021, authorizing Central Hudson to enter into multi-year credit agreements in an aggregate amount not to exceed $250 million; and approval to issue and sell new long-term debt from time to time through December 31, 2024, in an aggregate amount not to exceed $445.7 million, including up to $412 million for traditional utility purposes and $33.7 million to refinance its variable interest debt.

On April 4, 2022, Central Hudson entered into a first amendment and increasing lender supplement to the Central Hudson credit agreement with five commercial banks. The amendment replaces the LIBO Rate with a benchmark replacement rate and increases the aggregate commitment by the lenders by $50 million making the aggregate amount of total commitments equal to $250 million. The credit agreement as amended has a five-year term, maturing in March 2025.

**Uncommitted Credit**

At March 31, 2022 and December 31, 2021, Central Hudson had uncommitted short-term credit arrangements with two commercial banks totaling $30 million. There were no outstanding borrowings for CH Energy Group or Central Hudson under Central Hudson's uncommitted credit agreements at March 31, 2022. At December 31, 2021, CH Energy Group and Central Hudson had $7 million in borrowings outstanding under Central Hudson's uncommitted credit agreements.

**Central Hudson's Bond Ratings**

| | March 31, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| | Rating(1) | Outlook | Rating(1) | Outlook |
| S&P | A- | Negative | A- | Stable |
| Moody's | Baa1 | Stable | Baa1 | Stable |
| Fitch | A- | Stable | A- | Stable |

(1) These senior unsecured debt ratings reflect only the views of the rating agency issuing the rating, are not recommendations to buy, sell, or hold securities of Central Hudson and may be subject to revision or withdrawal at any time by the rating agency issuing the rating. Each rating should be evaluated independently of any other rating.

On January 25, 2022, S&P affirmed the rating of Central Hudson's senior unsecured debt and changed their rating outlook from stable to negative. S&P indicated that the outlook reflects the potential for a one-notch downgrade over the next 12 months due to expected weaker financial measures for Central Hudson. In addition, S&P cited that the impact of Central Hudson's 2021 Rate Order, and the Company's elevated capital expenditures program as negative factors that could impact the Company's financial ratios. On November 30, 2021, Fitch affirmed its rating (A-) and stable outlook. On September 22, 2021, Moody's downgraded Central Hudson's senior unsecured credit rating from A3 with a negative outlook to Baa1 with a stable 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.

On January 27, 2022, Central Hudson issued $50 million of Series W, 5-year Senior Notes with an interest rate of 2.37% per annum and a maturity date of January 27, 2027 and $60 million of Series X, 7-year Senior Notes with an interest rate of 2.59% per annum and a maturity date of January 27, 2029. Central Hudson expects to use the proceeds from the sale of the Senior Notes general corporate purposes, including the repayment of maturing debt.

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

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

**CH Energy Group**

| | March 31, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| | | % | | % |
| Long-term Debt[1] | $ 1,041.5 | 49.0 | $ 931.5 | 47.1 |
| Short-term Debt | 90.0 | 4.2 | 107.0 | 5.4 |
| Common Equity | 994.2 | 46.8 | 939.3 | 47.5 |
| Total | $ 2,125.7 | 100.0 | $ 1,977.8 | 100.0 |

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

**Central Hudson**

| | March 31, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| | | % | | % |
| Long-term Debt[1] | $ 1,032.8 | 49.2 | $ 922.8 | 47.0 |
| Short-term Debt | 90.0 | 4.3 | 107.0 | 5.5 |
| Common Equity | 978.5 | 46.6 | 932.2 | 47.5 |
| Total | $ 2,101.3 | 100.0 | $ 1,962.0 | 100.0 |

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

In accordance with the 2021 Rate Order, Central Hudson's customer rates continued to be premised on a capital structure, excluding short-term debt of a common equity ratio of 50% for the rate year beginning July 1, 2021. Beginning July 1, 2022 the common equity ratio will decrease to 49% and beginning July 1, 2023 will further decrease to a common equity ratio of 48%. Central Hudson is currently managing its financing to maintain its common equity ratio at approximately 50%.

CH Energy Group and Central Hudson believe they will be able to meet their short-term and long-term cash requirements, given the flexibility awarded under the 2021 Rate Order, including a Return on Equity ("ROE") of 9.0%.

### *Summary of Changes in Accounting Policies since December 31, 2021*

*Regulation:* There were no material changes to Central Hudson's regulatory accounting policies during the three months ended March 31, 2022.

*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, 2022.

*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, 2022.

### *Business Outlook*

There were no material changes to CH Energy Group's or Central Hudson's mission and strategy since its 2021 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 controls over financial reporting during the three months ended March 31, 2022.

## Regulatory Proceedings

*There were no material changes to regulatory proceedings disclosed in the 2021 Annual Financial Report; however, activity related to on-going and new proceedings in 2022 are noted below. We cannot predict the ultimate outcome or whether these 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.*

***2021 Rate Order***

On November 18, 2021, the PSC issued an Order Approving Rate Plan in Cases 20-E-0428 and 20-G-0429, the ("2021 Rate Order"). The 2021 Rate Order adopts the terms set forth in the August 24, 2021 Joint Proposal. The 2021 Rate Order also fully resolves all issues and concerns raised and/or asserted, or that could have been raised and/or asserted in the Sales Tax Refund Proceeding (Case 20-M-0134). The 2021 Rate Order was effective December 1, 2021, and includes a make-whole provision that provides new rates to become effective retroactive to July 1, 2021, with Rate Year ("RY") RY1, RY2, and RY3 defined as the twelve months ending June 30, 2022, June 30, 2023, and June 30, 2024, respectively.

The 2021 Rate Order provides electric delivery revenue (decreases)/increases of $(3.1) million, $19.5 million and $20.7 million in RY1, RY2 and RY3, respectively and natural gas delivery revenue increases of $4.7 million, $6.3 million and $6.4 million in RY1, RY2 and RY3, respectively. The 2021 Rate Order also provides electric bill credits of $(2.0) million in RY1, $9.5 million in RY2, and $21.5 million in RY3; and gas bill credits of $0.8 million in RY1, $3.2 million in RY2 and $5.6 million in RY3.

The Company's electric and natural gas revenue requirements reflect a common equity ratio of 50% for RY1, 49% for RY2 and 48% for RY3 and a ROE of 9.0%. Earnings above 9.5% and up to 10.0% will be shared 50% / 50% between the shareholder and ratepayers. Earnings above 10.0% and up to 10.5% will be shared 25% / 75% between the shareholder and ratepayers. Earnings above 10.5% will be shared 10% / 90% between the shareholder and ratepayers.

The 2021 Rate Order utilizes existing regulatory balances to reduce bill impacts for customers during the term of the agreement. The 2021 Rate Order also reflects a postponement of certain capital projects, as well as reductions to operations and maintenance ("O&M") costs to help manage customer bill impacts. The total electric revenue (decrease)/increase (after bill credits) is (0.2)%, 1.2%, and 1.2% for RY1 through RY3, respectively, and the total natural gas revenue increase (after bill credits) is 1.9%, 1.8%, and 1.8% for RY1 through RY3, respectively.

The 2021 Rate Order:

- establishes the Company's future energy infrastructure investments, programs and operations;
- stabilizes electric delivery rates in the first year with a slight decrease for residential customers;
- reflects modest increases in gas delivery rates producing bill impacts just under two percent each RY;
- includes increased electric bill discounts for income qualified households and expanded access into Central Hudson's Energy Affordability Program;
- reflects investments in clean energy efficiency ground and air-source electric heat pumps, electric vehicle charging, and system upgrades that support utilization of renewable sources;

- implements ten Earnings Adjustment Mechanisms which reflect a maximum earnings potential of 100 basis points;
- maintains the current Customer Average Interruption Duration Index metric and reflects increasingly stringent System Average Interruption Frequency Index targets, continues and further enhances existing gas safety performance metrics and public safety programs, and includes higher performance requirements for Customer Service Performance Indicators with a net increase in total potential NRAs;
- provides Central Hudson with necessary resources to support ongoing O&M and necessary investments to reinforce electric and gas system reliability and resiliency through storm hardening, expanded vegetation management/tree trimming, continued investment for LPP replacement or elimination, and deployment of new technologies, as well as IT systems to further protect against cyber security risks and;
- includes several deferrals that provide the Company authorization to defer COVID-19 Incremental O&M Costs net of savings, lost revenues (finance charges and reconnection fee revenues), and uncollectible write-offs.

***Investigation into Central Hudson's Customer Information System and Billing Practices***

On September 1, 2021, Central Hudson launched its New SAP CIS. The system replaced the Company's 40-year-old legacy mainframe system after careful due-diligence, planning, and investigation to address critical obsolescence and cyber security risks. The new system will enable Central Hudson to provide creative solutions for our customers and adapt to evolving technology. The system will drive meaningful change that benefits both employees and customers.

After implementation, technical issues arose relating primarily to overlapping complex billing transactions. As a result, a portion (approximately 7%) of Central Hudson customers experienced delays in their bills in the months following go live. In certain cases, some customers received bills that required adjustments, which did not result in a material adjustment to the financial statements. Remediation of these billing issues has been a top priority across the Company. The amounts that were not billed have been recorded as unbilled or a RDM asset. A significant force of external resources has been established and is supporting the effort to stabilize the billing processes.

During the March 2022 PSC Session, the Commission directed Department of Public Service Staff, and subsequently instituted Matter #22-00666, to investigate billing issues subsequent to go live and publicly track comments and other related documents. Additionally, on April 13, 2022 Central Hudson, and all New York utilities, received notice from the New York State Senate that it is investigating the winter electric and gas commodity price increases and billing system issues. On April 29, 2022, the Company received an additional information request from the New York State Department of Public Service ("DPS"), seeking information concerning the impact of delayed billing on Community Distributed Generation ("CDG") accounts between September 1, 2021 and April 25, 2022. The Company is preparing responses to the information requests. The outcome of these investigations cannot be predicted at this time.

***Agway Petition***

On February 25, 2022, Agway Energy Services LLC ("Agway") filed a Petition for Declaratory Ruling and Corrective Action Plan Concerning Failure of Central Hudson Gas and Electric Corporation to provide accurate Electronic Data Interchange information or provide accurate client bills ("Petition"). Agway is a licensed Energy Service Company ("ESCO") that supplies energy for approximately 1,035 customers in Central Hudson's service territory. The Petition alleges impacts to Agway's business related to Central Hudson's billing system transition and alleges violations of the Uniform Billing Practices ("UBP") and that Central Hudson breached the Billing Services Agreement ("BSA"). Agway requests that the Commission investigate these issues, declare violations, order that Central Hudson resolve these violations in a timely manner, appoint an independent monitor to oversee the resolution, disgorge incurred fees, and award compensatory damages.

On March 18, 2022, Central Hudson filed its Verified Motion to Dismiss and, in the Alternative, Opposition to the Petition of Agway for a Declaratory Ruling ("Motion"). The Motion argues that the Petition should be dismissed because it is not a proper Petition for Declaratory Ruling because it fails to seek a Commission interpretation to a statute or rule and is deficient because it fails to allege a specific violation of either the UBP or BSA. Central Hudson's Motion also argues that it is improper for Agway to seek compensatory damages as damages are limited pursuant to the BSA and outside of the Commission's jurisdiction to provide. Central Hudson cannot predict the outcome of this proceeding at this time.

***Central Hudson 2021 Financing Order***

On November 18, 2021, the Commission approved the Company's request under Section 69 of the Public Service Law authorizing Central Hudson to enter into multi-year credit agreements in an aggregate amount not to exceed $250 million; and approval to issue and sell new long-term debt from time to time through December 31, 2024, in an aggregate amount not to exceed $445.7 million, including $412 million for traditional utility purposes and up to $33.7 million to refinance its variable interest debt. Central Hudson filed a letter indicating its unconditional acceptance of the November 18, 2021 Order on December 6, 2021.

***August 2020 Tropical Storm Isaias***

On August 5, 2020, the New York State Governor instituted proceeding 20-01633 directing the Commission to initiate an investigation of 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 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 have resulted in up to $16 million of penalties. Central Hudson filed its response to the Show Cause Order on December 21, 2020. The Company performed a thorough investigation and, as indicated in its response, believed no penalty should be issued because the facts demonstrated that Central Hudson fully complied with its Commission-approved Emergency Response Plan, which served as the standard against which Central Hudson should be evaluated. On February 23, 2021, Central Hudson filed a Notice of Impending Settlement Negotiations. On July 7, 2021, Central Hudson and New York State DPS entered into a Settlement Agreement, which included a commitment by Central Hudson to establish a $1.5 million regulatory liability to be used by Central Hudson to support or advance storm restoration and/or electric system resiliency and reliability in excess of amounts funded by customers. The Commission approved the Settlement Agreement within the Order Granting Motion and Adopting Settlement Agreement on July 15, 2021. The Settlement Agreement does not include any finding or admission of any violation by Central Hudson, and it specifies that the settlement amount is not a penalty.

***Federal Energy Regulatory Commission ("FERC") System Deliverability Upgrades Proceeding***

On December 31, 2019, Central Hudson submitted to FERC a new rate schedule pursuant to Rate Schedule 12 of the NYISO Open Access Transmission Tariff ("OATT") to establish a Facilities Charge for System Deliverability Upgrades ("SDU") being installed on Central Hudson's transmission facilities, which are required to provide four Large Generating Facility Developers with Capacity Resource Interconnection Service. This charge provides Central Hudson with full recovery of all reasonably incurred costs related to the development, construction, operation and maintenance of the SDU and a reasonable return on its investment. Project costs to be recovered by Central Hudson and allocated to the Load Serving Entities ("LSEs") pursuant to Rate Schedule 12 of the NYISO OATT are expected to be approximately $2.6 million plus operation, maintenance and other applicable costs and will be updated annually. The parties submitted an Offer of Settlement with the FERC on June 30, 2021, which included an updated ROE of 9.4% plus a 50 basis point adder for a total ROE of 9.9%. The settlement was certified as uncontested by the designated settlement judge on August 3, 2021 and was subsequently approved by FERC on October 4, 2021.

***Central Hudson Management and Operations Audit***

On December 16, 2021, the Commission instituted a proceeding for a new Central Hudson audit in its Order Initiating a Management & Operations Audit. The audit will be conducted by an independent auditor selected by DPS Staff as announced at the March 2022 Commission session. The scope of the audit includes issues from the previous audit for follow-up, as well as the planning and implementation of the Company's information systems, including its customer information system, improvements to the electric load forecasting processes to support grid modernization and CLCPA goals, and various elements of pipeline safety.

***Storm Hardening & Climate Resilience Law***

On December 22, 2021, Governor Kathy Hochul Signed the Storm Hardening & Climate Resilience Bill (S4824A) into law. Part A of this law requires each electric utility to develop a Climate Vulnerability Study that evaluates its infrastructure, design specifications, and procedures to understand the corporation's vulnerability to climate driven risks and file with the Commission by September 22, 2023. The law also requires utilities to file a subsequent Climate Resilience Plan within 60 days from submission of the Climate Vulnerability Study. The Climate Resilience Plan must include 1) storm hardening and resilience measures planned for the next ten to twenty years; 2) details of how the utility will incorporate climate change into its planning, design, operations; and emergency response, 3) details of incorporating climate change into existing processes and practices, managing climate risks and building resilience; and 4) proposed adjustments to planning and design of infrastructure in response to the increasing impacts from climate change.

Part B of the Storm Hardening & Climate Resilience Law requires utilities to provide compensation to customers experiencing widespread and prolonged outages lasting more than 72 hours. This includes a requirement for utilities to provide a $25/day bill credit to qualifying residential customers with additional reimbursement for spoiled food, up to a maximum of $540 with proof of loss. The law also requires utilities to reimburse residential customers for spoiled medication up to the value of the lost medication. Finally, the law requires utilities to reimburse small businesses up to $540 for spoiled food with proof of loss. The law also stipulates that none of the costs incurred by the utility related to these requirements can be recovered from ratepayers. The provisions in Part B took effect on April 21, 2022 and apply to widespread outages on both electric and natural gas service.

***Winter Storm Landon***

In compliance with 16 NYCRR Part 104, Central Hudson submitted its Emergency Response Performance Assessment ("scorecard") on March 10, 2022 regarding Winter Storm Landon that hit New York State on February 4, 2022. On March 16, 2022, the Commission announced in a press release that it will be overseeing an examination of Central Hudson's actions during Winter Storm Landon, including a thorough review of the scorecard submitted on March 10, 2022 and determine any next steps. On April 8, 2022, Central Hudson also submitted its Part 105 Preparation and System Restoration Report. We cannot predict the outcome at this time.

***Low Income Energy Affordability & COVID-19 Proceeding***

On June 11, 2020, the Commission established a new proceeding, Case 20-M-0266 to identify and address the effects of the COVID-19 pandemic on utility service in New York State, including all entities subject to Commission jurisdiction or permitting authority. The proceeding included, but is not limited to, impacts on rate-setting, rate design, utility financial strength, low-income programs, collections and termination of service ensuring the provision of safe and adequate service at just and reasonable rates in recognition of the ramifications from the COVID-19 pandemic and the extent to which the Commission's clean energy programs should be maintained or accelerated.

On February 4, 2021, Staff issued a whitepaper on New York State 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. On August 12, 2021, the Commission issued an Order adopting EAP modifications and directing the Utilities to file several compliance filings and studies to standardize and improve customer enrollment processes and provide additional data in order to analyze future EAP changes. In accordance with the Order, the Joint Utilities (“JU”) filed the EAP Self-Certification Process & Template on December 17, 2021. On February 7, 2022, the JU filed its outreach and education materials to inform and recruit customers into this process and Central Hudson submitted an addendum to its Outreach and Education plan that incorporates targeted outreach to inform customers on the availability of the self-certification process for Central Hudson’s Low-Income Bill Discount Program. Central Hudson is an active participant in the EAP working group which continues to address various aspects of the Order, including assessment of an Arrears Management Program. This program would be designed to forgive a portion of the utility arrears accrued during the COVID-19 pandemic. In addition, the New York State Legislature is currently considering a bill that would direct a portion of the federal American Rescue Plan funds received by New York State to aid in a utility arrear resolution program. On April 7, 2022, $250 million was approved in the New York State budget to provide additional funding for utility arrears relief for customers eligible for energy affordability programs.

***Utility Energy Registry***

The Utility Energy Registry (“UER”) is an online platform to provide streamlined public access to aggregated community-scale energy usage data. On April 20, 2018, the Commission directed the New York State Energy Research and Development Authority (“NYSERDA”) and the utilities to fully implement the UER, adopt the data sets and privacy screens for inclusion of certain data sets on the platform, and establish reporting requirements. On August 12, 2021, the Commission issued an Order adopting UER modifications including directing NYSERDA to form a standing UER working group to manage and publish versions of the New York State UER Protocols, identify refinements and additions to the structure of the reported data fields, and rebalance the application of UER use case specific privacy screens.

On September 13, 2021, Central Hudson and the JU requested rehearing of the Commission’s changes to the privacy screen applied to aggregated data before it is sent to the UER. The rehearing request states that the UER Modification Order departs from established Commission policy and relied on an incorrect assumption. The JU rehearing request also outlines how the Commission-directed changes to the privacy screen create a heightened risk of exposure for customers whose energy usage represents a high percentage of the aggregated data. A Notice of Proposed Rulemaking has been filed with New York State with respect to the petitions for rehearing and supporting responses. Upon conducting its evaluation of the rehearing petitions, the Commission may reaffirm its initial decision or adhere to it with additional rationale in denying the petitions, modify or reverse the decision in granting the petitions in whole or in part, or take such other or further action as it deems necessary with respect to the petitions.

***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 and Transmission Planning Proceedings subheadings.

*Renewable Energy Facility Host Community Benefit Program*

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 for ten years, in the amount of $500 per MW and $1,000 per MW of nameplate capacity for solar and wind facilities, respectively. Central Hudson filed its Implementation Plan for the Host Community Benefit Program for Commission consideration and approval on September 30, 2021. DPS Staff filed Host Community Benefit Annual Reporting Guidance on March 10, 2022, which includes guidance pertaining to utilities' Annual Reports. As required by the Order, applicable utilities are required to file a Host Community Benefit Annual Report in the year following the commencement of a qualifying major renewable facility.

*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.

On September 9, 2021, the Commission issued an Order Local Transmission and Distribution Planning Process and Phase 2 Project Proposals ("September 9th") that addressed the CLCPA investment criteria and Phase 2 upgrades and improves headroom calculations and visibility of headroom data to stakeholders. The Order identifies the need to better align the proposed benefit cost analysis approach with CLCPA objectives. The Order directed the JU to coordinate with NYSERDA, the NYISO and DPS Staff on various compliance filings which were due between December 2021 and March 2022. On January 7, 2022, the JU filed a Cost Sharing and Recovery Agreement and Cost Allocation Mechanism in compliance with Clauses 3 and 4 of the Commission's September 9th Order.

On January 20, 2022, the Commission issued an Order on Power Grid Study Recommendations which addressed several other findings and recommendations from the Initial Report, particularly those related to offshore wind, future onshore bulk transmission planning needs, the proposal to consider Renewable Energy Zones, and approaches to deploying advanced technologies. The Order directed the JU to file a proposed research plan to deploy advanced technologies along with a budget for the necessary work and any deployment recommendations within six months of the date of this Order, and a progress report within one year of that date. On February 1, 2022, pursuant to Clause 8 of the Commission's September 9th Order the JU filed their Revised Headroom Calculations and on March 8, 2022, pursuant to Clause 6 of the same Order, Central Hudson along with several other utilities submitted their Petition Identifying Area of Concern Needs and Recommended Solutions.

***Value of Distributed Energy Resources Proceeding***

In December 2015, the Commission instituted Case 15-E-0751, "In the Matter of the Value of Distributed Energy Resources ("VDER")" to propose valuation methods for DER. Through this proceeding, the Commission has taken a number of actions including the sunsetting of statutory net energy metering ("NEM") under Public Service Law and the implementation of the Value Stack as the preferred compensation methodology for energy injected into the grid from DER technologies. The Commission has also established a number of transitional mechanisms to moderate the impact of the changeover from statutory NEM to the Value Stack, including the limited extension of NEM with slightly more restrictive provisions than statutory NEM. On August 13, 2021, the Commission issued an Order Adopting Net Metering Successor Tariff Filings with Modifications continuing the extension of limited NEM for certain projects interconnected on and after January 1, 2022, and requiring certain projects interconnected on and after January 1, 2022, regardless of compensation method (NEM or Value Stack) to be subject to a Monthly Customer Benefit Contribution eliminating the ability of these projects to avoid funding of public benefit programs.

On March 16, 2022, the Commission issued the Order Establishing an Allocated Cost of Service ("ACOS") Methodology for Standby and Buyback Service Rates and Energy Storage Contract Demand

Charge Exemptions. In this Order, the Commission adopts a modified methodology of allocating costs as compared to the method proposed in the ACOS Whitepaper by simplifying various components and standardizing the methodology statewide. This Order also adopts a modification to Staff's proposed limited exemptions to Buyback Service Contract Demand Charges for stand-alone energy storage systems. This Order, along with the Order Directing Standby and Buyback Service Tariff Filings that was issued contemporaneously, resolves the many outstanding issues related to improvements in Standby and Buyback Service rates.

***Clean Energy Standard ("CES") / Clean Energy Fund***

In June 2015, Governor Cuomo announced New York State's 2015 State Energy Plan as a comprehensive roadmap to build a clean, resilient and affordable energy system for New York State. Governor Cuomo directed the New York State Department of Public Service to develop a CES through GHG emission reduction targets through an enforceable mandate. Administered by NYSERDA, the CES is a framework for the direct procurement of qualifying generation through two mechanisms: Renewable Energy Credits ("RECs") including Offshore Wind Renewable Energy Credits, and Zero-Emissions Credits. Additionally, Alternative Compliance Payments ("ACP") were established as a penalty mechanism on load-service entities which did not meet their Tier 1 REC obligations in a given year.

On November 30, 2021, NYSERDA filed its Petition Regarding Agreements for Procurement of Tier 4 RECs. The petition submits NYSERDAs' contracts for Clean Path New York and Champlain Hudson Power Express projects for Commission review and approval. These projects will develop electric transmission infrastructure that reduces congestion and increases availability of renewable energy in New York City. The total cost for the two projects is approximately $24 billion, with estimated benefits from avoid expenditures and environmental externalities estimated between $27 to $31 billion.

On January 31, 2022, NYSERDA filed its CES 2022 ACP Price Report, in which it proposes to set the price for the 2022 ACP at $35.00 compared to a price of $23.79 in 2021 citing undersupply of REC's and high energy prices. Subsequently, on February 28, 2022, the JU filed comments urging the Commission to make changes to the REC management program, allowing LSEs to trade their surplus VDER RECs, preventing unused RECs from becoming valueless and reducing the impact on ratepayers of higher priced ACP.

On March 16, 2022, the Commission issued the Order Modifying Clean Energy Standard Load Serving Entity Obligations and Establishing the 2024 Obligation. The Order makes a downward adjustment to LSE's 2022 and 2023 Tier 1 REC obligations by 42% and 24% respectively, while setting the 2024 obligation at 21% below the prior 2023 level. The reduction is intended to address the shortage of Tier 1 RECs, in part due to pandemic related supply chain, labor, and siting challenges. The shortage resulted in ACP payments constituting 32% and 60% of Tier 1 obligations for 2019 and 2020, respectively. This over-reliance on ACP payments places additional burden on ratepayers and indicated to the Commission that a course correction was advisable. While the Order does not take specific action with respect to the ACP price itself, it directs NYSERDA to closely monitor the level of ACP payments received and propose a method for crediting ratepayers where warranted. Finally, the Order indicates that Staff and NYSERDA may pursue a different methodology to allocate costs LSE's from the current market-based approach (such as one based on load-share) if it is warranted.

***Changes to the Retail Access Energy Market***

On December 12, 2019, the Commission issued Order Adopting Changes to the Retail Access Energy Market and Establishing Further Process. The provisions of the Order strengthen protections for residential and small commercial (mass-market) customers in the retail energy market. The Order increases ESCOs accountability by enhancing eligibility criteria, improves transparency of ESCO product and pricing information and prohibits ESCO product offerings that lack energy service-based values by restricting the types of products and services ESCOs are allowed to offer mass-market customers.   A stakeholder conference was held on March 1, 2022 to further explore green gas offerings and address Commission concerns with continued offering of this product.

***Climate Leadership and Community Protection Act***

In June 2019, the CLCPA was passed by the New York State Senate and the New York State Assembly.  The CLCPA includes renewable energy and emission reduction targets for New York State, which are the most aggressive in the nation.  The Act defines targets for 70 percent renewable electricity by 2030 and 100 percent carbon-free electricity by 2040.  It requires the PSC to establish a program to require all load serving entities to together procure 6,000 MW of solar energy by 2025, 3,000 MW of energy storage by 2030 and 9,000 MW of offshore wind energy by 2035. The CLCPA also requires New York State to cut GHG emissions 40% (from 1990 baseline levels) by 2030 and 85% by 2050 and to achieve net-zero carbon emissions by 2050.  The remaining 15% of emissions needed to achieve net-zero are to be offset or captured via the use of carbon capture and sequestration technology and expansion of natural carbon sinks through planting trees and wetlands restoration. These emissions offset projects may be established by the Department of Environmental Conservation ("DEC") as an alternative compliance mechanism for sources subject to the emissions limits.

The bill requires the PSC to issue a comprehensive review of the program by July 1, 2024.  The PSC will have the authority to temporarily suspend or modify the obligations under the program provided a hearing finds that the program impedes the provision of safe and reliable electric service, impairs existing obligations or significantly increases arrears or service disconnections determined related to the program.

A 22-member Climate Action Council ("CAC"), which includes technical experts appointed by the governor and led by NYSERDA and the DEC, was established and charged with preparing and approving a scoping plan within 3 years outlining recommendations to attain the statewide GHG emissions limits.  On December 30, 2021, the CAC published its draft scoping plan and initiated a public comment period that ends on June 10, 2022. The plan includes an assessment of current emissions and clean energy efforts, scenarios for future climate impacts and recommended pathways for achievement of CLCPA targets with respect to electric generation and across all sectors of the state's economy. The plan also includes a prioritization of measures to improve emissions within Disadvantaged Communities, as required by the CLCPA.  Central Hudson is developing comments to the draft scoping plan that are in alignment with the best interests of its customers for issuance at public hearings on the draft scoping plan, as well as formal written comment submission. Central Hudson also actively participates as part of the Utility Consultation Group which is a consortium of New York's gas and electric utilities focused on providing expertise and perspective to the Climate Action Council and its advisory panels.

***Advancement of Distributed Solar***

On September 21, 2021, Governor Kathy Hochul announced an expansion of New York State's 2030 distributed solar target from 6GW to 10GW.  On December 17, 2021, NYSERDA filed its 10GW Distributed Solar Roadmap ("Solar Roadmap"); a petition developed in collaboration with the DPS which outlines various pathways to accelerate distributed solar in pursuit of the 10GW target. The Solar Roadmap recommends continuation of the administratively set incentive instead of an auction mechanism or indexing because, while not the lowest cost option, it possesses significant and fundamental advantages over other options with regard to implementation feasibility, market compatibility and ratepayer risk. The Solar Roadmap also recommends that the existing NY-Sun MW Block Program incentive mechanism be extended due to its established history and existing programmatic infrastructure.

On March 7, 2022, The JU filed comments in support of the Solar Roadmap. Within these comments, the JU proposed to develop a pilot program based on a subscriber-less CDG procurement model that could more effectively direct bill credits from solar energy to low-income customers. This would directly support the Solar Roadmap target that a minimum of 40% of the proposed new capacity go toward low- to moderate-income residents, regulated affordable housing, disadvantaged communities, and environmental justice communities. This pilot would also be simpler and less costly to implement than traditional CDG by eliminating customer acquisition costs and avoiding the existing complexities of bill crediting. The JU also suggested the NY-Sun mid-point review be utilized to explore additional funding sources and evaluate incentive levels so that necessary modifications can be made before funds are exhausted.

***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 DER is a core principle, noting that existing limitations on utility ownership of energy storage should be maintained. On May 14, 2021, in compliance with the Order, Central Hudson filed its Implementation Plan for a competitive direct procurement process to deploy a total of at least 10 MW of qualified energy storage systems. The updated plan provided preliminary details regarding the procurement process, including a schedule for procurement which would be completed in December 2022.

On January 5, 2022, Governor Hochul announced plans to double the state's energy storage deployment target from 3 GW to at least 6 GW by 2030 as part of a suite of clean energy announcements. The Company is collaborating with the JU and NYSERDA in anticipation that this new target will lead to expanded procurement activities and further efforts to overcome existing market barriers.

***NYISO Complaint on Right of First Refusal***

On October 12, 2021, as amended on October 13, 2021, NYISO filed a FERC complaint alleging that the Order No. 1000 public policy transmission planning process in the OATT is unjust and unreasonable to the extent that it does not contain rules to implement the New York Transmission Owners' ("NYTOs") federal Right of First Refusal ("ROFR") contained in NYISO's foundational agreements. As a remedy, NYISO submitted proposed tariff revisions to its OATT to implement a NYTO's federal ROFR to build an upgrade to its existing transmission facilities that are part of another Developer's Order No. 1000 Public Policy Transmission Project. The New York Transmission Owners subsequently filed comments in support of the complaint. On March 11, 2022, FERC granted the complaint and accepted NYISO's proposed tariff revisions to be effective on October 12, 2021. FERC determined that NYTO's who exercise a federal ROFR to build an upgrade to their own existing transmission facilities will not be subject to voluntary cost containment measures included in Developers' proposed Public Policy Transmission Projects in NYISO's Order No. 1000 Process.

***Electric Vehicle Supply Equipment***

On December 31, 2021, Governor Kathy Hochul signed bill A3876/S3929 into law, requiring utilities to propose alternative non-demand based commercial electric vehicle charging tariffs and file said tariffs by June 29, 2022. Subsequently on March 18, 2022, Governor Kathy Hochul signed bill A8797/S7836 into law which amended the prior law by expanding the scope of the utilities' proposal to other potential operating cost relief mechanisms. The amended law also requires the PSC to evaluate the relative costs of the proposed solutions and issue an Order modifying or proposing those solutions by March 18, 2023.

## 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 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.